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

General Information

Legal form of entity	Local municipality
Municipal demarcation code	EC128
Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Waste Management Services - The collection and disposal of waste, refuse; Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality.
Council committee	
Mayor / Speaker	Bruintjies LL
Councillors	Auld CA
	Douglas LF
	Jack P
	Lombard E
	Maloni GP
	Mentoor BP
	Ndyambo S
Grading of local authority	Grade 1
Capacity of local authority	Low capacity
Accounting Officer	Menze L Somerset Str Fort Beaufort 5720 lmenze@nkonkobe.gov.za
Chief Finance Officer (CFO)	Lubelwana B Somerset Str Fort Beaufort 5720. blubelwana@nkonkobe.gov.za
Registered office	Market Square Adelaide 5760
Business address	Market Square Adelaide 5760
Postal address	Private Bag X350 Adelaide 5760
Bankers	ABSA Bank Limited First National Bank Limited
Auditors	Auditor-General of South Africa
Attorneys	Neville Borman and Botha Attorneys Wikus van Rensburg Attorneys

Index

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

The following supplementary information does not form part of the annual financial statements and is unaudited:

Abbreviations

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SARS	South African Revenue Services
VAT	Value Added Taxation

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements and related financial information.

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

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

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

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

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

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

The annual financial statements set out on pages 4 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and signed :

Accounting Officer
L Menze

Adelaide

31 August 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in the main business operations in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: waste management services - the collection and disposal of waste, refuse; electricity services - electricity is bought in bulk from eskom and distributed to the consumers by the municipality.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern based on GRAP 1 Paragraph 28 on the merger that took place on 4 August 2016 as an example of continuiing operations. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of busines.The municipality in a different form (as a combined entity) will continue to meet its statutory obligations and therefore in principle the basis of preparation of the annual finacial statement for 2015/16 financial year are prepared on a going concern basis.

For the financial year of 2016/17, the combining entities will be in existence for a month and a number of days. The municiplaity will ceize being a going concern.

3. Subsequent events

The accounting officer is aware of one matter or arising since the end of the financial year.

The boundaries of Nxuba Local Municipality and Nkonkobe Local Municipality have been redemarcated. The two municipalities have amalgamated. The amalgamation took place on 4 August 2016. The financial implications for Nxuba Local Municipality cannot be reliably estimated.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year was Marambana L and no longer in office, at the date of this report Mr. Menze L was appointed for the merging municipality.

6. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

7. Auditors

Auditor-General of South Africa will continue in office for the next financial period as per the Public Audit Act.

Statement of Financial Position as at 30 June 2016

	Note(s)	2016 R	2015 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	678,485	1,115,284
Receivables from exchange transactions	4	10,917,085	11,056,749
Receivables from non-exchange transactions	5	7,722,416	5,265,686
Inventories	7	893,877	367,721
VAT receivable	8	9,966,244	3,318,757
		30,178,107	**21,124,197**
Non-Current Assets			
Investment property	9	33,763,349	34,146,564
Property, plant and equipment	10	133,723,297	136,640,035
Intangible assets	11	106,800	111,535
Heritage assets	12	70,000	70,000
		167,663,446	**170,968,134**
Total Assets		**197,841,553**	**192,092,331**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	81,157,714	69,148,402
Consumer deposits	14	412,893	411,609
Finance lease obligation	15	84,025	227,000
Unspent conditional grants and receipts	16	1,248,916	1,537,721
Employee benefit obligation	18	763,000	789,000
		83,666,548	**72,113,732**
Non-Current Liabilities			
Finance lease obligation	15	95,921	169,170
Provisions	17	13,796,539	13,969,968
Employee benefit obligation	18	4,159,000	3,351,000
		18,051,460	**17,490,138**
Total Liabilities		**101,718,008**	**89,603,870**
Net Assets		**96,123,545**	**102,488,461**
Accumulated surplus		96,123,545	102,488,461

* See Note 54

Statement of Financial Performance

	Note(s)	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	22,354,742	24,040,596
Interest received	21	4,412,861	3,326,009
Rental of facilities and equipment	22	180,730	141,392
Admin and sundry charges	23	1,613,691	522,517
Licences and permits		2,656,850	2,128,013
Other revenue	24	854,558	1,089,932
Total revenue from exchange transactions		**32,073,432**	**31,248,459**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	4,185,077	3,902,579
Transfer revenue			
Government grants and subsidies	26	44,131,364	37,582,260
Other transfers	27	15,062,500	-
Fines		1,127,900	709,200
Total revenue from non-exchange transactions		**64,506,841**	**42,194,039**
Total revenue	19	**96,580,273**	**73,442,498**
Expenditure			
Employee related costs	28	(24,773,677)	(23,799,210)
Remuneration of councillors	29	(2,447,711)	(2,245,651)
Debt impairment	30	(7,709,372)	(8,163,497)
Depreciation and amortisation	31	(11,103,789)	(10,400,492)
Finance costs	32	(653,843)	(6,974,947)
Repairs and maintenance	33	(1,975,853)	(4,675,766)
Bulk purchases	34	(30,734,064)	(20,496,920)
Contracted services	35	(454,491)	(2,402,873)
Grants and subsidies paid	36	(6,171,903)	(7,069,299)
General expenses	37	(14,580,853)	(13,971,866)
Free basic refuse		(2,137,579)	(1,365,034)
Loss on disposal of assets		(75,843)	(492,719)
Total expenditure		**(102,818,978)**	**(102,058,274)**
Deficit for the year		**(6,238,705)**	**(28,615,776)**

* See Note 54

Statement of Changes in Net Assets

	Note	Accumulated surplus R	Total net assets R
Opening balance as previously reported		124,462,912	124,462,912
Adjustments			
Prior year adjustments	54	6,641,325	6,641,325
Balance at 01 July 2014 as restated*		**131,104,237**	**131,104,237**
Changes in net assets			
Deficit for the year		(28,615,776)	(28,615,776)
Total changes		(28,615,776)	(28,615,776)
Restated* Balance at 01 July 2015		**102,362,250**	**102,362,250**
Changes in net assets			
Deficit for the year		(6,238,705)	(6,238,705)
Total changes		(6,238,705)	(6,238,705)
Balance at 30 June 2016		**96,123,545**	**96,123,545**

* See Note 54

Cash Flow Statement

	Note(s)	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Other receipts		4,819,937	4,041,887
Sale of goods and services		25,837,728	24,162,093
Grants		43,842,559	35,870,000
Interest income		4,412,861	3,326,009
		78,913,085	67,399,989
Payments			
Employee costs		(27,221,388)	(26,044,860)
Suppliers		(30,734,064)	(23,350,351)
Finance costs		(628,968)	(6,933,541)
Other payments		(9,551,731)	(6,908,834)
		(68,136,151)	(63,237,586)
Net cash flows from operating activities	40	**10,776,934**	**4,162,403**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(10,410,775)	(4,426,037)
Proceeds from sale of property, plant and equipment	10	77,707	-
Purchase of investment property	9	(378,000)	-
Purchase of other intangible assets	11	(261,566)	(269,595)
Net cash flows from investing activities		**(10,972,634)**	**(4,695,632)**
Cash flows from financing activities			
Finance lease payments		(241,099)	(237,332)
Net increase/(decrease) in cash and cash equivalents		**(436,799)**	**(770,561)**
Cash and cash equivalents at the beginning of the year		1,115,284	1,885,845
Cash and cash equivalents at the end of the year	3	**678,485**	**1,115,284**

* See Note 54

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 51)
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	34,610,000	(5,000,000)	**29,610,000**	22,354,742	**(7,255,258)**	51.1
Sundry revenue	-	-	**-**	1,613,691	**1,613,691**	51.2
Rental of facilities and equipment	153,000	(6,000)	**147,000**	180,730	**33,730**	
Licences and permits	6,500,000	(2,500,000)	**4,000,000**	2,656,850	**(1,343,150)**	51.3
Other revenue	3,533,464	1,252,044	**4,785,508**	854,558	**(3,930,950)**	51.2
Interest received	-	-	**-**	4,412,861	**4,412,861**	51.2
Total revenue from exchange transactions	**44,796,464**	**(6,253,956)**	**38,542,508**	**32,073,432**	**(6,469,076)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4,190,386	-	**4,190,386**	4,185,077	**(5,309)**	
Transfer revenue						
Government grants and subsidies	45,373,000	3,036,586	**48,409,586**	44,131,364	**(4,278,222)**	51.4
Other transfers	-	-	**-**	15,062,500	**15,062,500**	51.5
Fines	50,000	-	**50,000**	1,127,900	**1,077,900**	51.6
Total revenue from non-exchange transactions	**49,613,386**	**3,036,586**	**52,649,972**	**64,506,841**	**11,856,869**	
Total revenue	**94,409,850**	**(3,217,370)**	**91,192,480**	**96,580,273**	**5,387,793**	
Expenditure						
Employee related costs	(25,425,317)	396,314	**(25,029,003)**	(24,773,677)	**255,326**	
Remuneration of councillors	(2,473,841)	-	**(2,473,841)**	(2,447,711)	**26,130**	
Depreciation and amortisation	(3,000,000)	-	**(3,000,000)**	(11,103,789)	**(8,103,789)**	51.7
Finance costs	-	-	**-**	(653,843)	**(653,843)**	51.8
Debt impairment	(500,000)	-	**(500,000)**	(7,709,372)	**(7,209,372)**	51.9
Free basic refuse	(2,880,000)	-	**(2,880,000)**	(2,137,579)	**742,421**	51.10
Repairs and maintenance	(1,043,000)	202,000	**(841,000)**	(1,975,853)	**(1,134,853)**	51.11
Bulk purchases	(22,208,000)	650,000	**(21,558,000)**	(30,734,064)	**(9,176,064)**	51.12
Contracted services	(180,000)	(750,000)	**(930,000)**	(454,491)	**475,509**	51.13
Grants and subsidies paid	(9,252,000)	(700,000)	**(9,952,000)**	(6,171,903)	**3,780,097**	51.14
General expenses	(8,485,470)	(3,402,468)	**(11,887,938)**	(14,580,853)	**(2,692,915)**	51.14
Total expenditure	**(75,447,628)**	**(3,604,154)**	**(79,051,782)**	**(102,743,135)**	**(23,691,353)**	
Operating deficit	**18,962,222**	**(6,821,524)**	**12,140,698**	**(6,162,862)**	**(18,303,560)**	
Loss on disposal of assets	-	-	**-**	(75,843)	**(75,843)**	
Deficit	**18,962,222**	**(6,821,524)**	**12,140,698**	**(6,238,705)**	**(18,379,403)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**18,962,222**	**(6,821,524)**	**12,140,698**	**(6,238,705)**	**(18,379,403)**	

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2016											
Financial Performance											
Property rates	4,190,386	-	4,190,386	-		4,190,386	4,185,077		(5,309)	100 %	100 %
Service charges	34,610,000	(5,000,000)	29,610,000	-		29,610,000	22,354,742		(7,255,258)	75 %	65 %
Investment revenue	-	-	-	-		-	4,412,861		4,412,861	DIV/0 %	DIV/0 %
Transfers recognised - operational	45,373,000	-	45,373,000	-		45,373,000	37,582,260		(7,790,740)	83 %	83 %
Other own revenue	10,186,464	(1,253,956)	8,932,508	-		8,932,508	6,433,729		(2,498,779)	72 %	63 %
Total revenue (excluding capital transfers and contributions)	**94,359,850**	**(6,253,956)**	**88,105,894**	**-**		**88,105,894**	**74,968,669**		**(13,137,225)**	**85 %**	**79 %**
Employee costs	(25,425,317)	(396,314)	(25,821,631)	-	-	(25,821,631)	(24,773,677)	-	1,047,954	96 %	97 %
Remuneration of councillors	(2,473,841)	-	(2,473,841)	-	-	(2,473,841)	(2,447,711)	-	26,130	99 %	99 %
Debt impairment	(500,000)	-	(500,000)			(500,000)	(7,709,372)	-	(7,209,372)	1,542 %	1,542 %
Depreciation and asset impairment	(3,000,000)	-	(3,000,000)			(3,000,000)	(11,103,789)	-	(8,103,789)	370 %	370 %
Finance charges	-	-	-	-	-	-	(653,843)	-	(653,843)	DIV/0 %	DIV/0 %
Materials and bulk purchases	(22,208,000)	(650,000)	(22,858,000)	-	-	(22,858,000)	(30,734,064)	-	(7,876,064)	134 %	138 %
Transfers and grants	(9,252,000)	700,000	(8,552,000)	-	-	(8,552,000)	(6,171,903)	-	2,380,097	72 %	67 %
Other expenditure	12,408,470	3,200,468	15,608,938	-	-	15,608,938	(19,224,619)	-	(34,833,557)	(123)%	(155)%
Total expenditure	**(50,450,688)**	**2,854,154**	**(47,596,534)**	**-**	**-**	**(47,596,534)**	**(102,818,978)**	**-**	**(55,222,444)**	**216 %**	**204 %**
Surplus/(Deficit)	**43,909,162**	**(3,399,802)**	**40,509,360**	**-**		**40,509,360**	**(27,850,309)**		**(68,359,669)**	**(69)%**	**(63)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	-	-	-	-		-	(4,169,935)		(4,169,935)	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	15,062,500		15,062,500	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**43,909,162**	**(3,399,802)**	**40,509,360**	**-**		**40,509,360**	**(16,957,744)**		**(57,467,104)**	**(42)%**	**(39)%**
Surplus/(Deficit) for the year	**43,909,162**	**(3,399,802)**	**40,509,360**	**-**		**40,509,360**	**(16,957,744)**		**(57,467,104)**	**(42)%**	**(39)%**

Capital Expenditure and Funds Sources

Total capital expenditure	-	-	-	-		-	378,000		378,000	DIV/0 %	DIV/0 %

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Cash Flows											
Net cash from (used) operating	-	-	-	-		-	10,776,934		10,776,934	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(10,972,634)		(10,972,634)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	(241,099)		(241,099)	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**-**	**-**	**-**	**-**		**-**	**(436,799)**		**(436,799)**	**DIV/0 %**	**DIV/0 %**
Cash and cash equivalents at the beginning of the year	1,115,284	-	1,115,284	-		1,115,284	1,115,284		-	100 %	100 %
Cash and cash equivalents at year end	**1,115,284**	**-**	**1,115,284**	**-**		**1,115,284**	**678,485**		**436,799**	**61 %**	**61 %**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

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

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable service 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 assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating 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 economic factors such as inflation and interest.

Value in use of non-cash generating 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. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

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 17 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm and on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post employment benefits and other long-term benefits

The present value of the post employment obligation and other long-term employee obligations 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 employment obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

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

Allowance for impairment

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

1.2 Investment property

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

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

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

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

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

Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment lossess.

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	20 to 30 years

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

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

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

1.3 Property, plant and equipment

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

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

1.3 Property, plant and equipment (continued)

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

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

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

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

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.

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

Item	Depreciation method	Average useful life
Land	Straight line	indefinite
Buildings	Straight line	30 years
Other assets	Straight line	3 to 20 years
Infrastructure	Straight line	10 to 80 years
Community	Straight line	20 to 30 years
Work in progress	Straight line	0 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 municipality 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.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the

* initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located;
* changes in the measurement of an existing decommissionion, restoration and similiar liability that result form change in the estimated timing or amount of the outlfow of resources embodying economic benefits or service potential required to settle the obligation, or a change in discount rate; and
* the obligation the municipality incurs for having used the items during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset;and
- the expenditure attributable to the asset during its development can be measured reliably.

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

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

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

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

Item	Useful life
Computer software	3 years

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

The gain or loss arising from the derecognition of an intangible assets is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

1.6 Heritage assets

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

Recognition

The municipality recognises a heritage asset as an asset when 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 can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 12 Heritage assets.

Initial measurement

Heritage assets are initially recognised 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

Subsequent to initial measurement classes of heritage assets are carried at cost less any accumulated impairment losses.

Impairment

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

Transfers

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

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

Accounting Policies

1.6 Heritage assets (continued)

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the item is derecognised.

1.7 Financial instruments

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

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
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at 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
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Consumer deposits	Financial liability 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 of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fiar value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

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

1.7 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.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

1.7 Financial instruments (continued)

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

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

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.

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

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).

1.8 Leases

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

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

1.8 Leases (continued)

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 municipality's incremental borrowing rate.

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

Operating leases - lessor

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

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

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

Income for leases is disclosed under revenue in the 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.

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

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

1.9 Inventories

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

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

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

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

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

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

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

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

1.9 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.

1.10 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

1.11 Impairment of cash-generating assets

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municpality 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 year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the 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.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses 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.

1.12 Impairment of non-cash-generating assets

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

Identification

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

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

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

Accounting Policies

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

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 asset 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.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

1.13 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of the Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the accounting policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the accounting policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the accounting policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

1.13 Statutory receivables (continued)

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivabled, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (taxes and trasfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at the end of each reporting date whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

* significant financial difficulty of the receivable, which may be evidenced by an application for debt counselling, business rescue or and equivalent.
* it is probable that the receivable will enter sequestration liquidation or other financial re-organisation.
* a breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
* adverse changes in international, national or local economic conditions, such as a deline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was reognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjsuted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable, or group of statutory reeivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable when:

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

Accounting Policies

1.13 Statutory receivables (continued)

The carrying amount of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

1.14 Employee benefits

Short-term employee benefits

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

Short-term employee benefits 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 municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality 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 municipality has no realistic alternative but to make the payments.

Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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 municipality recognises 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 municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.14 Employee benefits (continued)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money are consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards 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 municipality recognises 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;
- past service cost; and
- the effect of any curtailments or settlements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.15 Provisions and contingencies

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

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

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

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

1.15 Provisions and contingencies (continued)

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.

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a:
- possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.15 Provisions and contingencies (continued)

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; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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

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.

Measurement

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

Sale of goods

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

Rendering of services

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

1.16 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

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.

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

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.

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.

1.17 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.

Property rates

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

Transfers

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

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

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

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

Fines

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

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

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

Gifts and donations, including goods in-kind

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

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.18 Borrowing costs

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

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

1.19 Unauthorised expenditure

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

1.22 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

1.23 Commitments (continued)

- contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.25 Budget information

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

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

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.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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.

1.27 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 adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses 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.

Accounting Policies

1.28 Material losses (electricity)

Electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125.

Losses are calculated on the following basis - Number of units of lost supply, being the difference between what was supplied and what has been sold as the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council.

	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 adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash generating assets, and consequential amendments made to the definition of cash-generating assets;
- the indicators of internal sources of information were amended to include obsolescence as an indication that an asset may be impaired.
  In line with the amendments made to IPSAS 21 on Impairment of Non-cash-generating Assets (IPSAS 21) in 2011, an amendment has been made to include another indicator of impairment i.e., where an asset's useful life has been reassessed as finite rather than indefinite;
- where the recoverable service amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples of indications of impairment and measurement of impairment losses have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material

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

The following amendments were made to the standard:

- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- general definitions have been deleted as these definitions are not essential to the understanding of the Standard. A paragraph has been included to explain that terms defined in other Standards of GRAP are used with the same meaning as in those other Standards of GRAP;
- additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets, and consequential amendments made to the definition of cash-generating assets and cash-generating unit;
- in line with the amendments made to IPSAS 26 on Impairment of Cash-generating Assets (IPSAS 26) in 2010, an amendment has been made to include another indicator of impairment in relation to the internal sources of information;
- where the recoverable amount is value in use, disclosure requirements have been added about whether an independent valuer is used to determine value in use together with the methods and significant assumptions applied in determining the value in use have been added to the disclosure requirements; and
- appendices with illustrative examples on using present value techniques to measure value in use and illustrative guidance have been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Improvements to the standards of GRAP (2013)

Amendments were made to the following standards of GRAP:
- GRAP 1 - Presentation of Financial Statements;
- GRAP 2 - Cash Flow Statements;
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors;
- GRAP 7 - Investments in Associates;
- GRAP 10 - Financial Reporting in Hyperinflationary Economies;
- GRAP 11 - Construction Contracts;
- GRAP 13 - Leases;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets;
- GRAP 21 - Impairment of Non-cash-generating Assets (refer to separate note);
- GRAP 24 - Presentation of Budget Information in Financial Statements;
- GRAP 25 - Employee Benefits;
- GRAP 26 - Impairment of Cash-generating Assets (refer to separate note);
- GRAP 31 - Intangible Assets;
- GRAP 103 - Heritage Assets; and
- GRAP 104 - Financial Instruments

The amendments relate mainly due to editorial and other changes to the original text to ensure consistency with other Standards of GRAP and deletion of the appendices with illustrative guidance and examples from the standards, as the National Treasury has issued complex examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

GRAP 23 (as amended 2015): Revenue from non-exchange transactions

The following amendments were made to the standard:
- editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP;
- the scope paragraph has been amended to exclude non-exchange revenue from construction contracts from this Standard;
- commentary has been added to clarify that discounts, volume rebates or other reductions in the quoted price of assets are exchange transactions that should be treated in accordance with the Standard of GRAP on Revenue from Exchange Transactions;
- the Standard was amended to make it mandatory for entities to recognise services in-kind to the extent that the services in-kind are significant to an entity's operations and/or service delivery objectives and to the extent that the recognition criteria have been met;
- commentary has been added to clarify that services in-kind are not limited to the provision of services by individuals but also include the right to use assets. Examples have been added to illustrate this amendment; and
- the appendix with illustrative examples has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The impact of the standard is not material.

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:

GRAP 18: Segment Reporting

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence.

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

- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard, but has already formulated an accounting policy for this reporting period based on the Standard..

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

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

This interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

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

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

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but the effective date of the interpretation is not yet set by the Minister of Finance.

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

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Amendments made to the standard are:
- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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

Amendments made to the standard are:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarify the wording related to the use of external valuers;
- introduce more specific presentation and disclosure requirements for capital work-in-progress;
- the encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

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

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this standard is to outline principles to be used by an municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

The standard has been approved by the Accounting Standards Board, but the effective date of the standard is not yet set by the Minister of Finance.

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

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

	2016 R	2015 R

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016 R	2015 R
Bank balances	248,270	517,035
Short-term deposits	430,215	598,249
	678,485	**1,115,284**

The municipality does not ring fence grant funding and does not have suffient funds to be offset against unspent grants withheld as reflected on the statement fo financial position.

The petty cash balance of the municipality was zero at year end.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank Ltd - Current account - 2360 000 012	44,131	119,237	29,195	44,131	119,237	29,195
FNB Bank Ltd - Cheque account - 5164 001 1783	204,139	397,798	204,139	204,139	397,798	954,111
ABSA Bank Ltd - Call account - 9130 862 998	3,257	586,597	846,604	3,257	586,597	846,604
ABSA Bank Ltd - Call account - 9167 907 774	1,031	4,090	1,997	1,031	4,090	1,997
ABSA Bank Ltd - Call account - 9081 226 121	2,211	1,084	1,224	2,211	1,084	1,224
ABSA Bank Ltd - Call account - 9116 410 431	1,104	6,478	6,258	1,104	6,478	6,258
FNB Bank Ltd - Call account - 6257 422 8716	10,017	-	-	10,017	-	-
FNB Bank Ltd - Call account - 6257 422 7643	34,894	-	-	34,894	-	-
FNB Bank Ltd - Call account - 6257 422 9772	375,377	-	-	375,377	-	-
FNB Bank Ltd - Call account - 6257 422 6249	2,326	-	-	2,326	-	-
Total	**678,487**	**1,115,284**	**1,089,417**	**678,487**	**1,115,284**	**1,839,389**

4. Receivables from exchange transactions

	2016 R	2015 R
Gross balances		
Electricity	9,421,834	10,005,460
Refuse	41,870,123	36,928,451
Admin, sundry and housing	951,536	829,888
	52,243,493	**47,763,799**
Less: Allowance for impairment		
Electricity	(4,910,778)	(3,687,623)
Refuse	(35,637,724)	(32,306,611)
Admin, sundry and housing	(777,906)	(712,816)
	(41,326,408)	**(36,707,050)**

	2016 R	2015 R

4. Receivables from exchange transactions (continued)

	2016 R	2015 R
Net balance		
Electricity	4,511,056	6,317,837
Refuse	6,232,399	4,621,840
Admin, sundry and housing	173,630	117,072
	10,917,085	**11,056,749**

	2016 R	2015 R
Electricity		
Current (0 -30 days)	2,212,890	1,935,950
31 - 60 days	617,093	1,020,217
61 - 90 days	516,326	901,530
91 - 120 days	6,075,525	6,147,763
Less: Allowance for impairment	(4,910,778)	(3,687,623)
	4,511,056	**6,317,837**

	2016 R	2015 R
Refuse		
Current (0 -30 days)	1,071,672	737,238
31 - 60 days	508,086	437,959
61 - 90 days	495,998	419,997
91 - 120 days	39,794,367	35,333,257
Less: Allowance for impairment	(35,637,724)	(32,306,611)
	6,232,399	**4,621,840**

	2016 R	2015 R
Admin, sundry and housing		
Current (0 -30 days)	25,890	27,503
31 - 60 days	11,692	9,149
61 - 90 days	11,148	6,244
91 - 120 days	902,806	786,992
Less: Allowance for impairment	(777,906)	(712,816)
	173,630	**117,072**

Notes to the Annual Financial Statements

	2016 R	2015 R

4. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

	2016 R	2015 R
Consumers		
Current (0 -30 days)	1,965,125	1,481,410
31 - 60 days	634,731	521,190
61 - 90 days	588,941	479,051
91 - 120 days	43,327,125	38,051,962
	46,515,922	40,533,613
Less: Allowance for impairment	(38,370,245)	(34,840,756)
	8,145,677	**5,692,857**
Industrial/ commercial		
Current (0 -30 days)	573,114	550,598
31 - 60 days	125,369	83,612
61 - 90 days	97,818	59,038
91 - 120 days	2,326,236	2,228,034
	3,122,537	2,921,282
Less: Allowance for impairment	(1,793,222)	(1,866,294)
	1,329,315	**1,054,988**
National and provincial government		
Current (0 -30 days)	755,876	668,683
31 - 60 days	376,619	862,522
61 - 90 days	336,563	789,682
91 - 120 days	1,107,121	1,988,651
	2,576,179	4,309,538
Less: Allowance for impairment	(1,150,790)	-
	1,425,389	**4,309,538**
Total		
Current (0 -30 days)	3,310,452	2,700,691
31 - 60 days	1,136,870	1,467,324
61 - 90 days	1,023,472	1,327,771
91 - 120 days	46,772,699	42,268,013
	52,243,493	47,763,799
Less: Allowance for impairment	(41,326,408)	(36,707,050)
	10,917,085	**11,056,749**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(36,707,050)	(40,410,725)
Contributions to allowance	(4,619,358)	-
Reversal of allowance	-	3,703,675
	(41,326,408)	**(36,707,050)**

Credit quality of receivables from exchange transactions

The credit quality of receivables from 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 counterparty default rates.

Notes to the Annual Financial Statements

	2016 R	2015 R

4. Receivables from exchange transactions (continued)

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016 R 4 447 321. (2015: R 4,168,015) were past due but not impaired.

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

1 month past due	3,294,387	2,700,691
2 months past due	1,136,870	1,467,324

Receivables from exchange transactions impaired

As of 30 June 2016, receivables from exchange transactions of R 47,796,171 (2015: R 43,596,418) were impaired and provided for.

The amount of the allowance was R 41,326,408 as of 30 June 2016 (2015: R 36,707,050).

The ageing of these receivables is as follows:

3 to 6 months	1,023,472	1,327,771
Over 6 months	46,772,699	42,268,646

5. Receivables from non-exchange transactions

Fines	268,002	143,857
Government grants and subsidies	-	1,903,000
Interest accrued	1,700	1,700
Rates	4,444,006	3,096,448
Sundry deposits	2,955,896	67,869
Sundry debtor	52,812	52,812
	7,722,416	**5,265,686**

Credit quality of receivables from non-exchange transactions

The credit quality of 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 counterparty default rates.

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 1,208,427 (2015: R 1,137,349) were past due but not impaired.

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

1 month past due	810,433	751,609
2 months past due	397,994	385,740

Receivables from non-exchange transactions impaired

As of 30 June 2016, receivables from non-exchange transactions of R 20,858,318 (2015: R 16,779,569) were impaired and provided for.

The amount of the allowance for impairment was R 16,146,310 as of 30 June 2016 (2015: R 13,539,264).

The ageing of these receivables are as follows:

3 to 6 months	466,380	342,714
Over 6 months	20,391,938	16,436,855

Notes to the Annual Financial Statements

	2016 R	2015 R
6. Non-exchange receivables disclosure		
Rates		
Current (0 -30 days)	789,783	597,359
31 - 60 days	336,924	262,840
61 - 90 days	328,630	249,914
91 - 120 days	17,231,980	14,641,905
Less:Allowance for impairment	(14,243,311)	(12,655,570)
	4,444,006	**3,096,448**
Fines		
Current (0 -30 days)	20,650	154,250
31 - 60 days	61,700	122,900
61 - 90 days	137,750	92,800
91 - 120 days	1,841,990	657,600
Less: Allowance for impairment	(1,794,088)	(883,693)
	268,002	**143,857**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(13,539,264)	(11,536,770)
Contributions to allowance	(2,498,135)	-
Reversal of allowance	-	(2,002,494)
	(16,037,399)	**(13,539,264)**

7. Inventories

	2016 R	2015 R
Maintenance materials	893,877	367,721

The inventory expensed during the year amounts to R 180 366 (2015 : R 476 623).

Inventory pledged as security

Inventory is not pledged as security.

8. VAT receivable

	2016 R	2015 R
Value-added taxation (note 49)	9,966,244	3,318,757

VAT is payable on the payment basis.

9. Investment property

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	40,617,461	(6,854,112)	33,763,349	40,239,461	(6,092,897)	34,146,564

	2016 R	2015 R

9. Investment property (continued)

Reconciliation of investment property - 2016

	Opening balance	Additions	Depreciation	Total
Investment property	34,146,564	378,000	(761,215)	33,763,349

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	34,908,177	(761,613)	34,146,564

	2016 R	2015 R
The rental income earned form investment property for the year amounts to	178,759	141,392

Pledged as security

Investment property is not pledged as security.

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.

Investment property break down :

	2016 R	2015 R
Land at cost	17,769,098	17,391,098
Buidlings at cost	22,848,363	22,848,363

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	74,817	-	74,817	74,817	-	74,817
Buildings	8,312,398	(1,143,496)	7,168,902	8,312,398	(866,416)	7,445,982
Other assets	5,592,821	(3,053,604)	2,539,217	5,687,638	(2,645,029)	3,042,609
Infrastructure	218,454,902	(121,262,049)	97,192,853	216,751,469	(112,631,443)	104,120,026
Community	22,774,765	(6,140,716)	16,634,049	22,774,765	(5,458,414)	17,316,351
Work in progress	10,113,459	-	10,113,459	4,640,250	-	4,640,250
Total	**265,323,162**	**(131,599,865)**	**133,723,297**	**258,241,337**	**(121,601,302)**	**136,640,035**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Changes in existing restoration costs	Depreciation	Total
Land	74,817	-	-	-	-	74,817
Buildings	7,445,982	-	-	-	(277,080)	7,168,902
Other assets	3,042,609	136,442	(153,550)	-	(486,284)	2,539,217
Infrastructure	104,120,026	2,111,831	-	(408,397)	(8,630,607)	97,192,853
Community	17,316,351	-	-	-	(682,302)	16,634,049
Work in progress	4,640,250	8,162,502	-	-	(2,689,293)	10,113,459
	136,640,035	**10,410,775**	**(153,550)**	**(408,397)**	**(12,765,566)**	**133,723,297**

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	Changes in existing restoration costs	Depreciation	Total
Land	74,817	-	-	-	-	-	74,817
Buildings	2,441,125	-	-	5,128,322	-	(123,465)	7,445,982
Other assets	3,886,065	272,843	(492,719)	-	-	(623,580)	3,042,609
Infrastructure	109,267,454	-	-	41,538	2,853,431	(8,042,397)	104,120,026
Community	17,998,653	-	-	-	-	(682,302)	17,316,351
Work in progress	5,656,916	4,153,194	-	(5,169,860)	-	-	4,640,250
	139,325,030	**4,426,037**	**(492,719)**	**-**	**2,853,431**	**(9,471,744)**	**136,640,035**

Pledged as security

Carrying value of the above property, plant and equipment have been pledged as security.

Other Assets	133,029	292,713
Finance lease contracts		

On the 19 May 2016, the traffic department in Adelaide was burnt down. All movable assets that were in the building were destroyed. Insurance claim has been submitted and an assessement is still uderway.

The municipality does not hold any water or sewer infrastructure as this function falls under Amatole District Municipality.

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

Notes to the Annual Financial Statements

	2016 R	2015 R

11. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	564,851	(458,051)	106,800	303,284	(191,749)	111,535

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	111,535	261,566	(266,301)	106,800

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	9,075	269,595	(167,135)	111,535

Pledged as security

None of the above intangible assets have been pledged as security.

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.

12. Heritage assets

	2016			2015		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical monuments	70,000	-	70,000	70,000	-	70,000

Reconciliation of heritage assets 2016

	Opening balance	Total
Historical monuments	70,000	70,000

Reconciliation of heritage assets 2015

	Opening balance	Total
Historical monuments	70,000	70,000

Pledged as security

None of the above heritage assets have been pledged as security.

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.

	2016 R	2015 R

13. Payables from exchange transactions

Trade payables	67,874,620	61,064,655
Unallocated deposits	9,827,554	3,396,919
Accrued leave pay	1,580,072	2,131,193
Accrued 13th cheque	639,439	541,454
Operating lease payables	15,276	17,246
Accrued employee costs	756,771	898,615
Payments received in advance	426,432	1,068,572
Rental deposits	37,550	29,748
	81,157,714	**69,148,402**

14. Consumer deposits

Electricity	412,893	411,609

15. Finance lease obligation

Minimum lease payments due		
- within one year	99,793	251,089
- in second to fifth year inclusive	84,450	178,265
	184,243	429,354
less: future finance charges	(4,297)	(33,184)
Present value of minimum lease payments	**179,946**	**396,170**
Non-current liabilities	95,921	169,170
Current liabilities	84,025	227,000
	179,946	**396,170**

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

The average lease term was 2 years and the average effective borrowing rate prime.

Interest rates are fixed at the contract date. All leases have fixed repayments.

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

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	98,500	1,474,687
Integrated National Electrification Grant (INEG)	1,007,553	-
Municipal Systems Improvement Grant (MSIG)	142,863	7,594
Finance Management Grant (FMG)	-	-
Extended Public Works Programme (EPWP)	-	-
Local Economic Development Subsidy (LED)	-	55,440
	1,248,916	**1,537,721**

	2016 R	2015 R

16. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	1,537,721	3,249,982
Additions during the year	45,396,907	35,870,000
Income recognition during the year	(45,685,712)	(37,582,261)
	1,248,916	**1,537,721**

See note 26 or reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

	2016 R	2015 R

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Change in estimate - interest	Unwinding of discount	Total
Environmental rehabilitation - landfill sites	13,969,968	88,020	516,889	(778,338)	13,796,539

Reconciliation of provisions - 2015

	Opening Balance	Additions	Change in estimate - interest	Unwinding of discount	Total
Environmental rehabilitation - landfill sites	4,547,996	187,623	8,865,962	368,387	13,969,968

The provision represents the municipality's estimated obligation at 30 June 2016 to restore the landfill site at the end of its useful life, estimated to be: Bedford - 5 years from 2016. Adelaide landfill site has been issued with a closure license which states the decomissioning of the site and must commernce two years from the licence issue date, which is 30 June 2014. The commencement date was therefore 30 June 2016. The licence also states that its is valid for a period of fours years from issue date. It can therefore be interpreted that decomissioning must be completed by 30 June 2018 - The amount of rehabilitation is dependent on future costs, technology, inflation and site consumption. The discount rate of the provision was 6.8% (2015: 3.7%).

Closure cost - Adelaide		
Opening balance	7,988,931	1,654,744
Change in estimate interest	(281,921)	6,200,153
Unwinding of interest	295,590	134,034
	8,002,600	**7,988,931**

Provision - Bedford		
Opening balance	5,981,037	2,893,253
Change in estimate interest	(496,417)	2,665,809
Change in Estimate - Cost	88,020	187,622
Unwinding of interest	221,299	234,353
	5,793,939	**5,981,037**

18. Employee benefit obligations

Employee benefit obligation

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Long service awards

The municipality provides long service benefits, they are awarded in the form of leave days, awarded once and employee has completed a certain number of years service.

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

Notes to the Annual Financial Statements

	2016 R	2015 R

18. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(4,922,000)	(4,140,000)
Non-current liabilities	(4,159,000)	(3,351,000)
Current liabilities	(763,000)	(789,000)
	(4,922,000)	**(4,140,000)**

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

Opening balance	(3,058,000)	(3,131,000)
Net expense recognised in the statement of financial performance	(559,000)	73,000
	(3,617,000)	**(3,058,000)**

Net expense recognised in the statement of financial performance

Current service cost	(266,000)	(289,000)
Interest cost	(292,000)	(293,000)
Actuarial (gains) losses	(1,000)	655,000
	(559,000)	**73,000**

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

Actuarial (gains) losses – Obligation	(1,082,000)	(931,000)
Net expense recognised in the statement of financial performance	(223,000)	(151,000)
	(1,305,000)	**(1,082,000)**

Net expense of the long service awards obligation recognised in the statement of financial performance

Current service cost	129,000	105,000
Interest cost	102,000	72,000
Actuarial losses / (gains)	95,000	9,000
Benefits paid	(103,000)	(35,000)
	223,000	**151,000**

	2016 R	2015 R

18. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield curve	Yield curve
Consumer price inflation (CPI)	Difference between nominal and yield curves	Difference between nominal and yield curves
Medical aid contribution inflation	CPI +1%	CPI +1%
Normal salary increase rate	CPI +1%	CPI +1%
Net effective discount rate	Yield curve based	Yield curve based
Average retirement age	63	63

The basis used to determine the discount rates and CPI assumptions are as follows:

The nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, the prevailing yield at the time of performing the calculations was used. ZAQEN have changed to this methodology from a point estimate in order to present a more accurate depiction of the liability.

The basis used to determine the medical aid inflation is as follows:

The medical aid contribution inflation rate was set with reference to the past relationship between the yield curve basis discount rate for each relevant time period and the yield curve based medical aid contribution inflation for each relevant time period.

The basis used to determine the normal salary inflation rate is as follows:

ZAQEN derived the underlying future rate of CPI from the relationship between the yield curve based conventional bond rate for each relevant time period and the yield curve based inflation-linked bond rate for each relevant time period. Their assumed rate of salary inflation was set as the assumed value of CPI +1%. The salaries used in the valuation include an assumed increase on 1 July 2016 of 6%.

Other assumptions

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

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	678,000	590,000
Effect on defined benefit obligation	3,882,000	3,365,000

Notes to the Annual Financial Statements

	2016 R	2015 R

19. Revenue

	2016 R	2015 R
Service charges	22,354,742	24,040,596
Property rates	4,185,077	3,902,579
Government grants and subsidies	44,131,364	37,582,260
Interest received	4,412,861	3,326,009
Public contributions and other transfers	15,062,500	-
Rental of facilities and equipment	180,730	141,392
Admin and sundry charges	1,613,691	522,517
Licences and permits	2,656,850	2,128,013
Other revenue (note 24)	854,558	1,089,932
Fines	1,127,900	709,200
	96,580,273	**73,442,498**

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

	2016 R	2015 R
Service charges	22,354,742	24,040,596
Admin and sundry charges	1,613,691	522,517
Rental of facilities and equipment	180,730	141,392
Licences and permits	2,656,850	2,128,013
Other revenue (note 24)	854,558	1,089,932
Interest received	4,412,861	3,326,009
	32,073,432	**31,248,459**

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

	2016 R	2015 R
Taxation revenue		
Property rates	4,185,077	3,902,579
Transfer revenue		
Government grants and subsidies	44,131,364	37,582,260
Public contributions and donations	15,062,500	-
Fines	1,127,900	709,200
	64,506,841	**42,194,039**

20. Service charges

	2016 R	2015 R
Sale of electricity	16,902,506	19,124,136
Refuse removal	5,452,236	4,916,460
	22,354,742	**24,040,596**

21. Interest received

	2016 R	2015 R
Interest revenue		
Interest on bank account	243,025	103,715
Interest charged on receivables	4,169,836	3,222,294
	4,412,861	**3,326,009**

22. Rental income of facilities and equipment

	2016 R	2015 R
Facilities and equipment		
Rental of facilities and equipment	180,730	141,392

Notes to the Annual Financial Statements

	2016 R	2015 R

23. Admin and sundry charges

Admin and sundry charges	1,613,691	522,517

The admin and sundry charges represent tender documention collection fees, small donations and sundry receipts.

24. Other revenue

Actuarial gain on employee benefits	-	646,000
Building plans	29,152	27,856
Burial fees	121,353	96,183
Clearance and valuation certificates	48,802	40,541
Commission: motor registrations	191,448	221,304
Insurance claim	68,685	41,030
Donations in kind	394,350	-
Pound fees	768	17,018
	854,558	**1,089,932**

25. Property rates

Rates billed

Property rates	4,185,077	3,902,579

Property rates consist of the following category:

Farm properties	729,708	552,808
Business properties	548,260	639,130
Industrial Properties	4,284	4,047
Public services infrastructure properties	31,045	15,583
Residential properties	2,230,832	2,091,292
State owned properties	585,695	547,784
Multi purpose properties - other	55,253	51,935
	4,185,077	**3,902,579**

Valuations

Residential	409,553,600	353,167,485
Commercial	77,255,800	73,531,998
State and public service infrastructure	8,055,650	83,830,300
Municipal property	15,445,700	15,033,500
Small holdings and farms	883,976,500	883,976,500
	1,394,287,250	**1,409,539,783**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

	2016 R	2015 R

26. Government grants and subsidies

Equitable share	21,673,248	22,102,850
Library subsidy	522,000	522,000
Indigent subsidy	4,887,438	1,686,150
Integrated National Electrification Grant	3,992,447	1,413,079
Local Economic Development Subsidy	-	56,560
Municipal Infrastructure Grant	9,461,500	8,067,621
Extended Public Works Programme Grant	1,000,000	1,000,000
Financial Management Grant	1,800,000	1,800,000
Municipal Systems Improvement Grant	794,731	934,000
	44,131,364	**37,582,260**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	20,310,907	15,232,000
Unconditional grants received	25,086,000	20,638,000
	45,396,907	**35,870,000**

Equitable Share

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

Indigent subsidy

Current-year receipts	4,887,438	1,686,150
Conditions met - transferred to revenue	(4,887,438)	(1,686,150)
	-	**-**

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

Capital grant - Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	1,474,687	2,391,309
Current-year receipts	9,560,000	9,451,000
Conditions met - transferred to revenue	(9,461,500)	(8,067,622)
Withheld equitable share portion	(1,474,687)	(2,300,000)
	98,500	**1,474,687**

Conditions still to be met - remains a liability (see note 16).

Receiving officers must ensure appropriate programme and project planning and implementation readiness prior to the year of implementation and must be informed by the Integrated Development Plan (IDP) (Chapter 5 of the Municipal Systems Act, 2000) and a three year capital plan.

The municipality must prioritise basic residential infrastructure for water, sanitation, roads, refuse removal, streets lighting, connector and internal bulk infrastructure, and other municipal infrastructure like sport and recreation and community facilities in line with the MIG 2004 policy framework and/or other government sector policies.

Municipalities must use labour-intensive construction methods in terms of EPWP guidelines.

	2016 R	2015 R

26. Government grants and subsidies (continued)

Operational grant - Integrated National Electrification Grant

Balance unspent at beginning of year	-	851,079
Current-year receipts	5,000,000	1,413,000
Conditions met - transferred to revenue	(3,992,447)	(1,413,079)
	-	(851,000)
	1,007,553	**-**

Conditions still to be met - remain liabilities (see note 16).

The purpose is to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to Eskom to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Plans need to have undergone pre-engineered project feasibility approval. The projects must be prioritised by municipalities in their Integrated Development Plans (IDPs) and supporting letters provided to demonstrate municipalities are in agreement with projects to be undertaken.

Operational grant - Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	7,594	7,594
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(794,731)	(934,000)
	142,863	**7,594**

Conditions still to be met - remain liabilities (see note 16).

Municipalities must submit a signed activity plan in the prescribed format with detailed budgets and time frames for the implementation of prioritised measurable outputs.

Operational grant - Financial Management Grant (FMG)

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

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

The municipality must establish a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel and must appoint at least five interns over a multi-year period.

An amount of R402 119.44 was overspent on the Grant whereby the municipality utilised their own reserved to fund the overspending"

Operation grant - Extended Public Works Programme (EPWP)

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

EPWP projects must comply with the project selection criteria determined in the 2012 EPWP Grant Manual; the EPWP guidelines set by the Department of Public Works (DPW) and the Ministerial Determination as updated annually on 1 November each year.

Notes to the Annual Financial Statements

	2016 R	2015 R

26. Government grants and subsidies (continued)

The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list.

An amount of R8 679 was overspent on the Grant whereby the municipality utilised their own reserved to fund the overspending"

Library subsidy

	2016	2015
Current-year receipts	522,000	522,000
Conditions met - transferred to revenue	(522,000)	(522,000)
	-	-

Conditions still to be met - remain liabilities (see note 16).

The subsidy is provided for the sole purpose to fund the running of the library.

An amount of R333 316 was overspent on the grant whereby the municipality utilised their own reserved to fund the overspending

Operation grant - Local Economic Development Subsidy (LED)

	2016	2015
Balance unspent at beginning of year	56,560	-
Current-year receipts	-	112,000
Conditions met - transferred to revenue	(56,560)	(55,440)
	-	**56,560**

Conditions still to be met - remain liabilities (see note 16).

To assist the municipality to employ and LED assistant, to drive the municipal LED programme.

27. Other transfers

	2016	2015
Payment of ESKOM on behalf of the municipality paid by the Department	15,062,500	-

	2016	2015
Reconciliation of contributions made by the Department		
Current-year receipts	15,062,500	-
Payment of ESKOM	(15,062,500)	-
	-	-

A payment amounting to R 4 040 000 and R 11 012 500 totalling R 15 062 500 were made to ESKOM by the Department of Cooperative Governance & Traditional Affairs on behalf of the municipality on 22 December 2015 and 15 January 2016 respectively.

A further R11 361 000 was paid by the Department in July 2016

Notes to the Annual Financial Statements

	2016 R	2015 R

28. Employee related costs

Basic	17,830,057	17,595,725
13th cheque	1,456,141	1,245,880
Social contributions	3,533,444	3,178,469
Compensation commissioner	17,648	122,358
Skills development levies (SDL)	86,770	86,327
Defined contribution plans	465,708	394,000
Travel, motor car, accommodation, subsistence and other allowances	501,080	434,689
Overtime payments	171,422	225,814
Housing benefits and allowances	115,847	22,848
Ward committees	378,000	384,600
Learnerships	217,560	143,500
Actuarial benefits paid	-	(35,000)
	24,773,677	**23,799,210**

Remuneration of the Municipal Manager

Annual Remuneration	741,413	894,600
Car Allowance	33,548	-
Performance Bonuses	80,514	-
Other	1,487	1,785
	856,962	**896,385**

Remuneration of the Chief Financial Officer

Annual Remuneration	490,041	471,623
Car Allowance	76,273	69,917
Contributions to UIF, Medical and Pension Funds	1,785	1,785
	568,099	**543,325**

Remuneration of the Technical Services Director - Appointed January 2014 and resigned in November 2014

Annual Remuneration	-	224,403
Other	-	744
	-	**225,147**

Remuneration of the Technical Services Director

Annual Remuneration	-	307,784
Contributions to UIF, Medical and Pension Funds	-	1,473
	-	**309,257**

Remuneration of the Human Resource Director

Annual Remuneration	44,645	535,734
Leave pay	40,630	-
Contributions to UIF, Medical and Pension Funds	149	1,785
	85,424	**537,519**

	2016 R	2015 R

28. Employee related costs (continued)

Remuneration of the Community Service Director

	2016 R	2015 R
Annual Remuneration	-	500,000
Contributions to UIF, Medical and Pension Funds	-	1,487
	-	**501,487**

Remuneration of the Infrastrustructure and Service Delivery Director

	2016 R	2015 R
Annual Remuneration	606,632	-
Performance Bonuses	36,000	-
Contributions to UIF, Medical and Pension Funds	3,569	-
	646,201	**-**

The position of Director Technical Services and Director Community Services was combined from 1 June 2015.
The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

29. Remuneration of councillors

	2016 R	2015 R
Mayor / Speaker	736,097	676,291
Councillors	1,711,614	1,569,360
	2,447,711	**2,245,651**

In-kind benefits

The Mayor is also the Speaker and is appointed on a full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor is not being provided with the mayoral residence. The Mayor has use of a Council owned vehicle for official duties. The Mayor does not have bodyguards.

Notes to the Annual Financial Statements

	2016 R	2015 R

29. Remuneration of councillors (continued)

2016	Annual remuneration	Travel allowance	Telephone allowances	Total
Mayor / Speaker - Bruintjies LL	586,145	126,984	22,968	736,097
Councillor - Auld CA	161,848	47,682	22,968	232,498
Councillor - Ndyambo S	213,229	-	22,968	236,197
Councillor - Jack P	271,463	-	22,968	294,431
Councillor - Lombard E	161,847	47,682	22,968	232,497
Councillor - Maloni QP	213,229	-	22,968	236,197
Councillor - Mentoor BP	161,847	55,082	22,968	239,897
Councillor - Douglas LJ (Elected: April 2014)	161,847	55,082	22,968	239,897
	1,931,455	**332,512**	**183,744**	**2,447,711**

2015	Annual remuneration	Travel allowance	Telephone allowances	Total
Mayor / Speaker - Bruintjies LL	484,872	161,051	20,868	666,791
Councillor - Auld CA	148,546	48,315	20,868	217,729
Councillor - Jack P	251,618	-	20,868	272,486
Councillor - Lombard E	148,546	48,315	20,868	217,729
Councillor - Maloni QP	196,861	-	20,868	217,729
Councillor - Mentoor BP	148,546	48,315	20,868	217,729
Councillor - Douglas LJ	148,546	48,315	20,868	217,729
Councillor - Ndyambo S	196,861	-	20,868	217,729
	1,724,396	**354,311**	**166,944**	**2,245,651**

The remuneration of councillors is within the upper limits as per Gazette No. 58.

30. Debt impairment

	2016 R	2015 R
Debt impairment/(reverse)	459,161	(1,701,181)
Contributions to allowance for impairment	7,226,404	-
Bad debts written off - from exhange transactions	23,807	9,864,678
	7,709,372	**8,163,497**

A report was tabled before Council to write off sundry and admin charges in the prior year.

31. Depreciation and amortisation

	2016 R	2015 R
Property, plant and equipment	10,076,273	9,520,874
Investment property	761,215	712,483
Intangible assets	266,301	167,135
	11,103,789	**10,400,492**

32. Finance costs

	2016 R	2015 R
Landfill	234,968	6,568,541
Finance leases	24,875	41,406
Interest cost - employee benefit obligation	394,000	365,000
	653,843	**6,974,947**

Notes to the Annual Financial Statements

	2016 R	2015 R

33. Repairs and maintenance

Repairs and maintenance	1,975,853	4,675,766

Repairs and maintenance increased this year due to roads needing to be re-gravelled. The expenditure was utilised from the Municipal Infrastructure Grant.

34. Bulk purchases

Electricity	30,734,064	20,496,920

Electricity losses
Nxuba Local Municipality experienced an electricity loss of R1 916 390 (7.53%) for the 2015/2016 financial year (2015: R3 777 570 (13.93%). The decrease in the loss can be ascribed to the change in Eskom tariff rates, the new tariffs are significantly lower.

35. Contracted services

Consultants	454,491	2,402,873

The consultant fees mainly consist of Business Connexion (BCX) for IT support and consulting services.

	2016 R	2015 R

36. Grants and subsidies paid

Other subsidies		
Financial Management Grant Expenses	1,412,786	1,658,896
Municipal Systems Improvement Grant Expenses	903,468	933,778
Extended Public Works Programme Grant Expenses	1,640,858	1,309,286
Integrated National Electrification Grant	2,214,791	3,167,339
	6,171,903	**7,069,299**

The grant expenditure can be further classified into the following categories:

Construction R 571,560 (2015: R 419,108)
Management of maintenance of the financial management system R 2,668,668 (2015: R 2,141,040)
Eskom - change in tariffs R 3,033,007 (2015: R 3,12,582)
Furniture and equipment R 0 (2015: R 79,347)
Valuation and data cleansing R 0 (2015: R 200,000)
Project management unit and salaries R 1,160,586 (2015: R1,727,912)

37. General expenses

Advertising	(24,148)	168,245
Audit committee	78,777	163,984
Auditors remuneration	3,179,058	1,081,334
Awareness campaign project	5,330	7,950
Bank charges	86,322	172,244
Bedford garden festival	200,000	405,622
Computer expenses	220,980	296,695
Agency fees	1,099,505	1,247,376
Entertainment	21,163	22,393
Fines and penalties	3,026,007	2,931,101
Fuel and oil	620,967	707,078
Hire	754,649	452,479
Horticulture	92,625	-
IDP review	7,600	3,900
IGR forums	-	7,250
Insurance	470,011	489,461
LED forum	-	14,988
Land use planning review	40,000	-
Landfill sites	195,960	-
Legal expenses	590,403	531,767
License fees	26,167	49,382
Mayor's fund	180	10,990
Motor vehicle expenses	-	650
Postage and courier	189,875	302,593
Pound fees	1,182	10,179
Printing and stationery	142,400	355,822
Protective clothing	(27,486)	100,280
Public participation	19,070	6,195
Refuse bags	75,587	39,388
Special program unit	168,962	53,289
Staff welfare	68,298	86,679
Stores and materials	37,966	120,801
Subscriptions and membership fees	558,993	511,790
Telephone and fax	1,200,497	870,530
Tourism	3,600	832
Training	56,898	115,923
Travel - local	641,905	939,430
Water purchases	751,550	1,693,246
	14,580,853	**13,971,866**

Notes to the Annual Financial Statements

	2016 R	2015 R

38. Auditors' remuneration

Fees	3,179,058	1,081,334

39. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Cash and cash equivalents	678,485	678,485
Receivables from exchange transactions	10,917,085	10,917,085
Receivables from non exchange transactions	7,733,818	7,733,818
	19,329,388	**19,329,388**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	85,504,965	85,504,965
Consumer deposits	411,763	411,763
Finance lease obligation	179,946	179,946
Unspent conditional grants and receipts	1,248,916	1,248,916
	87,345,590	**87,345,590**

2015

Financial assets

	At amortised cost	Total
Cash and cash equivalents	1,115,284	1,115,284
Receivables from exchange transactions	11,056,749	11,056,749
Receivables from non-exchange transactions	5,265,686	5,265,686
	17,437,719	**17,437,719**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	69,148,402	69,148,402
Consumer deposits	411,609	411,609
Finance lease obligation	396,170	396,170
Unspent conditional grants and receipts	1,537,721	1,537,721
	71,493,902	**71,493,902**

Notes to the Annual Financial Statements

	2016 R	2015 R

40. Cash generated from operations

Deficit	(6,238,705)	(28,615,776)
Adjustments for:		
Depreciation and amortisation	11,103,789	10,400,492
Loss on sale of assets	75,843	492,719
Finance costs - Finance leases	24,875	41,406
Debt impairment	7,709,372	8,163,497
Movements in employee benefit obligation	782,000	78,000
Movements in provisions	(173,429)	9,421,972
Changes in working capital:		
Inventories	(526,156)	129,330
Receivables from exchange transactions (for municipalities)	(6,472,230)	(10,275,307)
Receivables from non-exchange transactions	(2,456,730)	(2,214,843)
Payables from exchange transactions	13,883,313	20,980,066
VAT	(6,647,487)	(2,746,216)
Unspent conditional grants and receipts	(288,805)	(1,712,260)
Consumer deposits	1,284	19,323
	10,776,934	**4,162,403**

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	12,814,298	8,852,482
Total capital commitments		
Already contracted for but not provided for	12,814,298	8,852,482

Authorised operational expenditure

Already contracted for but not provided for		
• Professional services	635,346	3,085,347
Total operational commitments		
Already contracted for but not provided for	635,346	3,085,347

Total commitments

Total commitments		
Authorised capital expenditure	12,814,298	8,852,482
Authorised operational expenditure	635,346	3,085,347
	13,449,644	**11,937,829**

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

Notes to the Annual Financial Statements

	2016 R	2015 R

42. Contingencies

There are two cases of litigation that are in process against the municipality by Inqest . Action was instituted by plantiff and is being defended. Awaiting instructions from Mr Dlomo, rediscovered documentation for purpose of the plea. The estimated liability is R1 000 000

The service provider was appointed to conduct a VAT review to the municipality . The contigency fee only become payable once the municilaity is in the position to realise the VAT saving. In practice the fees will only be on become payable at the time the municipality receives the VAT refuns from SARS. The contigent fees is 10% of the payable estimated to be R216 463.28

43. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note 28
Members of key management	Refer to note 28
Councillors	Refer to note 29
LED Officer	Misa Services and Suppliers (Pty) Ltd
Registry Clerk	Sijila Lumba Trading CC

Related party transactions

	2016	2015
Purchases from (sales to) related parties		
Misa Services and Suppliers (Pty) Ltd	42,000	6,150
Sijila Lumbe Trading CC	43,200	25,740

The above supplier transactions were concluded on normal operating terms.

The municipality provided municpal services to all councillors, management and their family members residing within the municipal area. The municipality also charges property rates to all councillors, management and their family members who are property owners within the municipal area. These transactions were concluded on normal operating terms and are included in the "service charges" and "property rates" on the statement of financial performance. Any balances due to the municipality on the reporting date are included in receivables from exchange transactions (relating to service charges) and receivables from non-exchange transactions (relating to property rates) on the statement of financial position.

44. Risk management

Financial risk management

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. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

44. Risk management (continued)

Liquidity risk

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

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	81,346,759	-	-	-
Consumer deposits	-	-	412,839	-
Unspent conditional grants and receipts	1,248,916	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	69,148,402	-	-	-
Consumer deposits	-	-	411,609	-
Unspent conditional grants and receipts	1,537,721	-	-	-

Credit risk

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

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

Financial instrument	2016	2015
Receivables from exchange transactions	10,917,085	11,056,749
Receivables from non-exchange transactions	7,733,818	5,265,686
Cash and cash equivalents	678,485	1,115,284

45. Going concern

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

45. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on the municipality receiving their equitable share allocation per DoRA. There has been no indication from National Treasury that the 2016/17 allocation will not be transferred to the newly merged municipality called Raymond Mhlaba local municipality.

Financial sustainability

The municipality is experiencing some financial difficulties, indicators are as follows:
- Suppliers are not paid within the legislative 30 days. Total payables is sitting at R45m, 50% of this balance is the outstanding account with Eskom.;
- Unspent conditional grants are not backed by available cash balances;
- Distribution losses are above the predetermined norm;
- Slow collection and low recoverability of outstanding consumer accounts which is sitting at R15m; and
- Total income has decreased by 3% and operating expenditure, including impairment for credit losses and depreciation, increased by 7%

The municipality is exploring alternative options to improve its financial position. Although certain financial ratios may appear unfavourable, the municipality still has the power to levy rates and refuse and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2015.

The long-term financial sustainability of the municipality is dependent on successful collection of their debtors book, reducing distribution losses, reducing the balance of their payables and increased allocations received from National Treasury.

46. Events after the reporting date

The boundaries of Nxuba Local Municipality and Nkonkobe Local Municipality have been redemarcated. The two municipalities are going to amalgamate. The official date of the amalgamation was on 4 August 2016. The financial implications for Nxuba Local Municipality cannot be reliably estimated.

47. Unauthorised expenditure

Opening balance	43,192,752	29,527,092
Unauthorised expenditure incurred	11,775,524	13,665,660
	54,968,276	**43,192,752**

The unauthorised expenditure resulted from expenses that were needed that were not budgeted for (note 51).

48. Fruitless and wasteful expenditure

Opening balance	8,432,451	4,175,358
Fruitless and wasteful expenditure incurred	6,257,224	4,257,093
	14,689,675	**8,432,451**

Fruitless and wasteful expenditure incurred current year		
Interest on late payment of suppliers	6,081,184	-
Penalties and interest paid to SARS (VAT)	176,041	-
	6,257,225	**-**

The Majority of the interest on late payment of suppliers relate to Eskom amounting to R 5 266 273.

None of the fruitless and wasteful expenditure was condoned by council during the financial year.

Status of Rectification : None

49. Irregular expenditure

Opening balance	61,855,521	45,223,381
Add: Irregular expenditure - current year	18,236,327	16,632,140
	80,091,848	**61,855,521**

Details of irregular expenditure – current year

		-

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	2,147,333	1,887,333
Current year subscription	505,578	510,000
Amount paid - current year	(250,000)	(250,000)
	2,402,911	**2,147,333**

Audit fees

Opening balance	8,811,053	7,339,424
Current year fee	3,179,057	1,791,629
Amount paid - current year	(2,990,069)	(320,000)
	9,000,041	**8,811,053**

PAYE and UIF

Opening balance	715,540	715,540
Current year fee	2,965,669	2,610,205
Amount paid - current year	(2,965,669)	(2,610,205)
	715,540	**715,540**

Pension and medical aid deductions

Opening balance	(100,576)	(39,067)
Current year subscription	5,121,360	4,683,363
Amount paid - current year	(5,121,360)	(4,744,872)
	(100,576)	**(100,576)**

VAT

VAT receivable	9,966,244	3,318,757

VAT output payables and VAT input receivables are shown in note 8.

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

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

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
Auld CA	1,070	-	1,070
Bruintjies L	323	-	323
Douglas LJ	412	-	412
Jack P	252	-	252
Maloni QP	293	-	293
Ndyambo SA	355	-	355
	2,705	**-**	**2,705**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Auld CA	333	-	333
Bruintjies L	302	-	302
Douglas LJ	361	-	361
Jack P	80	-	80
Lombard E	3,856	-	3,856
Maloni QP	93	-	93
Mentoor BP	143	-	143
Ndyambo SA	99	-	99
	5,267	**-**	**5,267**

50. 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 any deviation from the Supply Chain Management Policy needs to be approved by the Council. The expenses incurred as listed hereunder have been condoned.

Incident
Sole supplier

1. Rand Data Forms (Pty) Ltd -The traffic department seeks to use the services of a service provider for the procurement of section 56 and section 341 summons books.	10,951	-
2. Dewing Service Station - DGS 956 EC is used for service delivery by the electricity section to attend to faults.The vehicle had mechanical problems and was taken to dewing service station for repairs. This was done so that service delivery do not suffer hence the deviation from normal SCM processes.	4,976	-
3. Dewing Service Station - DGZ 364 EC is a refuse truck. The truck was taken to dewing service station for repairs because the studs and shaft were broken. The garage had to strip the shaft and replace new studs	1,238	-
4. Dewing Service Station - BVH 552 EC is the big refuse compactor truck. The truck was taken to dewing service station for repairs because the shaft was broken.	4,872	-
5. Dewing Service Station - CTG 374 EC is used for travelling to municipal meetings. The vehicle developed a noice in the engine and had loss of power whilst it was taking employees from Adelaide to Bedford in a meeting.	1,026	-
6. Somerset Budget (Winterberg) reaches the target market of Nxuba for advertisements in the newpaper.	4,104	-
7. Dewing Service Station - DJF 956 EC is a vehicle that is utilised by the municipal to travel to meetings and workshops that are outside the municipal area of jurisdiction. The driver experienced challenges in starting the vehicle as it needed to be pushed. The vehicle was then immediately taken to the garage so as to prevent further damage to the vehicle.	2,436	-
8. Dewing Service Station - CYV 995 EC is used by the Roads and Stormwater Section. This vehicle was taken to Dewing Service Station after its breakdown because the vehicle is a service delivery vehicle is had to be treated as an emergency hence the deviation for its repairs.	3,117	-
9. Dewing Serives Station - The skyjack had mechanical challenges when is was working in Bedford as the floor plate broke in between. This resulted in the skyjack having difficulties to be towed and had to mounted on a towing truck back to Adelaide to be repaired by Dewing Service Station.	6,258	-
10. Dewing Service Station - The truck had a tyre problem and was taken to Dewing Service Station for repairs this was done such that the truck can be repaired in a short time and was taken to Dewing Service Station hence the deviation.	1,050	-
11. Dewing Service Station. The vehicle is used for refuse removal in Bedford. These repairs were deemed urgent as there is only this vehicle available in Bedford to attend to faults hence is was take to Dewing Service Station for repairs.	5,540	-

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

12. Dewing Service Station - According to the traffic rules and regulation this sort of a trailer has to have a chevron plate and failure to comply would have led to penalties and traffic fines by the Traffic Department hence deviation for the work to be carried out by Dewing Service Station.	1,978	-
13. Dewing Station Station - The refuse compactor truck BVhH 552 EC broke on the way to bedford. The truch had a mechanical fault which caused it to lose power and could not move. The truck was quickly taken to Dewing Service Station as it is the only garage within our municipal jurisdiction that can repair the truck as a matter of urgency.	24,678	-
14. Dewing Station Station - The vehicle DGW 763 EC is used by roads & stormwater in Bedford. The vehicle was discovered by the traffics that it needs new tyres as the existing tyres are warned. The vehicle was then taken to dewing service station for fitment and new tyres.	1,900	-
15, Dewing Serivice Station - DGZ 364 EC broke on the way to bedford landfill site. The vehicle had to be recovered and repaired as a matter of urgency as it is as essential use vehicle.	3,561	-
16. Dewing Service Station - The vehicle FFR 346 EC had to be fitted with new tyres. This was mandated after the vehicle was noticed by traffics and a warning was given.	3,560	-
17. Lexis Nexis is the Sole Provider of the Road Traffic set 5 volume publications.	13,469	-
18. Dewing Service Station - BVH 552 ECthe refuse truck had a puncture and the wheel nuts were broken.	1,830	-
19, Dewing Service Station - BVH 552 ECthe vehicle was vendalised whilst parked at Bedford Labour Offices where it normally parks.	408	-
20. Dewing Service Station -Repairs for BWT 744 EC. The vehicle is utilised by the Building Unit and stopped whilst doing its duties.	10,266	-
21. Dewing Service Station DGS 956 EC - Replaced the clutch kit and performaned major service to the electrical bakkie.	7,324	-
Urgency		
22. ABR Electrical Wholesalers - Certain businesses are without power and their refreshables are going to be damaged. This could lead to litigation if not attended to as a matter of urgency.	42,951	-
23. Dewing Service Station - Repairs on FDZ 046 EC. The vehicle is used by the electricity section in attending to electricity related faults. The vehicle had problems with the clutch and was immediately taken to Dewing Service	3,298	-
24. Trackos Pty Ltd. The municipal air conditioner in the server room located in the council chamber stopped working. This resulted in servers overheating and shutdown, the municipal business is currently on hold nothing is working.	28,596	-
25. Dewing Station Station - Matter of urgency, the sky-jack was also taken to Dewing to replace spring blades and two tyre fitments.	3,424	-
26. Dewing Service Station - Matter of urgency, DGS 956 EC was taken to dewing to fit new tyres and balance, the bakkie and the cherry picker are used for essential services and emergency services.	1,655	-

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

	194,466	**-**

51. Budget differences

Material differences between budget and actual amounts

The following material movements are explained below : .

51.1 Service charges : Under budgeting

51.2 Sundry revenue, Other revenue and interest received : The Statement of Comparison of Budget and Actual amounts seperate the Sundy revenue, Other revenue and interest received for disclosure purposes to the annual financial statements resulting in the net amount being under budgeted.

51.3 Licences and permits : Overbudgeted in anticipation of the testing station being operational, but due to supplier complications the testing station was only completed in May 2015.

51.4 Government grants and subsidies : The budgeted grants and subsidies amount is for both operational and capital, and was underbudgeted.

51.5 Other transfers : The amount reflected on Other transfer represent a payment made by the department for the municipalities arrear Eskom account and was not budgeted for.

51.6 Fines : The budget for fines is on the cash basis, the amount in the financials is on the accrual basis. The actual fines received for the year amounts to R48 650.

51.7 Depreciation and amortisation : Under budgeting by R 7 998 257 since depreciation is calulcated on an annual basis and not on a monthly basis for accurate management consideration at the time when preparing the budget.

51.8 Finance costs : The cost is budgeted for under other expenditure whereby the original budget amouted to R180 000, adjusted R 91 000.

51.9 Debt impairment : Management underbudgeted for the debt impairment.

51.10 Free basic refuse : Management overbudgeted for Free basic refuse.

51.11 Repairs and maintenance : The balance include the regravelling / re-surfacing of the roads budgeted for under capital expenditure.

51.12 Bulk purchases : Management underbudgeted for bulk purchases.

51.13 Contracted services : Management overbudgeted on the contracted services and includes FMG allocation.

51.14 Grants and subsidies paid and General expenditure : The grants and subsidies paid include FMG,MSIG,EPWP,INEG and LIBRARY and and the net budgeted figure between the allocations of operational and capital amounts to a overbudgeted amount of R 976 106. .

52. Operating leases as lessor - (income)

Minimum lease payments due		
- within one year	31,258	16,788
- in second to fifth year inclusive	58,786	37,401
	90,044	**54,189**

Certain of the municipality's property is held to generate rental income.

Notes to the Annual Financial Statements

Figures in Rand

53. Non-compliance with Municipal Financial Management Act

Electricity losses:

Nxuba Local Municipality experienced an electricity loss of R1 916 883 (7.54%) for the 2015/2016 financial year which is above the industry norm of 7% (2015: R3,777,570 (13.93%)). The decrease in the loss can be ascribed to the change in the Eskom tariff rates, the new rates are significantly lower.

54. Prior period adjustments

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

54. Prior period adjustments (continued)

Statement of Financial Performance for the year ended 30 June 2014	Balance as previously reported	Prior period error	Reclassified	Restated balance
Revenue				
Service charges	24,040,596	-	-	24,040,596
Interest received	3,326,009	-	-	3,326,009
Rental of facilities and equipment	141,392	-	-	141,392
Admin, sundry charges	522,517	-	-	522,517
Licences and permits	2,128,013	-	-	2,128,013
Other revenue	1,089,932	-	-	1,089,932
Property rates	3,902,579	-	-	3,902,579
Government grants and subsidies	37,582,260	-	-	37,582,260
Fines	709,200	-	-	709,200
Total revenue	73,442,498	-	-	73,442,498
Expenditure				
Employee related costs	(23,799,210)	-	-	(23,799,210)
Remuneration of councillors	(2,245,651)	-	-	(2,245,651)
Debt impairment	(8,163,497)	-	-	(8,163,497)
Depreciation and amortisation	(10,295,228)	(105,264)	-	(10,400,492)
Finance costs	(438,886)	(6,536,061)	-	(6,974,947)
Repairs and maintenance	(4,675,766)	-	-	(4,675,766)
Bulk purchases	(20,496,920)	-	-	(20,496,920)
Contracted services	(2,402,873)	-	-	(2,402,873)
Grants and subsidies paid	(7,069,299)	-	-	(7,069,299)
General expenses	(13,971,866)	-	-	(13,971,866)
Free basic refuse	(1,365,034)	-	-	(1,365,034)
Loss on disposal of assets	(492,719)	-	-	(492,719)
Total expenditure	(95,416,949)	(6,641,325)	-	(102,058,274)
Operating deficit	(21,974,451)	(6,641,325)	-	(28,615,776)
Deficit for the year	(21,974,451)	(6,641,325)	-	(28,615,776)

54. Prior period adjustments (continued)

Statement of Financial Position as at 30 June 2014	Balance as previously reported	Prior period error	Reclassified	Restated balance
Assets				
Current Assets				
Cash and cash equivalents	1,115,284	-	-	1,115,284
Receivables from exchange transactions	11,056,749	-	-	11,056,749
Receivables from non-exchange transactions	5,265,686	-	-	5,265,686
VAT receivable	3,318,757	-	-	3,318,757
Inventories	367,721	-	-	367,721
Total current assets	21,124,197	-	-	21,124,197
Non-current Assets				
Investment property	34,146,564	-	-	34,146,564
Property, plant and equipment	133,891,868	2,748,167	-	136,640,035
Intangible assets	111,535	-	-	111,535
Heritage assets	70,000	-	-	70,000
Total non-current assets	168,219,967	2,748,167	-	170,968,134
Liabilities				
Current Liabilities				
Payables from exchange transactions	(69,148,402)	-	-	(69,148,402)
Consumer deposits	(411,609)	-	-	(411,609)
Finance lease obligation	(227,000)	-	-	(227,000)
Unspent conditional grants and receipts	(1,537,721)	-	-	(1,537,721)
Employee benefit obligation	(789,000)	-	-	(789,000)
Provisions	(1,427,491)	11,232	1,416,259	-
Total current liabilities	(73,541,223)	11,232	1,416,259	(72,113,732)
Non-current Liabilities				
Employee benefit obligation	(3,351,000)	-	-	(3,351,000)
Provisions	(3,152,984)	(9,400,725)	(1,416,259)	(13,969,968)
Finance lease obligation	(169,170)	-	-	(169,170)
Total non-current liabilities	(6,673,154)	(9,400,725)	(1,416,259)	6,837,115
Net Assets				
Accumulated surplus - Opening balance	(109,129,786)	6,641,325	-	(102,488,461)
Total net assets	(109,129,786)	6,641,325	-	(102,488,461)

Error 1 : Provision for Landfill site

Notes to the Annual Financial Statements

54. Prior period adjustments (continued)

The provision for landfill sites have been recalculated during the 2016 financial year and it was noted that the previous years provision was calculated based on estimates calculated in 2013. And as a result the new legislation and approach to capping design have not been taken into account during the 2015 financial year, which would resulted in significant cost estimate increases on the 2015.

Effect of changes on the Statement of financial position		
Property, plant and equipment	-	2,748,167
Current liability - Provisions	-	1,427,492
Non current liability - Provisions	-	(10,816,984)
Accumulated surplus	-	6,641,325
	-	**-**