Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements
for the year ended 30 June 2016

General Information

Accounting Officer	B K Socikwa
Registered office	12 Maclean Street Stutterheim 4930
Postal address	Private Bag X 4002 Stutterheim 4930
Bankers	First National Bank Stutterheim
Auditors	Auditor-General South Africa

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

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Abbreviations

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial period 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 was given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that 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 errors.

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 for the foreseeable future.

The annual financial statements set out on pages 4 to 92, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Accounting Officer
B K Socikwa

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Inventories	3	3,951,665	1,188,801
Consumer debtors and other debtors	4	10,700,527	11,600,578
Receivables from non-exchange transactions	5	2,725,786	3,249,606
VAT receivable	6	2,759,745	1,048,697
Short term portion of long term receivables	13	144,436	11,291
Cash and cash equivalents	7	105,825,424	129,028,210
		126,107,583	**146,127,183**
Non-Current Assets			
Biological assets (Plantation)	8	816,303	4,931,102
Investment property	9	57,166,415	58,864,620
Property, plant and equipment	10	416,119,739	412,835,443
Intangible assets	11	744,604	594,080
Heritage assets	12	610,183	610,183
Long term receivables	13	354,942	650,327
		475,812,186	**478,485,755**
Total Assets		**601,919,769**	**624,612,938**
Liabilities			
Current Liabilities			
Finance lease obligation	14	14,611,927	15,177,918
Payables from exchange transactions	15	10,714,970	8,713,347
Consumer deposits	16	428,820	490,720
Employee benefit obligation	17	9,624,529	9,064,585
Unspent conditional grants and receipts	18	5,165,730	19,589,246
Provisions	19	4,517,580	3,654,396
		45,063,556	**56,690,212**
Non-Current Liabilities			
Finance lease obligation	14	250,164	14,579,941
Employee benefit obligation	17	33,422,718	30,678,718
Provisions	19	393,480	383,093
		34,066,362	**45,641,752**
Total Liabilities		**79,129,918**	**102,331,964**
Net Assets		**522,789,851**	**522,280,974**
Accumulated surplus		522,789,851	522,280,974

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	42,271,719	32,142,493
Rental of facilities and equipment		1,001,560	1,003,651
Interest received - debtors		2,174,539	2,214,562
Miscellaneous other revenue		759,433	1,429,858
Interest received - investment	21	9,422,299	9,244,720
Total revenue from exchange transactions		**55,629,550**	**46,035,284**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	15,840,640	8,794,616
Transfer revenue			
Government grants and subsidies	23	166,132,862	138,267,357
Fines, Penalties and Forfeits		238,876	253,026
Motor vehicle registrations		3,218,972	2,758,342
Total revenue from non-exchange transactions		**185,431,350**	**150,073,341**
Total revenue		**241,060,900**	**196,108,625**
Expenditure			
Employee related costs	24	(75,493,044)	(63,365,091)
Remuneration of councillors	25	(13,849,345)	(12,908,418)
Vending management fee	26	(504,420)	(486,623)
Depreciation and amortisation	27	(32,696,878)	(30,217,081)
Impairment loss on non-current assets		(67,436)	(1,587,477)
Finance costs	28	(16,319,196)	(22,596,867)
Lease rentals on operating lease		(278,961)	(417,018)
Debt Impairment	29	(12,783,767)	(5,548,138)
Leave pay provision		(153,725)	(1,642,187)
Repairs and maintenance		(7,213,268)	(7,113,103)
Bulk purchases	31	(24,551,056)	(20,875,034)
General expenses	32	(53,670,154)	(53,615,249)
Total expenditure		**(237,581,250)**	**(220,372,286)**
Operating surplus (deficit)		**3,479,650**	**(24,263,661)**
Loss on disposal of assets and liabilities		(1,784,212)	(997,275)
Loss on biological assets and agricultural produce		(1,186,561)	-
		(2,970,773)	**(997,275)**
Surplus (deficit) for the year		**508,877**	**(25,260,936)**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	543,769,495	543,769,495
Adjustments		
Prior year adjustments (refer to note 45)	3,772,415	3,772,415
Balance at 01 July 2014 as restated*	**547,541,910**	**547,541,910**
Changes in net assets		
Surplus for the year	(25,260,936)	(25,260,936)
Total changes	(25,260,936)	(25,260,936)
Restated* Balance at 01 July 2015	**522,280,974**	**522,280,974**
Changes in net assets		
Surplus for the year	508,877	508,877
Total changes	508,877	508,877
Balance at 30 June 2016	**522,789,851**	**522,789,851**

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Cash receipts from customers		52,434,795	43,945,202
Grants		166,132,862	138,267,357
Interest income		9,422,299	9,244,720
		227,989,956	191,457,279
Payments			
Employee costs		(86,038,445)	(68,273,084)
Suppliers		(100,744,670)	(77,343,354)
Finance costs		-	(51,822)
		(186,783,115)	(145,668,260)
Net cash flows from operating activities	33	**41,206,841**	**45,789,019**
Cash flows from investing activities			
Purchase of moveable and immovable assets	10	(35,992,972)	(35,792,596)
Proceeds from sale of property, plant and equipment	10	358,880	-
Proceeds from sale of investment property	9	42,314	-
Purchase of other intangible assets	11	(354,309)	(455,175)
Proceeds from sale of other intangible assets	11	3,674	-
Proceeds from sale of biological assets (plantation)	8	2,928,238	-
Increase/(Decrease) in long term receivables		162,240	164,253
Net cash flows from investing activities		**(32,851,935)**	**(36,083,518)**
Cash flows from financing activities			
Repayment of other financial liabilities		-	(641,173)
Finance lease payments		(31,557,692)	(31,630,564)
Net cash flows from financing activities		**(31,557,692)**	**(32,271,737)**
Net increase/(decrease) in cash and cash equivalents		**(23,202,786)**	**(22,566,236)**
Cash and cash equivalents at the beginning of the year		129,028,210	151,594,446
Cash and cash equivalents at the end of the year	7	**105,825,424**	**129,028,210**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	34,269,921	4,823,329	**39,093,250**	42,271,719	**3,178,469**	FinPerf 1
Miscellaneous other revenue	56,480,360	(4,304,363)	**52,175,997**	7,336,715	**(44,839,282)**	FinPerf 2
Interest received - investment	9,500,000	(1,000,000)	**8,500,000**	9,422,299	**922,299**	FinPerf 3
Total revenue from exchange transactions	**100,250,281**	**(481,034)**	**99,769,247**	**59,030,733**	**(40,738,514)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15,800,000	1,080,470	**16,880,470**	15,840,640	**(1,039,830)**	FinPerf 4
Transfer revenue						
Government grants and subsidies	130,340,850	2,437,059	**132,777,909**	166,132,862	**33,354,953**	FinPerf 5
Total revenue from non-exchange transactions	**146,140,850**	**3,517,529**	**149,658,379**	**181,973,502**	**32,315,123**	
Total revenue	**246,391,131**	**3,036,495**	**249,427,626**	**241,004,235**	**(8,423,391)**	
Expenditure						
Employee related costs	(81,637,985)	(3,858,176)	**(85,496,161)**	(75,493,044)	**10,003,117**	FinPerf 6
Remuneration of councillors	(14,551,101)	945,881	**(13,605,220)**	(13,849,345)	**(244,125)**	R
Depreciation and amortisation	(26,320,220)	(7,679,780)	**(34,000,000)**	(32,696,878)	**1,303,122**	FinPerf 7
Finance costs	-	(16,500,000)	**(16,500,000)**	(16,319,196)	**180,804**	R
Debt Impairment	(6,298,287)	1,298,287	**(5,000,000)**	(12,783,767)	**(7,783,767)**	FinPerf 8
Bulk purchases	(22,000,000)	(1,000,000)	**(23,000,000)**	(24,551,056)	**(1,551,056)**	FinPerf 9
Contracted services	(2,600,000)	369,663	**(2,230,337)**	(1,716,553)	**513,784**	FinPerf 10
Other expenditure	(63,463,401)	18,852,938	**(44,610,463)**	(60,171,411)	**(15,560,948)**	FinPerf 11
Total expenditure	**(216,870,994)**	**(7,571,187)**	**(224,442,181)**	**(237,581,250)**	**(13,139,069)**	
Operating surplus	**29,520,137**	**(4,534,692)**	**24,985,445**	**3,422,985**	**(21,562,460)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,784,212)	**(1,784,212)**	FinPerf 12
Grants funded capital expenditure	(30,701,150)	(5,000,000)	**(35,701,150)**	(31,788,059)	**3,913,091**	FinPerf 13
Loss on biological assets and agricultural produce	-	-	**-**	(1,186,561)	**(1,186,561)**	FinPerf 14
	(30,701,150)	**(5,000,000)**	**(35,701,150)**	**(34,758,832)**	**942,318**	
Deficit	**(1,181,013)**	**(9,534,692)**	**(10,715,705)**	**(31,335,847)**	**(20,620,142)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(1,181,013)**	**(9,534,692)**	**(10,715,705)**	**(31,335,847)**	**(20,620,142)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1,188,801	-	**1,188,801**	3,951,665	**2,762,864**	FinPos 1
Consumer debtors and other debtors	16,487,507	-	**16,487,507**	16,186,058	**(301,449)**	FinPos 2
Short term portion of long term receivables	11,291	-	**11,291**	144,436	**133,145**	R
Cash and cash equivalents	129,028,210	-	**129,028,210**	105,825,424	**(23,202,786)**	FinPos 4
	146,715,809	**-**	**146,715,809**	**126,107,583**	**(20,608,226)**	
Non-Current Assets						
Biological assets (Plantation)	-	-	**-**	816,303	**816,303**	FinPos 5
Investment property	56,304,131	-	**56,304,131**	57,166,415	**862,284**	FinPos 5
Property, plant and equipment	411,526,354	-	**411,526,354**	416,119,739	**4,593,385**	FinPos 6
Intangible assets	594,080	-	**594,080**	744,604	**150,524**	R
Heritage assets	610,183	-	**610,183**	610,183	**-**	R
Long term receivables	650,327	-	**650,327**	354,942	**(295,385)**	R
	469,685,075	**-**	**469,685,075**	**475,812,186**	**6,127,111**	
Total Assets	**616,400,884**	**-**	**616,400,884**	**601,919,769**	**(14,481,115)**	
Liabilities						
Current Liabilities						
Finance lease obligation	15,177,918	-	**15,177,918**	14,611,927	**(565,991)**	FinPos 7
Payables from exchange transactions	45,724,256	(19,589,246)	**26,135,010**	10,714,970	**(15,420,040)**	FinPos 8
Consumer deposits	490,720	-	**490,720**	428,820	**(61,900)**	R
Employee benefit obligation	-	-	**-**	9,624,529	**9,624,529**	FinPos 9
Unspent conditional grants and receipts	-	-	**-**	5,165,730	**5,165,730**	FinPos 10
Provisions	9,924,632	-	**9,924,632**	4,517,580	**(5,407,052)**	FinPos 11
	71,317,526	**(19,589,246)**	**51,728,280**	**45,063,556**	**(6,664,724)**	
Non-Current Liabilities						
Finance lease obligation	14,579,941	29,538,718	**44,118,659**	250,164	**(43,868,495)**	FinPos 7
Employee benefit obligation	-	-	**-**	33,422,718	**33,422,718**	FinPos 9
Provisions	29,921,811	(29,538,718)	**383,093**	393,480	**10,387**	R
	44,501,752	**-**	**44,501,752**	**34,066,362**	**(10,435,390)**	
Total Liabilities	**115,819,278**	**(19,589,246)**	**96,230,032**	**79,129,918**	**(17,100,114)**	
Net Assets	**500,581,606**	**19,589,246**	**520,170,852**	**522,789,851**	**2,618,999**	
Accumulated surplus	500,581,606	19,589,246	**520,170,852**	522,789,851	**2,618,999**	FinPos 12

Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	101,083,276	350,580	**101,433,856**	52,434,795	**(48,999,061)**	C1
Grants	161,041,992	43,138,215	**204,180,207**	166,132,862	**(38,047,345)**	C2
Interest income	11,000,000	(315,000)	**10,685,000**	9,422,299	**(1,262,701)**	C3
	273,125,268	**43,173,795**	**316,299,063**	**227,989,956**	**(88,309,107)**	
Payments						
Suppliers and employees	(119,942,232)	(116,312,768)	**(236,255,000)**	(186,783,115)	**49,471,885**	C4
Finance costs	(18,000,000)	1,500,000	**(16,500,000)**	-	**16,500,000**	C5
	(137,942,232)	**(114,812,768)**	**(252,755,000)**	**(186,783,115)**	**65,971,885**	
Net cash flows from operating activities	**135,183,036**	**(71,638,973)**	**63,544,063**	**41,206,841**	**(22,337,222)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(60,221,664)	(1,339,927)	**(61,561,591)**	(35,992,972)	**25,568,619**	C6
Proceeds from sale of property, plant and equipment	-	-	**-**	358,880	**358,880**	C7
Purchase of investment property	-	-	**-**	42,314	**42,314**	C8
Purchase of other intangible assets	-	-	**-**	(354,309)	**(354,309)**	C9
Proceeds from sale of other intangible assets	-	-	**-**	3,674	**3,674**	C10
Proceeds from sale of biological assets (plantation)	-	-	**-**	2,928,238	**2,928,238**	C11
Increase/(Decrease) in long term receivables	-	-	**-**	162,240	**162,240**	R
Net cash flows from investing activities	**(60,221,664)**	**(1,339,927)**	**(61,561,591)**	**(32,851,935)**	**28,709,656**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(31,557,692)	**(31,557,692)**	C8
Net increase/(decrease) in cash and cash equivalents	74,961,372	(72,978,900)	**1,982,472**	(23,202,786)	**(25,185,258)**	
Cash and cash equivalents at the beginning of the year	128,562,891	465,319	**129,028,210**	129,028,210	**-**	
Cash and cash equivalents at the end of the year	**203,524,263**	**(72,513,581)**	**131,010,682**	**105,825,424**	**(25,185,258)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

These accounting policies are consistent with the previous period, unless specified otherwise.

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

Standards

Standards Issued and Effective
- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 6 - Consolidated and Separate Financial Statements
- GRAP 7 - Investments in Associates
- GRAP 8 - Interests in Joint Ventures
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 27 - Agriculture (Replaces GRAP101) (as revised 2012)
- GRAP 31 - Intangible Assets (replace GRAP 102)
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt
- GRAP 18 - Segmental Reporting
- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 105- Transfers of functions between entities under common control
- GRAP 107- Mergers
- GRAP 108- Statutory Receivables

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

Accounting Policies

Interpretations Issued, Future Effective Date - can base accounting policy on, or early adopt
- IGRAP 11: Consolidation Special purpose entities
- IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures
- IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Employee Benefit Obligation note 17 to the financial statements.

Effective interest method

The Municipality makes use of government bond rate to discount future cash flows in the event of it being material.

1.4 Biological assets (Plantation)

A biological asset is a living animal or plant. The Municipality has biological assets in the form of trees in a plantation forest.

Agricultural produce is the harvested product of the Municipality’s biological assets, which is the felled trees during the harvest.

Agricultural activity is the management by the municipality of the biological transformation and harvest of biological assets for:
- sale;
- distribution at no charge or for a nominal charge; or
- conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

The municipality recognises biological assets (plantation) or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

The municipality's biological assets (plantation) consists of only the pine plantations, as the gum trees and wattle within the forest do not form part of the municipality's agricultural activities. The municipality does not perform any agricultural activities for the the gum trees and wattle due to the nature and manner of the growth of these trees.

Biological assets (plantation) are measured at their fair value less costs to sell.

The fair value of the pine plantations is based on the fair value of the pine trees.

Agricultural produce harvested from the municipality's biological assets shall be measured at its fair value less costs to sell at the point of harvest.

A gain or loss arising on initial recognition of biological assets (plantation) at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets (plantation) is included in surplus or deficit for the period in which it arises.

A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets (plantation) is included in surplus or deficit for the period in which it arises.

The municipality discloses the aggregate gain or loss arising during the current period on initial recognition of biological assets and agricultural produce and from the change in fair value less costs to sell of biological assets.

Accounting Policies

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

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

The following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market related rentals or for capital appreciation, or for both and are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for currently undetermined future use. If the Municipality has not determined that it will use the land as owner-occupied property, or for a short term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the Municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, Plant and Equipment or Non-current Assets Held for Sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Properly being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as Investment Property;
- Property that is leased out under a finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and or service delivery.

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

Property interest held under operating leases are classified and accounted for as investment property if property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied and from property held for sale is established by using criteria that it can utilise to exercise judgment consistently in accordance with the definition of investment property and with the related guidance.

Accounting Policies

1.5 Investment property (continued)

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	10 - 30 years
Roads and Paving	10 - 50 years
Air-conditioners	5 years
Other components	5 - 50 years

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

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

Subsequent to initial recognition, Investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the Investment property.

1.6 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Infrastructure	Straight line	
• Roads and paving		10 - 50 years
• Cemeteries		15 - 30 years
• Airports		20 - 25 years
• Housing		Not depreciated
Community	Straight line	
• Capital work in progress		Not depreciated
• Land		Not depreciated
• Electricity		10 - 50 years
• Solid Waste Disposal		10 - 25 years
Other	Straight line	
• Buildings		10 - 30 years
• Machinery and equipment		4 - 15 years
• Computer equipment		5 years
• Furniture and office equipment		5 - 7 years
• Transport assets		5 years
• Leased plant and office equipment		3-15 years

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

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

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

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

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

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

Self Constructed Assets

Self-constructed assets relate to all assets constructed by the municipality itself.

Accounting Policies

1.6 Property, plant and equipment (continued)

All self-constructed assets should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work-in-progress shall be flagged as such in the asset register until such time that the asset is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary to operate in the manner intended by management.

Self-constructed assets are measured at cost.

Included in the cost of self-constructed assets are all the costs associated with the construction of the assets.

The following costs are excluded from the cost of self-constructed assets:
- Depreciation of assets involved in the construction; and
- Borrowing costs (Refer to accounting policy for Borrowing Costs 1.19)

Incomplete construction work

Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

Finance leases

Assets capitalised under a finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety that the Municipality will obtain ownership by the end of the lease term.

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment assets

The carrying amount of an item of property, plant equipment is derecognised on disposal, or when no future economic benefits or service potential are expected to flow from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

1.7 Intangible assets

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

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

Intangible assets are initially recognised at cost.

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

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

Subsequent to initial measurement Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

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

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred

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

Item	**Useful life**
Computer software, other	5 years

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 arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Accounting Policies

1.8 Heritage assets

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that the municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Derecognition

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

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

1.9 Financial instruments

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

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

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

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

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

1.9 Financial instruments (continued)

Classification

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

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial asset measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement

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

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

Gains and losses

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

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

Financial liabilities

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

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

Presentation

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

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

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

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

1.10 Leases

The Municipality as a Lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Accounting Policies

1.10 Leases (continued)

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease if it is practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

Inventories relating to harvest are initially measured at the fair value, during reclassification to inventory, from biological assets.

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

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

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

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

Accounting Policies

1.11 Inventories (continued)

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.

Subsequent to initial measurement:

Consumable stores, raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. In general the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost or current replacement cost.

Redundant and slow moving inventory items are identified and written down from cost to net realisable value with regards to their estimated economic or realisable values and sold at public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the period in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period in which the is sold, utilised or written off unless it qualifies for capitalisation to the cost of an asset.

Current replacement cost is the cost to replace the item at the current reporting date.

The cost of inventories comprises all costs of purchase, conversion and other costs necessary to bring the item to their present location and condition. Where inventory is manufactured, constructed or produced the cost includes the cost of labour, material and overheads used during the manufacturing process.

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

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

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, the asset is impaired.

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

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

Value in use

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

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

Recognition and measurement (individual assets)

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.

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

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

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (cash-generating units)

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

Identification of a potential impairment

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Accounting Policies

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

Recognition and measurement of non-cash generating units

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.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP 21 - Impairment of non-cash generating assets.

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.14 Employee benefits

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

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

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

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

Vested employee benefits are employee benefits that are not conditional on future employment.

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

1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

Post-employment benefits

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

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

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

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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

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

1.14 Employee benefits (continued)

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

1.15 Provisions (continued)

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision.

Decommissioning, restoration and similar liability

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

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

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

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest

Revenue arising from the use by others of the municipality assets yielding interest or similar distributions is recognised when:

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

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

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

Service Charges

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

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

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

Finance Income

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

Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorising tariff. This includes the issue of licenses and permits.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

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

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Measurement

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

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

Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises.

Collection charges are recognised when such amounts are legally enforceable.

Penalty interest on unpaid rates is recognised on a time apportionment basis with reference to the principle amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed.

Rebates are granted to certain categories of ratepayers and are deducted from the revenue.

Transfers

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

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

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

Fines

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

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

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

Public Contributions

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

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

Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts basis or where the donation is in the form of; property, plant and equipment, investment property, biological asset, heritage assets, when such items are available for use.

1.17 Revenue from non-exchange transactions (continued)

Government Grants

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

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

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

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

Other grants and donations

The Municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not.
- receive goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

1.18 Investment income

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

1.19 Borrowing costs

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

The alternative treatment, as allowed by the Borrowing Costs standard (GRAP 5), to expense Borrowing Costs has been selected by the Municipality.

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

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period. The nature and reason for the reclassification are disclosed in the comparative figure note 44 to the financial statements.

1.21 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
  expenditure not in terms of the conditions of the allocation from another sphere of Government, Municipality or Organ of State and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003).

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.

Accounting Policies

1.21 Unauthorised expenditure (continued)

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is no certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

1.22 Fruitless and wasteful expenditure

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

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

If the expenditure is not subsequently certified as irrecoverable by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act 56 of 2003), the Municipal Systems Act (Act 32 of 2000), and the Public Office Bearers Act (Act 20 of 1998), or is in contravention of the municipality's supply chain management policies.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by Council it is treated as an asset until it is recovered or written off.

1.24 Revenue from recovery of Unauthorised,Irregular,Fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible Councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.25 Segment information

A segment is an activity of an entity:

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

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

1.26 Conditional grants and receipts

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

1.27 Budget information

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

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

1.27 Budget information (continued)

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

Refer to note 46 for the explanations to the variances noted.

1.28 Related parties

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

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

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

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

1.29 Events after reporting date

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

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

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

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

1.30 Change in accounting policy, estimates and errors

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

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

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note 45 to the financial statements where applicable.

Accounting Policies

1.31 Commitments

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

At the end of each financial period the Municipality determines commitments is respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 35 to the financial statements.

1.32 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

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

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 36.

1.33 Value Added Tax (VAT)

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

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

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

The Municipality accounts for VAT on a payments basis.

Notes to the Annual Financial Statements

	2016 R	2015 R

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has not adopted any new standards and interpretations as there are none effective in the current financial year.

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	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 20: Related parties	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 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is set out in note 2 changes in accounting policy
• GRAP 108: Statutory Receivables	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
• 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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• 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 impact of the amendment is not material.
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material.

3. Inventories

Plantation - Harvest	2,928,238	-
Electricity	975,582	1,128,390
Rates and general	47,845	60,411
	3,951,665	**1,188,801**

3.1 Non - Financial information - Quantities of each agricultural produce

Number of trees	15,257	-

Carrying value of inventories carried at fair value less costs to sell	2,928,238	-
(Gain)/Loss on biological assets and agricultural produce	1,186,561	-
Electricity inventories recognised as an expense during the period	190,103	316,866
Rates and general inventories recognised as an expense during the period	278,926	215,619
Water inventories recognised as an expense during the year	-	5,937

Included in the inventory balances above are the following types of inventory:

Plantation harvest
Portion of the plantation which is currently mature and being harvested.

Electricity
Electrical sockets, transformers, plugs, meter boxes and other smaller items.

Rates and general
Cleaning materials, staff refreshments (coffee, tea, milk etc.), stationery, fuel and other smaller items.

Water
Pumps, valves, sockets and other smaller items, which were used to repair any faults when the municipality still performed the water services.

Inventory pledged as security

None of the inventory was pledged as security during the period.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

4. Consumer debtors and other debtors

	2016	2015
Consumer debtors - Electricity	5,195,431	4,759,169
Consumer debtors - Refuse	11,085,597	22,469,431
Consumer debtors - Sundry Debtors	1,279,110	6,391,545
Other debtors	4,840,124	4,704,688
Consumer debtors - Impairment exchange debtors	(11,699,735)	(26,724,255)
	10,700,527	**11,600,578**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterpart default rates:

Trade receivables

Counterparties with external credit rating	2016	2015
A (Government)	87,087	-
B (Business)	9,453	-
C (Domestic and other)	599	-
	97,139	**-**

Exchange transactions - 2016	Gross Balances	Impairment	Total
Electricity	5,195,431	(241,096)	4,954,335
Refuse	11,085,597	(9,448,615)	1,636,982
Sundry	1,279,110	(965,417)	313,693
Other	4,840,124	(1,044,607)	3,795,517
	22,400,262	**(11,699,735)**	**10,700,527**

Exchange transactions - 2015	Gross Balances	Impairment	Total
Electricity	4,761,268	(694,833)	4,066,435
Refuse	22,469,431	(20,196,090)	2,273,341
Sundry	6,389,446	(5,833,332)	556,114
Other	4,704,688	-	4,704,688
	38,324,833	**(26,724,255)**	**11,600,578**

A – The debtors are of good quality no default in payment is expected.

B – These debtors are usually good payers, but there is a possibility that the debtor might not be able to pay on time.

C – These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

4. Consumer debtors and other debtors (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 6,139,675 (2015: R 4,457,274) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,275,877	2,211,021
2 months past due	1,915,481	1,209,091
3 months past due	948,317	1,037,162

Trade and other receivables impaired

As of 30 June 2016, trade and other receivables of R 17,560,138 (2015: R 33,620,145) were impaired and provided for.

The amount of the provision was R (11,699,735) as of 30 June 2016 (2015: R (26,724,255)).

Reconciliation of provision for impairment of trade and other receivables

Opening balance	26,724,255	33,841,109
Provision for impairment	4,860,106	1,940,441
Amounts written off as uncollectible	(19,884,626)	(9,057,295)
	11,699,735	**26,724,255**

Consumer receivables with net credit balances have been reclassified to Payables, refer to note 44 for details.

5. Receivables from non-exchange transactions

Consumer debtors - Rates	14,477,470	16,832,104
Consumer debtors - Impairment non-exchange debtors	(11,751,684)	(13,834,828)
Fines	680,230	476,680
Fines - Impairment non-exchange debtors	(680,230)	(224,350)
	2,725,786	**3,249,606**

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

5. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterpart default rates:

Receivables from non-exchange transactions

Counterparties with external credit rating		
A (Government)	14,593	-
B (Business)	-	-
C (Domestic and other)	399	-
	14,992	**-**

A – The debtors are of good quality no default in payment is expected.

B – These debtors are usually good payers, but there is a possibility that the debtor might not be able to pay on time.

C – These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 3,238,369 (2015: R 2,719,950) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,130,328	996,391
2 months past due	917,958	866,581
3 months past due	1,190,084	856,978

Receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 14,477,470 (2015: R 16,832,104) were impaired and provided for.

The amount of the provision was R (11,751,684) as of 30 June 2016 (2015: R (13,834,828)).

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

Opening balance	13,834,828	11,890,119
Provision for impairment	7,471,962	3,582,488
Amounts written off as uncollectible	(9,555,106)	(1,637,779)
	11,751,684	**13,834,828**

Consumer receivables with net credit balances have been reclassified to Payables, refer to note 44 for details.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

6. VAT receivable

VAT	2,759,745	1,048,697

VAT has been restated due to a prior period error, refer to note 45 for details.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,116	6,116
Bank balances	96,911,942	128,556,775
Investments	8,907,366	465,319
	105,825,424	**129,028,210**

Special terms and conditions - investments

Funds invested relate to call and fixed deposit accounts which earn a return of between 5% and 7%. Investments in fixed deposits do not exceed a term of three months and are either reinvested or utilised at the end of the three month term.

Funds are invested according to National Treasury municipal investment regulations dated 1st April 2005 on Gazette no. 27431 which set out a framework within which all municipalities shall conduct their cash management and investments.

Cash and cash equivalents guarantees

The Municipality has a contingent facility of R8,435,800 (2015: R835,800) relating to the bank and cash balances as follows:

Guarantee for Department of Minerals and Energy	73,700	73,700
Guarantee for Eskom	762,100	762,100
New Eskom Guarantee	7,600,000	-

* See Note 45

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
Primary bank account	**30 June 2016**	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
First National Bank Cheque Account (Primary Bank Account) :53813535227	93,399,789	123,335,937	138,521,428	93,400,443	110,831,078	133,985,118
MIG bank accounts						
First National Bank Current Account:62116156987	3,445,456	18,871,277	11,135,971	3,445,456	15,103,803	11,135,971
First National Bank Call Account :62135193770	66,043	2,621,895	1,459,580	66,043	2,621,895	1,459,580
Investments bank accounts						
First National Bank - 62063171351	232,567	225,214	219,580	232,567	225,214	219,580
First National Bank - 61381739619	1,074,799	240,104	99,878	1,074,799	240,104	99,878
First National Bank - 74200629770	-	-	1,166,837	-	-	1,166,837
First National Bank - 74188016669	-	-	3,104,988	-	-	3,104,988
First National Bank - 74193195797	-	-	416,378	-	-	416,378
First National Bank - 74568809858	7,600,000	-	-	7,600,000	-	-
Total	**105,818,654**	**145,294,427**	**156,124,640**	**105,819,308**	**129,022,094**	**151,588,330**

	2016	2015 Restated*
	R	R

8. Biological assets (Plantation)

	2016			2015		
	Valuation	Fair value adjustment	Carrying value	Valuation	Fair value adjustment	Carrying value
Trees in a plantation forest	816,303	-	816,303	4,931,102	-	4,931,102

Reconciliation of biological assets (plantation) - 2016

	Opening balance	Decreases due to harvest / sales	Total
Trees in a plantation forest	4,931,102	(4,114,799)	816,303

Reconciliation of biological assets (plantation) - 2015

	Opening balance	Total
Trees in a plantation forest	4,931,102	4,931,102

Non - Financial information

Quantities of each biological asset

Trees in a plantation forest	18,461	18,461

The trees in the plantation have been estimated based on volume per hectare, which the plantations are a total of 116.1ha.

Mature biological assets

Trees in a plantation forest	15,257	15,257

The trees in this plantation are in the process of Harvest as they have reached their Harvest age of an average of 20 - 25 years, which are on Plots 4 - 9 on 78.3ha.

Immature biological assets

Trees in a plantation forest	3,204	3,204

The trees in this plantation are in the process of Harvest as they have not reached their Harvest age of an average of 1 - 12 years, which are on Plots 1 - 3, 10.

Pledged as security

None of the biological assets are pledged as security.

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	61,113,333	(3,946,918)	57,166,415	61,155,647	(2,291,027)	58,864,620

Reconciliation of investment property - 2016

	Opening balance	Disposals	Depreciation	Total
Investment property	58,864,620	(42,314)	(1,655,891)	57,166,415

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	60,520,511	(1,655,891)	58,864,620

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The investment property includes land registered under the name of the municipality and Mlungisi Mall.

The Mlungisi Mall components are the only assets within the investment properties which are depreciated.

Investment property land parcels have been restated due to a prior period error, refer to note 45 for details.

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	6,933,932	-	6,933,932	6,933,932	-	6,933,932
Buildings	65,314,889	(18,784,970)	46,529,919	59,756,913	(16,269,004)	43,487,909
Machinery and equipment	6,183,992	(2,156,776)	4,027,216	5,743,350	(1,578,633)	4,164,717
Furniture and office equipment	3,112,739	(1,671,747)	1,440,992	2,986,129	(1,393,869)	1,592,260
Transport assets	34,514,615	(16,085,533)	18,429,082	34,553,424	(12,321,270)	22,232,154
Computer equipment	3,199,601	(1,423,422)	1,776,179	3,105,241	(1,101,253)	2,003,988
Infrastructure	340,434,365	(85,784,647)	254,649,718	297,408,881	(70,108,060)	227,300,821
Electricity	42,203,747	(15,193,909)	27,009,838	41,383,673	(13,898,588)	27,485,085
Capital Work in Progress	10,981,833	-	10,981,833	29,971,641	-	29,971,641
Plant - Leased Asset	47,349,305	(7,091,585)	40,257,720	47,349,305	(3,934,965)	43,414,340
Office Equipment - Leased Asset	681,214	(266,015)	415,199	338,486	(102,841)	235,645
Cemeteries	1,256,961	(703,732)	553,229	1,256,961	(649,439)	607,522
Airports	1,127,000	(687,532)	439,468	1,127,000	(642,452)	484,548
Landfill sites	4,629,869	(1,954,455)	2,675,414	4,658,372	(1,737,491)	2,920,881
Total	**567,924,062**	**(151,804,323)**	**416,119,739**	**536,573,308**	**(123,737,865)**	**412,835,443**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	6,933,932	-	-	-	-	-	6,933,932
Buildings	43,487,909	3,900,692	(259,485)	1,991,879	(2,523,640)	(67,436)	46,529,919
Machinery and equipment	4,164,717	481,890	(10,771)	-	(608,620)	-	4,027,216
Furniture and office equipment	1,592,260	233,405	(40,320)	-	(344,353)	-	1,440,992
Transport assets	22,232,154	571,130	(190,104)	-	(4,184,098)	-	18,429,082
Computer equipment	2,003,988	327,992	(63,979)	-	(491,822)	-	1,776,179
Infrastructure	227,300,821	22,170,524	(1,373,370)	23,573,885	(17,022,142)	-	254,649,718
Electricity	27,485,085	1,731,383	(184,093)	-	(2,022,537)	-	27,009,838
Work in progress	29,971,641	6,575,956	-	(25,565,764)	-	-	10,981,833
Plant - Leased Asset	43,414,340	-	-	-	(3,156,620)	-	40,257,720
Office Equipment - Leased Asset	235,645	342,728	-	-	(163,174)	-	415,199
Cemeteries	607,522	-	-	-	(54,293)	-	553,229
Airports	484,548	-	-	-	(45,080)	-	439,468
Landfill sites	2,920,881	-	(20,970)	-	(224,497)	-	2,675,414
	412,835,443	**36,335,700**	**(2,143,092)**	**-**	**(30,840,876)**	**(67,436)**	**416,119,739**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	6,487,376	446,556	-	-	-	-	6,933,932
Buildings	44,720,616	2,194,045	-	-	(2,383,012)	(1,043,740)	43,487,909
Machinery and equipment	3,553,231	1,135,448	(11,537)	-	(507,542)	(4,883)	4,164,717
Furniture and office equipment	1,383,198	517,124	(25,717)	-	(282,345)	-	1,592,260
Transport assets	24,230,377	2,919,661	(908,910)	-	(4,008,974)	-	22,232,154
Computer Equipment	1,943,185	484,014	(41,179)	-	(382,032)	-	2,003,988
Infrastructure	235,243,846	5,759,323	(34,498)	1,513,837	(15,181,687)	-	227,300,821
Electricity	29,500,822	-	-	-	(2,015,737)	-	27,485,085
Work in progress	9,149,054	22,336,424	-	(1,513,837)	-	-	29,971,641
Plant - Leased Asset	46,570,960	-	-	-	(3,156,620)	-	43,414,340
Office Equipment - Leased Asset	215,381	214,913	-	-	(194,649)	-	235,645
Cemeteries	714,272	-	-	-	(54,293)	(52,457)	607,522
Airports	676,076	-	-	-	(45,080)	(146,448)	484,548
Landfill sites	3,484,976	-	-	-	(224,147)	(339,948)	2,920,881
	407,873,370	**36,007,508**	**(1,021,841)**	**-**	**(28,436,118)**	**(1,587,476)**	**412,835,443**

Pledged as security

Carrying value of assets pledged as security:

Office Equipment - Leased Assets	169,124	232,078
Plant - Leased Assets	41,019,844	43,398,819

Leased assets are pledged as security over the finance lease obligation.

Assets subject to finance lease (Net carrying amount)

	2016 R	2015 Restated* R

10. Property, plant and equipment (continued)

	2016 R	2015 Restated* R
Plant - Leased Assets	40,257,720	43,414,340
Office Equipment - Leased Assets	415,199	235,645
	40,672,919	**43,649,985**

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	25,194,167	2,434,050	2,343,424	29,971,641
Additions/capital expenditure	3,609,025	2,963,931	3,000	6,575,956
Transferred to completed items	(23,573,887)	-	(1,991,879)	(25,565,766)
	5,229,305	**5,397,981**	**354,545**	**10,981,831**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	8,045,114	-	1,103,940	9,149,054
Additions/capital expenditure	18,662,890	2,434,050	1,239,484	22,336,424
Transferred to completed items	(1,513,837)	-	-	(1,513,837)
	25,194,167	**2,434,050**	**2,343,424**	**29,971,641**

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.

Property , plant and equipment has been restated due to a prior period error, refer to note 45 for details.

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,067,628	(323,024)	744,604	732,298	(138,218)	594,080

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	594,080	354,309	(3,674)	(200,111)	744,604

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	249,065	455,175	(110,160)	594,080

Pledged as security

None of the intangible assets are pledged as security:

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

12. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	610,183	-	610,183	610,183	-	610,183

Reconciliation of heritage assets 2016

	Opening balance	Total
Historical monuments	610,183	610,183

Reconciliation of heritage assets 2015

	Opening balance	Total
Historical monuments	610,183	610,183

Pledged as security

None of the heritage assets are pledged as security.

13. Long term receivables

Cost of HT Lines	499,378	661,618
Less Short term portion of HT Lines	(144,436)	(11,291)
	354,942	**650,327**

The cost of HT lines comprise trade debtors and interest is charged at 6% per annum.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

14. Finance lease obligation

Minimum lease payments due		
- within one year	18,563,799	31,507,970
- in second to fifth year inclusive	277,680	18,491,091
	18,841,479	49,999,061
less: future finance charges	(3,979,388)	(20,241,202)
Present value of minimum lease payments	**14,862,091**	**29,757,859**

Present value of minimum lease payments due		
- within one year	14,611,927	15,177,918
- in second to fifth year inclusive	250,164	14,579,941
	14,862,091	**29,757,859**

The finance lease obligation is made up of numerous rental agreements for office equipment and a hire purchase agreement of the plant.

Office Equipment Leases

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate in the lease, if this is practicable to determine; if not it is the prime interest rate. Due to the nature of the information provided the implicit rate for copiers could not be determined, as the cost of the copiers is not provided in the agreement. Any initial direct costs of leases are added to the amount recognised as an asset. Only the terms and the payment amount are provided.

Plant Lease

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate in the lease, if this is practicable to determine; if not it is the prime interest rate. The plant finance lease have an implicit interest rate ranging from 7.5 % - 175.54 % per annum, by taking into account the market values of the plant at initial recognition.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets, refer note 10.

15. Payables from exchange transactions

Trade and other payables	7,875,177	4,074,042
Payments received in advanced	1,702,629	3,505,685
Deposits received	76,691	73,147
Other payables	1,060,473	1,060,473
	10,714,970	**8,713,347**

Payables have been restated due to a prior period errors, refer to note 45 for details.

Consumer receivables with net credit balances have been reclassified to Payables, refer to note 44 for details.

16. Consumer deposits

Electricity	428,820	490,720

Consumer deposits are made of deposits from consumers for the electricity connections, for those making use of the conventional electricity.

* See Note 45

17. Employee benefit obligations

Defined benefit plan

The benefit plan consist of the post retirement medical aid benefit plan and long service bonuses.

Post retirement medical aid plan

The Municipality operates six accredited medical aid schemes, namely:

Bestmed
Bonitas
Discovery La Health
Hosmed
Key health
Samwu

Pensioners continue on the option they belonged to on the day of their retirement.
The Independent valuers, PriceWaterhouseCoopers Actuarial services carried out a statutory valuation on 30 June 2016 (30 June 2015 PriceWaterhouseCoopers) Actuarial valuation services.

	2016	2015
Carrying value		
Present value of the defined benefit obligation	27,665,718	22,976,718
Service costs	1,498,000	1,359,000
Interest cost	2,716,000	2,263,000
Net actuarial gains or losses	(1,463,000)	1,593,000
Benefits paid	(264,000)	(526,000)
	30,152,718	**27,665,718**
Non-current liabilities	29,533,718	27,118,718
Current liabilities	619,000	547,000
	30,152,718	**27,665,718**

Assumptions used

Assumptions used at the reporting date:

	30 June 2016	30 June 2015
Key assumptions used		
Discount rates used	9.70 %	9.40 %
Net discount rates used	0.27 %	0.46 %
Medical cost trend rates	9.40 %	8.90 %
Other assumptions		
Pre retirement mortality	SA 85-90 L	SA 85-90 L
Post retirement mortality	PA (90) -1	PA (90) -1
Normal retirement age	63 years	63 years
Spouse age differences (male older than female)	3 years	3 years
AIDS	No assumption made	No assumption made

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

17. Employee benefit obligations (continued)

Membership data	2016	2015
Female members	71	57
Male members	66	61

Healthcare cost inflation sensitivity (R'000)	1% decrease	Base (9.40%)	1% increase
Defined benefit obligation	(25,434)	(30,153)	(36,183)
Service Cost (next financial year)	(1,588)	(2,048)	(2,673)
Interest Cost (next financial year)	(2,530)	(2,994)	(3,625)

Long Services Awards

The Long service Bonus for the portion of the next interval already rendered by the employee. The employee receives a Leave pay and % of salary amount for reaching certain interval (5 periods, 10 periods, 15 periods etc). This provision is accrued for in terms of the collective bargaining agreement.

The Long Service Bonus plans are defined benefit plans. As at period ended 30 June 2016, 321 (2015; 321) employees were eligible for Long Service Bonuses.

The Long Service Award has been restated due to a prior period error, refer to note 45 for details.

Carrying value	2016	2015
Present value of the defined benefit obligation	3,845,000	2,202,000
Service costs	662,000	387,000
Past service costs (prior period error)	-	1,140,000
Interest cost	309,000	176,000
Net actuarial gains or losses	(174,000)	56,000
Benefits paid	(199,000)	(116,000)
	4,443,000	**3,845,000**

Non-current liabilities	3,889,000	3,560,000
Current liabilities	554,000	285,000
	4,443,000	**3,845,000**

Assumptions used

Assumptions used at the reporting date:

Key assumptions used	30 June 2016	30 June 2015
Discount rates used	8.70 %	8.20 %
Net discount rates used	(0.37) %	(0.19) %
Salary inflation	8.30 %	8.00 %

Other assumptions		
Pre-retirement mortality	SA 85-90 L	SA 85-90 L
Normal retirement age	63 years	63 years

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

17. Employee benefit obligations (continued)

Number of Trading days per year	252	252

Membership data		
Female employees	105	94
Male employees	216	227

Short term employee benefits obligations

Provision for Bonuses:

A bonus provision is raised for the amount which the Municipality is obligated to pay employees.

Accrual for leave gratuity:

Leave gratuity is raised for the amount which the Municipality is obligated to pay employees in lieu of annual leave, if they are to leave the Municipality.

Provision for Bonuses:		
Opening Balance	3,050,659	3,024,421
Performance Bonuses	913,643	727,799
Service Bonus	2,202,235	1,974,698
Utilised during the year	(3,050,659)	(2,676,259)
	3,115,878	**3,050,659**

Accrual for leave gratuity:		
Opening Balance	5,181,926	3,539,739
Leave Gratuity - Obligation	5,335,978	5,182,262
Leave Gratuity - Debtor	(327)	(336)
Utilised during the year	(5,181,926)	(3,539,739)
	5,335,651	**5,181,926**

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

Carrying value		
Non Current portion of Post Retirement Benefits	(29,533,718)	(27,118,718)
Non Current portion of Long Services Award	(3,889,000)	(3,560,000)
Current portion of Post Retirement Benefits	(619,000)	(547,000)
Current portion of Long Services Award	(554,000)	(285,000)
Provision for Bonuses	(3,115,878)	(3,050,659)
Accrual for leave gratuity	(5,335,651)	(5,181,926)
	(43,047,247)	**(39,743,303)**

Non-current liabilities	(33,422,718)	(30,678,718)
Current liabilities	(9,624,529)	(9,064,585)
	(43,047,247)	**(39,743,303)**

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

17. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	2,160,000	1,746,000
Past service cost	-	1,140,000
Interest cost	3,025,000	2,439,000
Actuarial (gains) losses	(1,772,000)	1,649,000
Curtailment or settlement	(463,000)	(642,000)
Bonuses	65,219	897,342
Leave pay provision	772,778	1,642,187
	3,787,997	**8,871,529**

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG Funding	3,625,466	17,029,591
Capacity of Municipality	-	282,481
LED promotions	-	350,286
Recycling centre	122,310	122,310
Waste Grant	1,417,954	1,804,578
	5,165,730	**19,589,246**

Movement during the year

Balance at the beginning of the year	19,589,246	8,699,723
Surrendered to NRF/Roll over not Approved	(9,494,000)	-
Grants received during the year	161,203,347	149,156,880
Income recognition during the year	(166,132,863)	(138,267,357)
	5,165,730	**19,589,246**

See note 23 for reconciliation of grants from National/Provincial Government.

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

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

19. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for landfill sites	383,093	10,387	393,480
WCA	3,654,396	863,184	4,517,580
	4,037,489	**873,571**	**4,911,060**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Provision for landfill sites	373,004	10,089	383,093
WCA	2,903,743	750,653	3,654,396
	3,276,747	**760,742**	**4,037,489**

	2016	2015
Non-current liabilities	393,480	383,093
Current liabilities	4,517,580	3,654,396
	4,911,060	**4,037,489**

Provision for Landfill Site rehabilitation

The Municipality has an obligation to restore two landfill sites situated in Stutterheim, ERF 80 and Cathcart, ERF ,474. The sites are currently licensed and used for general waste disposal (non-hazardous) purposes.

WCA

The Municipality has an obligation to pay for the Workers Compensation Assistance (WCA), as a result a provision is raised based on the estimated amount to be paid, prior to the formal assessment by the Labour Department.

The WCA provision has been restated due to a prior period errors, refer to note 45 for details.

20. Service charges

	2016	2015
Sale of electricity	33,561,705	24,138,486
Refuse removal	8,588,522	8,002,560
Other service charges	121,492	1,447
	42,271,719	**32,142,493**

21. Interest received - investment

	2016	2015
Interest revenue		
Bank	9,422,299	9,244,720

Investment interest is earned from the Municipal Investments and the Municipal Cheque accounts in note 7.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

22. Property rates

Rates received

Property rates	18,309,325	11,332,251
Less: Rebates	(2,468,685)	(2,537,635)
	15,840,640	**8,794,616**

Valuations

Residential	1,379,124,749	1,446,985,455
Commercial	192,992,886	207,109,886
State	244,981,500	244,981,500
Municipal	33,304,332	33,224,332
Small holdings and farms	1,068,120,912	1,065,975,659
Public benefit organisations	74,723,500	76,467,700
Vacant land	1,973,000	1,973,000
	2,995,220,879	**3,076,717,532**

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

A general rate of R 0.0092 (2015: R 0.0860) is applied to property valuations to determine assessment rates. Rebates of R 2,468,685 (2015: R 2,537,635) are granted to residential and state property owners.

Rates are levied on a monthly basis. Interest at prime plus one per annum, is levied on rates outstanding is levied on rates outstanding monthly.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

23. Government grants and subsidies

Equitable share	124,034,000	105,384,000
Municipal Infrastructure Grant (MIG)	36,227,124	27,138,047
Municipal System Improvement Grant (MSIG)	930,000	935,908
Financial Managment Grant (FMG)	1,600,000	1,600,001
Expanded Public Works Programme (EPWP)	1,056,000	1,259,847
Library grant	1,105,000	1,105,000
Capacity of Municipality	282,481	311,587
LED Promotions	350,286	-
Staff Training	161,347	104,602
Recycling Centre	-	202,943
Vuna awards - audit	-	30,000
Waste Grant	386,624	195,422
	166,132,862	**138,267,357**

Equitable Share

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

Operating and Maintenance cost of the Municipalities that have the least potential to cover these costs from own revenue.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	17,029,591	7,932,638
Surrendered to NRF/Roll over not Approved	(9,494,000)	-
Current-year receipts	32,317,000	36,235,000
Conditions met - transferred to revenue	(34,611,275)	(27,138,047)
Conditions met - transferred to Operating revenue	(1,615,850)	-
	3,625,466	**17,029,591**

Conditions still to be met - remain liabilities (see note 18).

This Grant was received from the Department of Cooperative Governance and Traditional Affairs (Vote 3). The purpose of this grant is to provide specific finance for basic Municipal Infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Municipal System Improvement Grant (MSIG)

Balance unspent at beginning of year	-	1,908
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(935,908)
	-	**-**

The grant was obtained from the Cooperative Governance and Traditional affairs (Vote 3).The purpose of this grant is to assist the Municipality to build in house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act No.32 of 2003.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

23. Government grants and subsidies (continued)

Financial Managment Grant (FMG)

Balance unspent at beginning of year	-	1
Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,600,001)
	-	-

The grant is received to ensure sound and sustainable management of the fiscal and financial affairs of the Municipality. To promote and support reforms in financial management by building capacity in Municipalities to implement the Municipal Finance Management Act.

Extended Public Works Programme (EPWP)

Balance unspent at beginning of year	-	14,847
Current-year receipts	1,056,000	1,245,000
Conditions met - transferred to revenue	(1,056,000)	(1,259,847)
	-	-

This Grant is provided to to expand the Public Works programme and Job creation efforts. The Municipality is incentivised to use labour intensive delivery methods in the following areas:

- Road maintenance and the maintenance of buildings;
- Parks beautification;
- Waste management;
- Low traffic volume roads and rural roads.

Library Grant

Current-year receipts	1,105,000	1,105,000
Conditions met - transferred to revenue	(1,105,000)	(1,105,000)
	-	-

To transform urban and rural community library infrastructure, facilities and services through a recapitalised programme.

Capacity of Municipality

Balance unspent at beginning of year	282,481	594,068
Conditions met - transferred to revenue	(282,481)	(311,587)
	-	**282,481**

Conditions still to be met - remain liabilities (see note 18).

The grant was obtained from the Department of Local Government and Housing, to enhance the development of the municipal employees.

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

23. Government grants and subsidies (continued)

LED promotions

Balance unspent at beginning of year	350,286	286
Current-year receipts	-	350,000
Conditions met - transferred to revenue	(350,286)	-
	-	**350,286**

Conditions still to be met - this still remains as liabilities (see note 18).

The grant is to be used for the promotion of the LED function in the municipality and areas serviced by the municipality.

Staff training

Balance unspent at beginning of year	-	722
Current-year receipts	181,285	103,880
Conditions met - transferred to revenue	(181,285)	(104,602)
	-	**-**

The grant was obtained from the Sectoral Education Training Authority (SETA) for training of staff. In terms of the Skills Development Act regarding monies by SETA's published in Government Notice 990 in Government Gazette No. 35940, LG SETA is required to disburse in quarterly intervals.

Recycling centre

Balance unspent at beginning of year	122,310	125,253
Current-year receipts	-	200,000
Conditions met - transferred to revenue	-	(202,943)
	122,310	**122,310**

Conditions still to be met - this still remains as liabilities (see note 18).

The grant is made to assist the municipality in promotion of clean environment.

Vuna awards - audit

Balance unspent at beginning of year	-	30,000
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(30,000)
	-	**-**

The grant was obtained from the Department of Local Government and Housing to expand work creation efforts.

Waste Grant

Balance unspent at beginning of year	1,804,578	-
Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	(386,624)	(195,422)
	1,417,954	**1,804,578**

* See Note 45

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 18).

To promote safe environment and to reduce unemployment.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

24. Employee related costs

Basic	57,172,695	48,337,929
Bonus	4,904,839	5,267,662
Medical aid - company contributions	2,830,683	2,148,292
UIF	487,156	410,016
Employee benefit movements	2,622,000	4,921,000
Travel, motor car, accommodation, subsistence and other allowances	1,151,600	928,620
Overtime payments	1,801,323	1,460,754
Acting allowances	272,875	208,699
Travel allowances	3,283,364	2,218,661
Housing benefits and allowances	3,198,850	1,753,500
Performance Bonus	881,049	379,638
Industrial Council Levy	80,181	72,007
Pension Fund Contributions by Council	9,224,588	7,660,916
Less: Employee costs capitalised to PPE	(12,418,159)	(12,402,603)
	75,493,044	**63,365,091**

Employee costs capitalised to PPE

The employee costs capitalised to PPE relates to the employee costs included in the cost of the internally constructed projects for the infrastructure.

Remuneration of Municipal Manager

Annual remuneration	882,300	826,785
Travelling allowance	235,848	221,035
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone allowance	12,000	8,400
Other allowance	99,080	92,945
	1,231,013	**1,150,950**

Remuneration of Chief Financial Officer

Annual remuneration	594,700	554,570
Travelling allowance	278,472	260,986
Contributions to UIF, Medical and Pension Funds	44,215	44,215
Cell allowance	8,400	8,400
Other allowance	158,387	148,533
	1,084,174	**1,016,704**

Remuneration of Corporate Services Manager

Annual remuneration	882,611	825,433
Contributions to UIF, Medical and Pension Funds	193,163	182,871
Cellphone allowance	8,400	8,400
	1,084,174	**1,016,704**

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

24. Employee related costs (continued)

Remuneration of Engineering Services Manager

Annual remuneration	643,434	106,948
Travelling allowance	100,000	-
Contributions to UIF, Medical and Pension Funds	31,493	25,921
Cellphone allowance	7,000	1,400
Other allowance	20,000	-
	801,927	**134,269**

The Engineering Services Manager resigned at 30 April 2016.

Remuneration of Development and Planning Manager

Annual remuneration	773,238	722,346
Travelling allowance	118,152	110,735
Contributions to UIF, Medical and Pension Funds	184,384	175,223
Cellphone allowance	8,400	8,400
	1,084,174	**1,016,704**

Remuneration of Strategic Manager

Annual Remuneration	552,708	-
Travelling allowance	216,000	-
Contributions to UIF, Medical and Pension Funds	137,279	-
Cellphone allowance	8,400	-
Other allowance	43,926	-
	958,313	**-**

Remuneration of the Community Services Manager

Annual remuneration	639,445	603,651
Travelling allowance	244,500	229,152
Contributions to UIF, Medical and Pension Funds	144,331	132,827
Cellphone allowance	8,400	8,400
Other allowance	47,498	42,674
	1,084,174	**1,016,704**

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

25. Remuneration of councillors

Honourable Mayor	782,480	742,963
Speaker	630,878	599,263
Councillors' Salaries	7,813,276	7,154,233
Contributions to Medical, Pension Funds and UIF	3,644,927	1,018,040
Councillors' allowances	977,784	3,393,919
	13,849,345	**12,908,418**

Honourable Mayor		
Annual Remuneration	511,791	481,404
Travelling allowance	169,457	169,457
Cellphone allowance	24,468	24,468
Contributions to UIF, Medical and Pension Funds	76,764	67,634
	782,480	**742,963**

Speaker		
Annual Remuneration	384,377	361,948
Travelling allowance	135,565	135,565
Cellphone allowance	24,468	24,468
Contributions to UIF, Medical and Pension Funds	86,468	77,282
	630,878	**599,263**

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

The Mayor and the speaker both use council vehicles for official purposes.

26. Vendor management fee

Management fees - third party	504,420	486,623

The Municipality pays vendor management fees to Conlog, this service provider owns the system used to manage the sales of prepaid electricity to external outlets and the municipal office cashiers.

27. Depreciation and amortisation

Property, plant and equipment	27,521,082	25,099,761
Investment property	1,655,891	1,655,891
Intangible assets	200,111	110,160
Finance lease asset	3,319,794	3,351,269
	32,696,878	**30,217,081**

28. Finance costs

Finance leases	16,319,196	22,545,045
Current borrowings	-	51,822
	16,319,196	**22,596,867**

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

29. Debt impairment

Debt impairment	12,783,767	5,548,138

30. Auditors' remuneration

Auditors Remuneration	1,727,674	3,590,685

31. Bulk purchases

Electricity	24,551,056	20,875,034

The electricity bulk purchase relate to the amounts paid to Eskom, for the electricity in the area distributed by Amahlathi Local Municipality for their consumers.

Refer to note 43 for the distribution losses incurred during the year.

32. General expenses

Advertising	170,310	257,139
Audit Committee Fees	347,672	358,069
Audit Fees	1,727,674	3,590,685
Bank charges	335,509	264,075
Community development and training	2,429,564	3,079,215
Computer expenses	213,961	263,288
Consulting and professional fees	6,436,125	9,009,662
Consumables	324,594	249,041
Donations	-	9,746
Electricity	2,680,954	1,803,946
Electricity consumption (Street Lights)	1,137,217	1,112,521
Entertainment	527,498	494,812
Free basic electricity	7,763,104	6,928,622
Fuel and oil	3,729,269	1,674,736
IDP process plan	620,943	609,631
IT expenses	21,367	32,014
Insurance	5,185,112	5,072,181
Motor vehicle expenses	318,878	300,891
Other expenses	4,120,234	4,925,898
Plant hire	240,274	116,001
Postage and courier	258,941	227,253
Printing and stationery	1,180,439	1,179,993
Project maintenance costs	3,519,058	2,798,050
Promotions of LED	1,582,862	1,538,754
Refuse	97,870	99,839
Security (Guarding of municipal property)	555,596	504,411
Skills development levy	707,832	588,373
Staff welfare	580,265	459,836
Subscriptions and membership fees	982,995	847,338
Telephone and fax	1,494,357	1,458,476
Training	3,779,842	2,919,169
Uniforms	303,800	443,710
Vehicle license fees	296,038	397,874
	53,670,154	**53,615,249**

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

33. Cash flows from operating activities

Surplus (deficit)	508,877	(25,260,936)
Adjustments for:		
Depreciation and amortisation	32,696,878	30,217,081
(Gain) / loss on sale of assets and liabilities	2,970,773	997,275
Finance costs	16,319,196	22,545,045
Impairment loss on non-current assets	67,436	1,587,477
Debt impairment	12,783,767	5,548,138
Movements in retirement benefit assets and liabilities	3,303,944	8,000,425
Movements in provisions	873,571	760,742
Inventories	(2,762,864)	365,629
Consumer debtors and other debtors	(3,955,873)	(6,746,482)
Other receivables from non exchange transactions	(7,404,022)	(3,168,158)
Payables from exchange transactions	2,001,622	(5,305,391)
VAT	(1,711,048)	5,263,294
Unspent conditional grants and receipts	(14,423,516)	10,889,524
Consumer deposits	(61,900)	95,356
	41,206,841	**45,789,019**

34. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	10,700,527	10,700,527
Other receivables from non-exchange transactions	2,725,786	2,725,786
Cash and cash equivalents	105,825,424	105,825,424
Short term portion of long term receivables	144,436	144,436
Long term receivables	354,942	354,942
	119,751,115	**119,751,115**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	14,862,091	14,862,091
Trade and other payables from exchange transactions	10,714,970	10,714,970
Unspent conditional grants	5,165,730	5,165,730
Consumer deposits	428,820	428,820
	31,171,611	**31,171,611**

. Financial instruments disclosure (continued)

2015

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	11,600,578	11,600,578
Other receivables from non-exchange transactions	3,249,606	3,249,606
Cash and cash equivalents	129,028,210	129,028,210
Short term portion of long term receivables	11,291	11,291
Long term receivables	650,327	650,327
	144,540,012	**144,540,012**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	29,757,859	29,757,859
Trade and other payables from exchange transactions	8,713,347	8,713,347
Unspent conditional grants	19,589,246	19,589,246
Consumer deposits	490,720	490,720
	58,551,172	**58,551,172**

35. Commitments

Authorised capital expenditure

	2016	2015
Already contracted for but not provided for		
• Property, plant and equipment	10,118,476	24,036,146
• Intangible assets	681,851	789,407
	10,800,327	**24,825,553**

This committed expenditure relates to property, plant and equipment and intangible assets and will be financed by a combination of MIG and funds internally generated.

36. Contingencies

A claim for pain and suffering caused by laying false charge of fraud and theft resulting in the default judgment granted that led to the Court granting attachment of municipality goods by the Sheriff, the estimated exposure is 2016: R140,000 (2015: R140,000).

There's a claim of 2016: R400,000, (2015: 0) for damages/ retrospective payment as from 2011 to 2015.

There is a claim of 2016: R35,000, (2015:R 35,000) for cattle that disappeared in the Municipal pound that is being managed by SPCA.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

37. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	BK Socikwa - Municipal Manager T Bacela - Strategic Manager B Ondala - Planning and development manager M Quma - Corporate Services Manager JN Ntshinga - Chief Financial Officer Mr S Gwentshe - Engineering Services Manager S Vara - Community Services Manager

Councillors' remuneration is disclosed in note 25.

Related party transactions

The following transactions were made to companies with members/directors who are in the service of the state:

Companies owned by people/spouses/partners/associates of people in the service of the state 2015/16		
African Oxygen	-	9,489
CQS Technology Holdings (Pty) Ltd	108,523	190,787
Gasons General Trading	33,800	35,205
Gem Print	-	7,216
Gumhill General Projects	-	8,000
Hyperia t/a Compucare	50,568	165,074
I & R Building Construction	-	272,189
ICT Choice	694,690	472,320
Lovedale Press	-	4,500
M & M Shweme	-	649,065
Malakhis Khulu Trading	-	4,650
Mustek	-	4,364
Nelson Mandela Metropolitan University	-	16,400
SML Cleaning Services	-	38,331
Silver Clock Trading (Pty) Ltd	-	273,350
TFM Manufacturing	48,871	26,385
Total Client Services	93,375	75,440
Umbaxa Trading	29,900	56,550
Uphahla Lomzi Trading	32,000	20,700
Viva Macirha Construction	-	46,686
Zizamele Thahla Gen Trading (Pty)Ltd	11,500	53,550
	1,103,227	**2,430,251**

38. Risk management

Financial risk management

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

The 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 a finance department with the assistance of operating divisions, under policies approved by the accounting officer.

* See Note 45

38. Risk management (continued)

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Municipality only deposits cash with major banks that have high quality credit standing and limits exposure to any particular counterparty. Trade receivable comprise wide spread consumer base. Credit exposure is controlled by the application of the Municipality's credit control and debt collection policies.

The carrying amount of the financial assets represent the entities maximum exposure to credit risk in relation to these assets. The Municipality's cash and cash equivalents and short term deposits are with high credit quality financial institutions.

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

Financial instrument	30 June 2016	30 June 2015
Consumer debtors and other debtors	10,700,527	11,600,578
Receivables from non-exchange transactions	2,725,786	3,249,606
Cash and cash equivalents	105,825,424	129,028,210
Long term receivables	354,942	650,327
Short term portion of long term receivables	144,436	11,291

Notes to the Annual Financial Statements

38. Risk management (continued)

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in wood prices. The municipality does not anticipate that wood prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in wood prices. The municipality reviews its outlook for wood prices regularly in considering the need for active financial risk management.

Interest rate risk

The Municipality's interest bearing assets are included under cash and cash equivalents. The Municipality income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of the interest bearing assets.

At year end financial liabilities exposed to interest rate risk were for the Finance Leases R14,862,091 (2015: R29,757,859). Refer to note 14.

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

Trade debtors in arrears are linked to the South African Prime rate plus one percent.

Surplus funds are invested with banks for fixed interest rates not exceeding a term of one year. Refer to note 7

Interest rate sensitivity analysis

The sensitivity analysis below was determined based on financial instrument exposures to interest rates at reporting date. For floating rate instruments analysis is prepared assuming the amount of the instrument outstanding at reporting date was outstanding for the whole year.

The basis points adjustment represent managements assessment of the reasonable possible change in interest rate.

There were no changes in the methods or assumptions from one period to the next.

A 100 point increase in rates would result in a decrease of R148,621 (2015: R297,579) in the net surplus for the period.

Liquidity risk

The municipality does not hedge foreign exchange fluctuations.

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

The Municipality is not exposed to currency is as no transactions are negotiated in foreign.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

39. Events after the reporting date

The following events after reporting date that would have a material impact to the readers of the financial statements occurred:

- The Municipal Elections took place on the 3rd August 2016, which resulted to changes in the council of the municipality.
- The dermacations' board has gazetted a reduction in some of the wards, meaning a reduction in the amount to be provided as Equitable Share.
- The Municipality has embarked on a process of salaries standardisation, which will have material impact on the employee costs in 2016/17 and cash flows.

40. Unauthorised expenditure

	2016 R	2015 Restated* R
Opening balance	31,511,681	86,208,509
Unauthorised expenditure	24,864,415	23,907,015
Less: Amounts written off	-	(78,603,843)
	56,376,096	**31,511,681**

Details of unauthorised expenditure		
Overspending on budget	24,813,347	23,700,783
Capital expenditure	51,068	206,232
	24,864,415	**23,907,015**

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

41. Fruitless and wasteful expenditure

	2016 R	2015 Restated* R
Opening balance	5,557,926	4,793,177
Add: Fruitless and wasteful expenditure - current year	71,980	764,749
	5,629,906	**5,557,926**

Categories of fruitless and wasteful expenditure		
Interest paid	36,980	21,387
Penalties	35,000	94,297
Standing Time	-	649,065
	71,980	**764,749**

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

42. Irregular expenditure

	2016	2015
Opening balance	58,085,793	17,414,744
Add: Irregular Expenditure - current period	36,484,815	40,671,049
Less: Amounts written off by council	(76,225,637)	-
	18,344,971	**58,085,793**

Analysis of expenditure awaiting to be certifed as irrecoverable per age classification

	2016	2015
Current year	36,484,815	40,671,049
Prior years	40,671,049	17,414,744
	77,155,864	**58,085,793**

Details of irregular expenditure – current year

Irregular expenditure on Contracts	SCM processes not followed	36,484,815

Details of irregular expenditure - prior year

Irregular expenditure on Contracts	SCM processes not followed	40,671,049

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

Details of irregular expenditure - Written off by Council

Expenditure regarding the purchase of plant	(76,225,637)

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

	2016	2015
Current year subscription / fee	969,046	795,380
Amount paid - current year	(969,046)	(795,380)
	-	-

Material losses

	2016	2015
Electricity distribution losses	1,391,157	2,138,311

Electricity distribution losses as at 30 June 2016 relate to 4,732,668.87 kWh (2015; 4,036,145.62 kWh), which is 17% (2015; 15%) of the amount of electricity purchased, due to environmental and technical factors. In addition to this, the factor of illegal connections which remains a concern for the municipality.

Audit fees

	2016	2015
Current year subscription / fee	1,690,413	4,096,845
Amount paid - current year	(1,690,413)	(4,096,845)
	-	-

* See Note 45

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R

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

PAYE and UIF

	2016 R	2015 Restated* R
Current year subscription / fee	10,092,640	10,583,433
Amount paid - current year	(10,092,640)	(10,583,433)
	-	-

Pension and Medical Aid Deductions

	2016 R	2015 Restated* R
Current year subscription / fee	12,195,764	6,658,414
Amount paid - current year	(12,195,764)	(6,658,414)
	-	-

VAT

	2016 R	2015 Restated* R
VAT receivable	2,759,745	1,048,697

VAT output payables and VAT input receivables are shown in note 6.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Govender HE	1,868	632	2,500
Kyriacos PG	38,100	2,433	40,533
Lande BA	472	94	566
Monti N	829	4,142	4,971
Tom NE	1,036	179	1,215
	42,305	**7,480**	**49,785**

* See Note 45

	2016 R	2015 Restated* R

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations the accounting officer may dispense of the official procurement process requirements in certain circumstances (e.g. emergency or single source procurement) and the accounting officer may ratify minor breaches of the procurement process if the breach is purely of a technical nature. However all such departures need to be approved by the Municipal Manager and noted by Council.

All departures in terms of section 36 have been approved by the Municipal Manager and noted by Council unless noted in note 42

	2016 R	2015 R
Abenzi Woodhouse	20,503	-
Abomsuthu Trading	12,000	-
Agric Trac & Auto	5,284	-
Aloe Travel	77,241	-
Amanzi Starway	-	15,845
Amarhobs Musical Instruments Pty Ltd	-	12,000
Amatola Cleaning Supplies CC	7,752	-
Amatola Spar	-	92,926
Analogue & Digital Systems CC	-	19,700
Awona Empowerment Technologies	14,800	-
Babcock Africa Services	773,806	584,198
Badz Towing & Removals Pty Ltd	8,000	-
Barloworld Equipment Operator Training Academy	28,051	31,607
Bell Equipment	-	45,951
Boardmans hardware	20,856	24,440
Border Internet	-	28,988
Buffalo Toyota	37,922	-
Buffalo city Lubricants	16,795	-
Business Connexion	39,400	-
Business Solutions for Africa	-	122,568
C & E Bodyworks cc	-	9,338
CHM Vuwani Computer Solutions	-	6,023
Cementile Products	31,034	14,504
Chisana motor & plant repairs	-	20,089
Code Red Security & cleaning Services	-	8,697
Datnis Nissan KWT	-	19,189
Deloitte	-	43,489
Dispatch Media	-	56,720
Domoney Brothers	-	57,112
East London Truck & Bus	-	15,700
Ekim Sales CC	32,490	-
Incident		
Exclusive books	-	19,202
Ezothahla General Trading	9,500	-
Falcon Firearm Academy	-	9,120
Forte Community Radio	-	24,500
GS Civils	-	1,197,170
Getaway trailers CC	-	2,081
Global Prospectus	-	31,572
Government Print	5,675	-
Green Dot	-	11,856
Honey Guide	24,966	-
Ikusasa Eco Mouldings	-	116,229

Notes to the Annual Financial Statements

	2016 R	2015 Restated* R
43. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Insight Office	-	6,293
Ivan Communications	-	15,000
Kemach JCB	89,707	65,463
Kempston Motor	42,158	129,799
Kgolo Institute	-	45,600
Komatsu Southern Africa	76,937	158,029
Lithotec	12,116	20,142
Manderson Hotel	343,325	342,067
McCormick Agric CC	-	63,004
Megatrix Pty Ltd	-	15,000
Meyers Motors	-	12,733
Motorland Group	21,583	11,177
Munireps	-	225,455
North & Robertson	6,262	84,501
Okuhle Kodwa Trading cc	-	9,620
Payday Software System Pty Ltd	-	66,979
Peugair Border	177,977	398,717
Pick n Pay	97,596	22,891
Pollock's copy,design & print	15,298	25,650
Pricewaterhouse Coopers	-	9,605
Pro-Legends Trading cc	-	5,600
Qamis Trading	16,173	-
Queenstown Nissan	48,461	31,075
Red Alert	-	39,523
Rencor	74,437	39,154
Ronnies Motors	29,724	-
Semveli B&B	-	10,400
Shuz & Unam Dealers Pty Ltd	28,000	-
Siphokazi Hospitality & Service	8,000	-
South African Road Federation	-	6,600
Specialised Protection Services	-	5,670
Square Deal Engineering	107,525	156,189
Strydom's workshop CC	41,788	72,963
Stutt delta garage	728,663	883,297
Stutterheim Country Club	-	6,750
Syco Machinery	-	5,369
TFM Manufacturer	48,872	26,385
TKS Projects Pty Ltd	-	9,228
TKY Power Products	7,674	35,088
Times Media	-	47,424
Total Client Services Ltd	7,638	-
Tourism Enterprise Partenership	10,260	-
Trans Atlantic Equipment	-	7,752
Truvelo Manufacturers	7,303	26,639
Umtiza Farmer's Corp	28,149	-
Uphawulwethu Trading	17,600	-
Westville Construction Training School	-	27,900
Wireless Out Of Africa (WOOA)	-	197,856
Zukhali General Trading	12,000	-
	3,271,301	**6,009,401**

* See Note 45

44. Comparative figures

During the financial period, certain comparative figures have been reclassified.

Current Assets

1.1. During the current period it was noted that the Debtors with Credit Balances were reclassified from Consumer debtors and other debtors to Payables from exchange transactions.

1.2. During the current period it was noted that the Debtors with Credit Balances were reclassified from Receivables from non-exchange transactions to Payables from exchange transactions.

These reclassifications affected the Payables from exchange transactions with the amounts set out in the tables below:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Consumer debtors and other debtors	10,077,230	1,433,542	11,510,772
Receivables from non-exchange transactions	1,177,464	2,072,142	3,249,606
Payables from exchange transactions	(6,545,764)	(3,505,684)	(10,051,448)
Total	**4,708,930**	**-**	**4,708,930**

Statement of financial performance - extract

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors

Statement of Financial Position

Current Assets

1. Consumer debtors and other debtors

1.1 The municipality engaged in a process of clearance of suspense accounts and as such some of the balance were rectified in the prior years.

These errors indicated above, have been corrected in the the current financial year through restatement of the comparative.

2. VAT receivable

2.1 During the current year, a thorough comparison on the VAT receivable was done against the SARS VAT Statement of Account, to ascertain the recoverability of the balance. It was noted that some of the amounts claimed were not refunded by SARS, as assessments, and penalties were deducted.This has been corrected in the current year through restatement of the comparative.

Non-Current Assets

3. Biological assets (Plantation)

3.1 During the year, the municipality accounted for plantations of pine trees, which was previously erroneously excluded from the Immovable Asset Register (IAR). This has been corrected in the current year through restatement of the comparative.

4. Investment Property

4.1 During the year, the municipality accounted for land in its name, which was previously erroneously excluded from the IAR. This has been corrected in the current year through restatement of the comparative.

5. Property, plant and equipment

5.1 During the year, the municipality accounted for land in its name, which was previously erroneously excluded from IAR.

5.2 During the audit, it was noted some of the assets (Furniture & Office Equipment, and Transport Assets) previously disposed of had been included in the opening balance Fixed Asset Register (FAR). These were then removed an adjustment done in the prior year balance.

5.3 During the audit, it was noted that there was an error in the depreciation calculations, as such the accumulated depreciation has been adjusted and rectified in the prior year balance.

These errors indicated above, have been corrected in the the current financial year through restatement of the comparative.

Liabilities

Current Liabilities

6. Payables from exchange transactions

6.1 During the current period it was noted that some of the creditors which were reversed had been paid against the opening balance. These creditors were rectified as they were 2014/15 expenditure.

6.2 The municipality engaged in a process of clearance of suspense accounts and as such some of the balance were rectified in the prior years.

These errors indicated above, have been corrected in the the current financial year through restatement of the comparative.

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors (continued)

7. Provisions

7.1 During the year it was noted that the amounts owing for WCA, have been understated in the provisions made, as the municipality had been owing since 2009/10 financial period. Due to the error, an adjustment of the opening balance was performed.

This error indicated above, has been corrected in the current financial year through restatement of the comparative.

Non-Current Liabilities

8. Employee benefit obligation

8.1 During the period it was noted that there was an error in the calculation of the Long service award, due to incorrect days being used in the calculation.

The error has been corrected in the the current financial year through restatement of the comparative.

Net Assets

Accumulated surplus

Due to the errors noted above, the Accumulated surplus has been adjusted during the rectification of the errors.

Statement of Financial Performance

Expenditure

9. Employee related costs

9.1 During the period it was noted that there was an error in the calculation of the Long service award, due to incorrect days being used in the calculation.

The error has been corrected in the the current financial year through restatement of the comparative.

10. Depreciation and amortisation

10.1 During the audit, it was noted some of the assets (Furniture & Office Equipment, and Transport Assets) disposed of previously had been included in the Fixed Asset Register (FAR). These were then removed an adjustment done in the prior year balance.

10.2 During the audit, it was noted that there was an error in the depreciation calculations, as such the accumulated depreciation has been adjusted and rectified in the prior year balance.

These errors indicated above, have been corrected in the the current financial year through restatement of the comparative.

11. Repairs and maintenance

11.1 During the current period it was noted that some of the creditors which were reversed had been paid against the opening balance. These creditors were rectified as they were 2014/15 expenditure.

This error indicated above, has been corrected in the current financial year through restatement of the comparative.

12. General expenses

12.1 During the current period it was noted that some of the creditors which were reversed had been paid against the opening balance. These creditors were rectified as they were 2014/15 expenditure.

This error indicated above, has been corrected in the current financial year through restatement of the comparative.

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors (continued)

13. Loss on disposal of assets and liabilities

13.1 During the audit, it was noted some of the assets (Furniture & Office Equipment, and Transport Assets) previously disposed of had been included in the opening balance Fixed Asset Register (FAR). These were then removed an adjustment done in the prior year balance.

This error indicated above, has been corrected in the current financial year through restatement of the comparative.

Cash Flow Statement

Due to the errors noted above, the Cash Flow Statement has been adjusted during the rectification of the errors.

Notes to the Annual Financial Statements

14. Irregular expenditure

14.1 During the audit it was noted some of the informal bids had not been procured according to the SCM Policy in place, as such these were included in the Irregular Expenditure disclosure in the comparative.

This error indicated above, has been corrected in the current financial year through restatement of the comparative.

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

Statement of Financial Position

	2015	Prior Years
Consumer debtors and other debtors		
Previously reported	10,077,230	6,704,733
Debtors with credit balances	1,433,543	-
Clearance of Suspense Accounts	89,805	89,805
	11,600,578	**6,794,538**
VAT receivable		
Previously reported	5,232,813	8,572,743
VAT errors rectified	(4,184,116)	(2,218,789)
	1,048,697	**6,353,954**
Biological assets (Plantation)		
Previously reported	-	-
Recognition of plantation	4,931,102	4,931,102
	4,931,102	**4,931,102**
Investment property		
Previously reported	56,304,131	57,960,022
Land previously excluded	2,560,489	2,560,489
	58,864,620	**60,520,511**
Property, plant and equipment		
Previously reported	411,526,354	407,046,254
Land previously excluded	871,390	871,390
Correction of errors on other PPE	437,699	(17,515)
	412,835,443	**407,900,129**

Notes to the Annual Financial Statements

Figures in Rand

45. Prior period errors (continued)

Payables from exchange transactions

Previously reported	(6,545,764)	(14,178,190)
Debtors with credit balances	(3,505,685)	-
Rectification of errors in creditors	1,248,296	-
Clearance of suspense accounts	89,806	-
	(8,713,347)	**(14,178,190)**

Provisions

Previously reported	(860,047)	(378,600)
WCA previously not included	(2,794,349)	(2,525,142)
	(3,654,396)	**(2,903,742)**

Non-Current Liabilities

Employee benefit obligation

Previously reported	(29,538,718)	24,467,718
Rectification of error in calculation	(1,140,000)	-
	(30,678,718)	**24,467,718**

Accumulated surplus

Previously reported	(520,170,852)	(543,769,495)
VAT Receivable	3,993,450	2,218,789
Biological assets	(4,931,102)	(4,931,102)
Investment Property	(2,560,489)	(2,560,489)
Payables from exchange transactions	(1,628,974)	(197,636)
Property, plant and equipment	222,644	(827,116)
Provisions	2,794,349	2,525,142
	(522,280,974)	**(547,541,907)**

Statement of Financial Performance

Employee related costs

Previously reported	(62,225,091)	(57,148,404)
Rectification of error in calculation	(1,140,000)	-
	(63,365,091)	**(57,148,404)**

Depreciation and amortisation

Previously reported	(30,299,601)	(23,913,786)
Corrections in depreciation	82,520	-
	(30,217,081)	**(23,913,786)**

Repairs and maintenance

Previously reported	(6,721,836)	(6,034,720)
Rectification of errors in creditors	(391,267)	-
	(7,113,103)	**(6,034,720)**

General expenses

Previously reported	(53,405,970)	(43,891,533)

45. Prior period errors (continued)

Rectification of errors in creditors	1,391,810	-
Correction of errors on other PPE	173,572	-
VAT errors rectified	(1,774,661)	-
	(53,615,249)	**(43,891,533)**

Loss on disposal of assets and liabilities

Previously reported	(993,008)	(179,807)
Disposal errors	(4,267)	(4,267)
	(997,275)	**(184,074)**

Disclosures

Irregular expenditure

Previously reported	57,703,640	17,414,744
Non-compliance with SCM policy	382,153	-
	58,085,793	**17,414,744**

Cash flow statement

Cash flow from operating activities

Previously reported	45,375,639	50,790,034
Corrections of Error	413,380	-
	45,789,019	**50,790,034**

Cash flow from investing activities

Previously reported	(35,670,138)	(33,347,462)
Corrections of Error	(413,380)	-
	(36,083,518)	**(33,347,462)**

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

46. Budget differences

Material differences between budget and actual amounts

Management considers that under/overspending of R300,000 to be reasonable as it is the tolerable amount to affect the change on the National Treasury Budget. (R)

Statement Financial Performance

FinPerf 1
The reason for the variance between budget and actual is due to the connection fees for new shopping complex and an increase in consumption of conversional electricity due to the cold winter season.

FinPerf 2.
The amount include the funding committed from the Municipal reserves to fund other operation programmes. The actual transaction was not done due to underspending in other areas that were budgeted for.

FinPerf 3.
Investments increased due to slow spending on capital projects.

FinPerf 4.
The decrease in property rates is as a result of the implementation of an additional rebate granted as as result of new valuation roll.

FinPerf 5.
The difference is the MIG allocation that is used to fund capital projects.

FinPerf 6.
The reduction in the spending of employee costs is attributable to the salaries and wages charged to internal projects.

FinPerf 7.
The depreciation reduction is as a result of the disposal of assets during the year, and the WIP projects being certified for completeness closer to year, as such reducing the Infrastructure related assets.

FinPerf 8.
The impairment provision has increased in the current financial year due to the increase in write offs in the current year.

FinPerf 9.
The material variance is as a result of an increase in electricity demand from the consumers and the increased tariffs which are charged by Eskom for the bulk purchases.

FinPerf 10.
The reduction in the spending for contracted services is as a result of the VPN project being partially paid for by Amathole District Municipality (ADM).

FinPerf 11.
The other expenditure has exceeded the budget due to the expenditure to be charged to capital for internal projects, being allocated to employee costs. Refer to note ***FinPerf 6*** above.

FinPerf 12.
The municipality did not anticipate to incur any gains or loss in disposal of assets, as such no budget was allocated for the Loss on disposal of assets and liabilities.

FinPerf 13.
The municipality surrendered part of the MIG funds to the National Revenue Fund, as such the amount spent has been reduced.

* See Note 45

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

46. Budget differences (continued)

FinPerf 14.
The budget amount was based on prior year audited figures e.g. in 2012 the debt impairment amount was R 5 844 782.

FinPerf 15.
The loss on biological assets and agricultural produce, is as a result of a loss in the amount recognised for the harvest of the mature plots of pine trees, refer to notes 3&8. The municipality had not anticipated the loss as such no budget was allocated.

Statement Financial Position

FinPos 1.
The variance is as a result of the reallocation of biological assets for the harvest of the mature plots of pine trees and this was not taken into account during budgeting.

FinPos 2.
Decrease in the debtors book is due to the increase in impairments for the current year, due to the increase in write offs in the current year with no change in the collection.

FinPos 3
The variance is as a result of the unpredictable nature of the account balance, resulting in overbudgeting.

FinPos 4.
The biological assets have been recognised for the first time in the books of the municipality, as such had not been allocated a budget.

FinPos 5.
The increase in investments property is attributable to the restatement of land, which had been previously excluded in the books of the municipality, refer to note 45.

FinPos 6.
The variance is as a result of additions and disposal of assets in the current year, out weighing the effect of depreciation.

FinPos 7.
There were new leases entered into in the current year, which have led to an increase in the finance lease and addition of interest which had not been budgeted for.

FinPos 8.
The variance in the trade payables amounts relates to accruals for leave, service bonus and performance bonus provisions being budgeted for under trade payables and not under employee benefit obligations.

FinPos 9.
The variance in the employee benefit obligations is attributable to the amounts relating to accruals for leave, service bonus and performance bonus provisions being budgeted for under trade payables and the amounts relating to long term employee benefit obligations being budgeted for under provisions.

FinPos 10.
The unspent amount was not anticipated during budget periods.

FinPos 11.
The decrease in the amount budgeted for in the provisions is as a result of the long term portion of the provision being revised during the adjustment phase.

FinPos 12.
The unspent amount was not anticipated during budget time.

* See Note 45

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

46. Budget differences (continued)

FinPos 13.
The decrease in the amount is as result of a reclassification to employee benefit obligation of long service awards, which had been budgeted for under the provisions.

FinPos 14.
The accumulated surplus material variance is as a result of favourable transactions which occurred which had not been budgeted such as the reduction of the depreciation , employee costs and an increase in the revenue such as electricity and other Grant revenues.

Cash Flow Statement

C1.
The reduced amount of cash receipts from customers is related to the anticipated increments to the collection of debtors, which didn't materialise.

C2.
The variance is as a result of the a duplication of the MIG grants, which had been included in the grants twice on its own as a capital grant and included in the total of all grants revenue anticipated.

C3.
This variance is as a result of the interest on debtors being included in the balance, even though it is not a cash flow item.

C4.
The variance is due to the activities planned but not done at year end, and has also been affected by slow spending in capital projects.

C5.
The finance costs which have been budgeted for relate to finance lease and do not form part of the cash flow.

C6.
The variance is as a result of underspending in Capital Projects.

C7.
The variance is as a result of disposal of assets in the current year, which had not been budgeted for.

C8.
This variance is as a result of a purchase of intangibles which not been budgeted for in the Cash Flow Statement but only under the capital expenditure.

C9.
The variance is as a result of the reallocation of biological assets for the harvest of the mature plots of pine trees and this was not taken into account during budgeting.

* See Note 45

Notes to the Annual Financial Statements

	2016	2015 Restated*
	R	R

46. Budget differences (continued)

Changes from the approved budget to the final budget

1. Service charges
The sale of electricity was at 69% at mid year of the budgeted amount; hence the adjustment in budget.

2. Miscellaneous other revenue
The reduction in miscellaneous revenue is as a result of a slower enrolment of tenants and other savings to be received from the mall.

3. Interest received - investment
Interest on investments was at 40% at mid year of the budget amount; hence the adjustment in the budget.

4. Property rates
The increase in the property rates budget was due to the consideration of supplementary valuation and appeals.

5. Government grants and subsidies
Government grants and subsidies had to be adjusted due to waste grant received by the municipality which was not previously included in the original budget.

6. Employee related costs
The increase was made to try to incorporate the costs that result from promotions and review of job descriptions.

7. Remuneration of councillors
Adjustment on remuneration of councillors was due to low number of councillors with medical aid.

8. Depreciation and amortisation
The adjustment was based on prior year audited figures and considering the usage of plant.

9. Bulk purchases
Adjustment was due to increase in electricity users and subsequently increase the capacity with Eskom.

10. Contracted Services
The reduction for contracted services is as a result of the VPN project being partially paid for by Amathole District Municipality (ADM).

11. Other Expenditure
The other expenditure was reduced due to the expenditure to be charged to capital for internal projects.

12. Grants funded capital expenditure
The adjustment was due to MIG roll over approved by National Treasury.

* See Note 45