Lukhanji Local Municipality
(Registration number EC134)
Annual Financial Statements
for the period ended 10 August 2016

General Information

Nature of business and principal activities	Lukhanji Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
Accounting Officer	Mrs. NZ Gqiba
Registered office	70 Cathcart Road Queenstown 5320
Postal address	Private Bag X7111 Queenstown 5320
Bankers	ABSA FNB Queenstown
Auditors	Auditor-General South Africa

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Local legislation over companies, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial period and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

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

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

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

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

In terms of the Provincial Gazette No. 3717, Provincial Notice 182 of 2016 Lukhanji Local Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality (EMLM) will be established. The accounting officer has reviewed the municipality's cash flow forecast for the period to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future as a part of EMLM.

The annual financial statements set out on pages 4 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on 01 March 1900 and were signed on its behalf by:

Mrs. NZ Gqiba
Municipal Manager

Statement of Financial Position as at 10 August 2016

Figures in Rand	Note(s)	2016	30 June 2016 2016 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	2	69,576,756	63,073,855
Receivables from non-exchange transactions	3	103,332,420	36,921,565
VAT receivable	4	10,950,138	9,526,432
Cash and cash equivalents	5	95,788,490	107,977,094
		279,647,804	**217,498,946**
Non-Current Assets			
Biological assets that form part of an agricultural activity	6	5,651,900	5,651,900
Investment property	7	289,493,178	289,493,178
Property, plant and equipment	8	901,672,342	906,235,315
Heritage assets	9	1,049,100	1,049,100
Other financial assets	10	329,505	325,633
		1,198,196,025	**1,202,755,126**
Total Assets		**1,477,843,829**	**1,420,254,072**
Liabilities			
Current Liabilities			
Finance lease obligation	12	38,515	38,515
Payables from exchange transactions	13	9,272,199	18,568,480
Consumer deposits	14	9,594,137	9,592,387
Employee benefit obligation	15	21,726,939	19,858,346
Unspent conditional grants and receipts	16	13,652,039	13,652,039
		54,283,829	**61,709,767**
Non-Current Liabilities			
Finance lease obligation	12	3,591	3,591
Employee benefit obligation	15	42,452,059	42,452,059
Provisions	17	16,881,913	16,881,913
		59,337,563	**59,337,563**
Total Liabilities		**113,621,392**	**121,047,330**
Net Assets		**1,364,222,437**	**1,299,206,742**
Accumulated surplus		1,364,222,437	1,299,206,742

* See Note

Lukhanji Local Municipality
(Registration number EC134)
Annual Financial Statements for the period ended 10 August 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	12 months 30 June 2016 2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	20,545,361	222,478,554
Rental of facilities and equipment	19	215,704	3,062,888
Interest received - debtors		(3,789)	25,820,620
Agency services		225,777	4,695,420
Other income	20	588,917	6,530,804
Interest received - investment	21	660,486	11,454,355
Total revenue from exchange transactions		**22,232,456**	**274,042,641**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	77,120,328	72,825,319
Transfer revenue			
Government grants & subsidies	23	20,771,423	164,477,999
Fines, Penalties and Forfeits		45	166,399
Licences and permits		104,433	3,260,278
Total revenue from non-exchange transactions		**97,996,229**	**240,729,995**
Total revenue		**120,228,685**	**514,772,636**
Expenditure			
Employee related costs	24	(15,131,404)	(150,620,341)
Remuneration of councillors	25	(1,893,466)	(23,204,377)
Depreciation and amortisation	26	(4,562,973)	(52,224,730)
Impairment loss		-	(405,836)
Finance costs	27	(2,681)	(338,750)
Debt Impairment	28	-	(22,542,851)
Repairs and maintenance	29	(113,661)	(19,513,139)
Bulk purchases	30	(23,861,630)	(185,160,441)
Contracted services	31	(32,737)	(7,436,536)
Grants expenditure	32	(172,213)	(8,347,694)
General Expenses	33	(1,027,213)	(49,484,301)
Total expenditure		**(46,797,978)**	**(519,278,996)**
Operating surplus (deficit)		**73,430,707**	**(4,506,360)**
Loss on disposal of assets and liabilities		-	(864,826)
Fair value adjustments	35	-	3,059,780
Actuarial gains/losses	15	-	3,104,001
		-	**5,298,955**
Surplus for the period		**73,430,707**	**792,595**

* See Note

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015	**1,298,414,147**	**1,298,414,147**
Changes in net assets		
Surplus for the year	792,595	792,595
Total changes	792,595	792,595
Restated* Balance at 01 July 2016	**1,290,791,730**	**1,290,791,730**
Changes in net assets		
Surplus for the period	73,430,707	73,430,707
Total changes	73,430,707	73,430,707
Balance at 10 August 2016	**1,364,222,437**	**1,364,222,437**
Note(s)		

* See Note

Cash Flow Statement

Figures in Rand	Note(s)	2016	12 months 30 June 2016 2016 Restated*
Cash flows from operating activities			
Receipts			
Ratepayers and other		24,459,314	293,592,686
Grants		20,771,423	164,477,999
Interest income		660,486	11,454,355
		45,891,223	469,525,040
Payments			
Employee costs		(118,940,888)	(170,322,779)
Suppliers		60,861,061	(286,309,495)
		(58,079,827)	(456,632,274)
Net cash flows from operating activities	37	**(12,188,604)**	**12,892,766**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	-	(60,731,702)
Proceeds from sale of property, plant and equipment	8	-	170,747
Purchase of biological assets that form part of an agricultural activity	6	-	(548,865)
Increase/(decrease) in long term debtors		-	(3,211,039)
(Increase)/ Decrease in financial assets		-	(13,086)
Other adjustments		-	(22,543,348)
Net cash flows from investing activities		**-**	**(86,877,293)**
Cash flows from financing activities			
Finance lease payments		-	(1,242,908)
Long term loan (raised)/repaid		-	(629,690)
Net cash flows from financing activities		**-**	**(1,872,598)**
Net increase/(decrease) in cash and cash equivalents		**(12,188,604)**	**(75,857,125)**
Cash and cash equivalents at the beginning of the year		107,977,094	183,834,219
Cash and cash equivalents at the end of the year	5	**95,788,490**	**107,977,094**

* See Note

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	-	-	-	20,545,361	**20,545,361**	1
Rental of facilities and equipment	-	-	-	215,704	**215,704**	2
Interest received - debtors	-	-	-	(3,789)	**(3,789)**	3
Agency services	-	-	-	225,777	**225,777**	
Other income	-	-	-	588,917	**588,917**	4
Interest received - investment	-	-	-	660,486	**660,486**	5
Total revenue from exchange transactions	**-**	**-**	**-**	**22,232,456**	**22,232,456**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	-	-	-	77,120,328	**77,120,328**	6
Transfer revenue						
Government grants and subsidies	-	-	-	20,771,423	**20,771,423**	7
Fines	-	-	-	45	**45**	8
Motor vehicle registrations	-	-	-	104,433	**104,433**	9
Total revenue from non-exchange transactions	**-**	**-**	**-**	**97,996,229**	**97,996,229**	
Total revenue	**-**	**-**	**-**	**120,228,685**	**120,228,685**	
Expenditure						
Employee related costs	-	-	-	(15,131,404)	**(15,131,404)**	10
Remuneration of councillors	-	-	-	(1,893,466)	**(1,893,466)**	11
Depreciation and amortisation	-	-	-	(4,562,973)	**(4,562,973)**	12
Finance costs	-	-	-	(2,681)	**(2,681)**	13
Repairs and maintenance	-	-	-	(113,661)	**(113,661)**	16
Bulk purchases	-	-	-	(23,861,630)	**(23,861,630)**	17
Contracted Services	-	-	-	(32,737)	**(32,737)**	18
Transfers and Subsidies	-	-	-	(172,213)	**(172,213)**	19
General Expenses	-	-	-	(1,027,213)	**(1,027,213)**	20
Total expenditure	**-**	**-**	**-**	**(46,797,978)**	**(46,797,978)**	
Capex Budget	**-**	**-**	**-**	**73,430,707**	**73,430,707**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**-**	**-**	**73,430,707**	**73,430,707**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	-	-	-	69,576,756	**69,576,756**	1
Receivables from non-exchange transactions	-	-	-	103,332,420	**103,332,420**	
VAT receivable	-	-	-	10,950,138	**10,950,138**	
Cash and cash equivalents	-	-	-	95,788,490	**95,788,490**	
	-	**-**	**-**	**279,647,804**	**279,647,804**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	-	-	-	5,651,900	**5,651,900**	
Investment property	-	-	-	289,493,178	**289,493,178**	
Property, plant and equipment	-	-	-	901,672,342	**901,672,342**	
Heritage assets	-	-	-	1,049,100	**1,049,100**	2
Other financial assets	-	-	-	329,505	**329,505**	
	-	**-**	**-**	**1,198,196,025**	**1,198,196,025**	
Total Assets	**-**	**-**	**-**	**1,477,843,829**	**1,477,843,829**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	38,515	**38,515**	
Payables from exchange transactions	-	-	-	9,272,201	**9,272,201**	3
Consumer deposits	-	-	-	9,594,137	**9,594,137**	
Employee benefit obligation	-	-	-	21,726,939	**21,726,939**	
Unspent conditional grants and receipts	-	-	-	13,652,039	**13,652,039**	
	-	**-**	**-**	**54,283,831**	**54,283,831**	
Non-Current Liabilities						
Finance lease obligation	-	-	-	3,591	**3,591**	
Employee benefit obligation	-	-	-	42,452,059	**42,452,059**	
Provisions	-	-	-	16,881,913	**16,881,913**	
	-	**-**	**-**	**59,337,563**	**59,337,563**	
Total Liabilities	**-**	**-**	**-**	**113,621,394**	**113,621,394**	
Net Assets	**-**	**-**	**-**	**1,364,222,435**	**1,364,222,435**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	-	1,364,222,434	**1,364,222,434**	5
Undefined Difference	**-**	**-**	**-**	**1**	**1**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Total Net Assets	**-**	**-**	**-**	**1,364,222,434**	**1,364,222,434**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

In terms of Provincial Gazette No. 3717, Provincial Notice 182 of 2016, Lukhanji Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality will be established. The annual financial statements have been prepared on a going concern basis as it is expected that the municipality will continue to operate for at least the next 12 months as part of Enoch Mgijima Local Municipality.

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables

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

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Employee Benefit Obligation note 15 to the financial statements.

Effective interest method

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

Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.
The useful lives of assets are based on management’s estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.
The estimation of residual values of assets is based on management’s judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.4 Biological assets that form part of an agricultural activity

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

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

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

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Biological assets are derecognised when disposed off. The gains or losses are then recognised through the Statement of Financial Performance.

1.5 Investment property

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

Accounting Policies

1.5 Investment property (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	x years
Air-conditioners	x years

Accounting Policies

1.5 Investment property (continued)

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

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

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

1.6 Property, plant and equipment

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

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

Property, plant and equipment are initially recognised at cost on the acquisition date, or in the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other cost attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site on which is located.

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

Land is not depreciated as it is regarded as having an infinite life. Depreciaiton on assets other that land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the Municipality. Components of assets that are significant in relation to the whole asset or that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if is probable that future economic benefits or service potential associated with the expenditure will flow to the municipality and the cost can be measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity of future economic benefits associated with the asset. Where the Municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

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

Item	Depreciation method	Average useful life
Land		Indefinite years
Finance lease assets		
• Office equipment	Straight line	3 years
• Motor vehicles	Straight line	5 years
Infrastructure		25 years
• Roads and paving	Straight line	25 years
• Pedestrian malls	Straight line	40 years
• Electricity		
Community		
• Buildings	Straight line	30 years
• Recreational facilities	Straight line	20-30 years
• Halls	Straight line	50 years
• Libraries	Straight line	50 years
• Parks and gardens	Straight line	20 years
• Other assets	Straight line	15-20 years
Other property, plant and equipment		
• Buildings	Straight line	30 years
• Motor vehicles	Straight line	5-7 years
• Office equipment	Straight line	3-7 years
• Furniture and fittings	Straight line	7-10 years
• Bins and containers	Straight line	5 years
• Plant and equipment	Straight line	3-10 years
• Landfill sites	Straight line	10-50 years
• Emergency equipment	Straight line	5-15 years
• Computer equipment	Straight line	3-5 years

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

Incomplete construction work

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

Finance leases

Assets capitalised under finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the assets management policy.

Infrastructure assets

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

Derecognition of property, plant and equipment assets

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

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

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

1.7 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

Accounting Policies

1.7 Intangible assets (continued)

Intangible assets are initially recognised at cost.

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

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

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

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

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

If the expectations from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible assets is acquired in exchange for non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the assets given up.

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

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

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:
Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the Municipality give the Municipality access to land for specific purposes for an unlimited period however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of the value in use and the fair value less cost to sell.

The estimated useful life and amortisation methods are reviewed annually at the end of each financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance for the year.

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset. The gain or loss is recognised in the period in which it is incurred through the surplus or deficit for the period.

1.8 Heritage assets

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

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

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

Accounting Policies

1.9 Financial instruments

1.10 Leases

The Municipality as a Lessee

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

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

The Municipality as a lessor

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

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

Accounting Policies

1.11 Inventories (continued)

- 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.

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

Subsequent to initial measurement

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

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

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

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

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

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

Identification of a potential impairment

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

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

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

Value in use

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

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

Recognition and measurement (individual assets)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Recognition and measurement (cash-generating units)

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

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

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

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

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

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

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification of a potential impairment

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement of non-cash generating units

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.14 Share capital / contributed capital

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

1.15 Employee benefits

1.16 Provisions

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

Accounting Policies

1.16 Provisions (continued)

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.

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

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

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

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

1.17 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Interest

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

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

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

Service Charges

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

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

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

Finance Income

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

Tariff Charges

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

Income from Agency Services

Accounting Policies

1.17 Revenue from exchange transactions (continued)

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

Rentals

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

1.18 Revenue from non-exchange transactions

Accounting Policies

1.19 Investment income

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

1.20 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.

1.21 Unauthorised expenditure

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period 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.

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

1.22 Fruitless and wasteful expenditure

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

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

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

1.23 Irregular expenditure

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

Irregular expenditure excludes unauthorised expenditure.

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

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

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

1.25 Offsetting

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

Accounting Policies

1.26 Conditional grants and receipts

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

1.27 Budget information

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

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

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

Accounting Policies

1.28 Related parties

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

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

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

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

1.29 Change in accounting policy, estimates and errors

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

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

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

1.30 Commitments

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

At the end of each financial period the Municipality determines commitments is respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 38 to the financial statements.

1.31 Contingent assets and contingent liabilities

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

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

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 39.

1.32 Events after reporting date

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

Accounting Policies

1.33 Going concern

In terms of Provincial Gazette No. 3717, Provincial Notice 182 of 2016, Lukhanji Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality will be disestablished with effect from 10 August 2016 and EMLM will be established. The annual financial statements have been prepared on a going concern basis as it is expected that the municipality will continue to operate for at least the next 12 months as part of EMLM.

1.34 Value Added Tax (VAT)

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

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

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

The Municipality accounts for VAT on a payments basis.

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

2. Receivables from exchange transactions

Service Receivables	298,772,290	291,254,477
Provision for bad debts	(230,124,202)	(229,113,046)
Other receivables	94,785	94,785
Chris Hani District Municipality (Water and Sanitation)	833,883	837,639
	69,576,756	**63,073,855**

Debtors by revenue type	0-30 Days	60 Days	90 Days +	Total
Electricity	10,297,500	1,438,623	13,034,416	24,770,539
Refuse removal	6,842,084	2,963,102	158,032,035	167,837,221
Sundry	5,938,615	970,337	91,737,766	98,646,718
	23,078,199	**5,372,062**	**262,804,217**	**291,254,478**

Credit quality of trade and other receivables

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

Trade receivables

Counterparties without external credit rating		
Group 1	-	-
Group 2	-	2,759
Group 3	-	53,865
	-	**56,624**

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

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

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

None of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of provision for impairment of trade and other receivables

Opening balance	235,538,686	229,113,046
Provision for impairment	-	6,425,640
	235,538,686	**235,538,686**

Debts are required to be settled after 30 days, interest is charged after this date at prime +1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

The fair value of trade and other receivables approximates their carrying amounts.

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

3. Receivables from non-exchange transactions

Rates	211,547,650	145,136,795
Provision for bad debts	(108,215,230)	(108,215,230)
	103,332,420	**36,921,565**

Ageing of Receivables from Non-Exchange Transactions:

(Rates): Ageing

	-	9,556,297
	-	3,567,220
	-	132,013,278
	-	**145,136,795**

Credit quality of receivables from non-exchange transactions

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

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

Opening balance	141,438,795	108,215,230
Provision for impairment	-	33,223,565
	141,438,795	**141,438,795**

Debts are required to be settled after 30 days, interest is charged after this date at prime +1%.

The fair value of trade and other receivables approximates their carrying amounts.

4. VAT receivable

VAT	10,950,138	9,526,432

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash Floats	36,992	36,992
Current Accounts	18,170,565	12,655,876
Call Investments Deposits	77,580,933	95,284,226
	95,788,490	**107,977,094**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	10 August 2016	**30 June 2016**	**30 June 2015**	**10 August 2016**	**30 June 2016**	**30 June 2015**
Account number / description	**Bank statement balances**			**Cash book balances**		
FNB Bank - Current A/C - 6243 8159 809	-	1,294,968	55,947,001	-	1,389,486	55,733,628
ABSA Bank - Current A/C 216 014 3854	-	11,278,178	42,721	-	11,266,390	42,721
ABSA Bank - Current A/C 405 281 9154	-	-	938,866	-	-	1,306,185
FNB Bank - Call Account - 624 59044 162	-	78,611,370	119,540,639	-	78,611,370	119,540,639
FNB - Call Account (EPWP) A/C	-	96,224	78,011	-	96,224	78,011
FNB Call Account (ISDG) A/C 62496432635	-	359,958	1,000	-	359,958	1,000
Account number / description	**Bank statement balances**			**Cash book balances**		
FNB Call Account (MSIG) A/C - 62496436265	-	655,638	271,665	-	655,638	271,665
FNB Call Account (FMG) A/C 624 96439 607	-	708,972	1,000	-	708,972	1,000
FNB Call Account (MIG) A/C 624 96441 842	-	11,840,310	6,341,407	-	11,840,310	6,341,407
FNB Call Account (INEP) A/C 625 99305 763	-	3,011,754	-	-	3,011,754	-
ABSA 32 Days notice - 909 044 8293	-	-	336,010	-	-	336,010
ABSA Call account - 2160 143 862 (Former current account)	-	-	147,937	-	-	147,937
ABSA call account - 9264 430 911 (Former MIG)	-	-	1,008	-	-	1,008
ABSA call account - 9264 431 462 (Former MSIG)	-	-	1,008	-	-	1,008
ABSA call account - 9264 431 200 (Former FMG)	-	-	1,008	-	-	1,008
Total	**-**	**107,857,372**	**183,649,281**	**-**	**107,940,102**	**183,803,227**

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

6. Biological assets that form part of an agricultural activity

	2016			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Game animals	5,651,900	-	5,651,900	5,651,900	-	5,651,900

Reconciliation of biological assets that form part of an agricultural activity - 2016

	Opening balance	**Total**
Game animals	5,651,900	5,651,900

Reconciliation of biological assets that form part of an agricultural activity - 2016

	Opening balance	**Additions**	**Gains or losses arising from changes in fair value**	**Total**
Game animals	2,592,120	548,865	2,510,915	5,651,900

Non - Financial information

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the development or acquisition of biological assets.

All biological assets are located in the nature reserve and spa. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduce the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets.
- Regular monitoring of game quantities by municipal staff.

Methods and assumptions used in determining fair value

Game Type	Quantity (Units)	Fair Value (per animal) R	Fair Value
Rhino	7	300,000	2,100,000
Giraffe	14	14,000	196,000
Eland	50	5,000	250,000
Kudu	50	4,000	200,000
Zebra	54	5,000	270,000
Nyala	50	12,000	600,000
Lechwe	57	12,500	712,500

Notes to the Annual Financial Statements

Figures in Rand		2016	30 June 2016 2016
6. Biological assets that form part of an agricultural activity (continued)			
Blesbok	166	1,000	166,000
Impala	145	1,000	145,000
Springbok	47	1,000	47,000
Fallow Deer	23	4,500	103,500
Gemsbok	56	5,000	280,000
Duiker	8	1,500	12,000
Steenbok	1	1,800	1,800
Blackwildebeest	134	1,500	201,000
Hartebeest	82	3,500	287,000
Ostrich	12	1,800	21,600
Reed buck	39	1,500	58,500
	995	**376,600**	**5,651,900**

Fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest	5,651,900	2,592,120

7. Investment property

	2016			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	289,493,178	-	289,493,178	289,493,178	-	289,493,178

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	289,493,178	289,493,178

Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	289,493,178	289,493,178

Pledged as security

Investment property is made up of land and buildings.
No investment properties were pledged as security for liabilities.

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

The prior year balance has been restated due to errors corrected during the year, refer to note for further details.

8. Property, plant and equipment

	2016			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	271,140,066	(91,199,647)	179,940,419	271,140,066	(90,206,114)	180,933,952
Computer equipment	3,593,293	(1,802,359)	1,790,934	3,593,294	(1,756,442)	1,836,852
Electricity	221,987,413	(76,489,027)	145,498,386	221,987,412	(75,693,478)	146,293,934
Furniture and fixtures	5,264,034	(2,072,472)	3,191,562	5,264,035	(2,023,562)	3,240,473
Land	77,228,690	-	77,228,690	77,228,690	-	77,228,690
Landfill sites	15,966,890	(622,245)	15,344,645	15,966,890	(622,245)	15,344,645
Motor vehicles	99,903,036	(26,449,093)	73,453,943	99,903,036	(25,764,762)	74,138,274
Office equipment	2,642,322	(806,517)	1,835,805	2,642,321	(781,955)	1,860,366
Other equipment	4,097,107	(1,669,550)	2,427,557	4,097,108	(1,629,130)	2,467,978
Capital Work In Progress	21,073,799	-	21,073,799	21,073,799	-	21,073,799
Roads and stormwater	540,044,639	(160,158,037)	379,886,602	540,044,639	(158,228,287)	381,816,352
Total	**1,262,941,289**	**(361,268,947)**	**901,672,342**	**1,262,941,290**	**(356,705,975)**	**906,235,315**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Depreciation	Total
Buildings	180,933,952	(993,533)	179,940,419
Computer equipment	1,836,852	(45,918)	1,790,934
Electricity	146,293,934	(795,548)	145,498,386
Furniture and fixtures	3,240,473	(48,911)	3,191,562
Land	77,228,690	-	77,228,690
Landfill sites	15,344,645	-	15,344,645
Motor vehicles	74,138,274	(684,331)	73,453,943
Office equipment	1,860,366	(24,561)	1,835,805
Machinery and equipment	2,467,978	(40,421)	2,427,557
Capital Work In Progress	21,073,799	-	21,073,799
Roads and stormwater	381,816,352	(1,929,750)	379,886,602
	906,235,315	**(4,562,973)**	**901,672,342**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Buildings	163,638,062	9,541,208	-	20,368,345	(12,613,663)	-	180,933,95
Computer equipment	1,722,565	629,230	-	-	(514,943)	-	1,836,85
Electricity	151,687,973	-	(170,747)	4,315,965	(9,539,257)	-	146,293,93
Furniture and fixtures	3,439,689	376,631	-	-	(575,847)	-	3,240,47
Land	77,228,690	-	-	-	-	-	77,228,69
Landfill sites	3,226,694	12,437,289	-	-	(319,338)	-	15,344,64
Motor vehicles	69,289,755	11,273,175	(694,079)	-	(5,730,577)	-	74,138,27
Office equipment	1,899,923	223,304	-	-	(262,861)	-	1,860,36
Machinery and equipment	2,372,079	539,316	-	-	(443,417)	-	2,467,97
Capital Work In Progress	28,447,319	21,022,730	-	(28,396,250)	-	-	21,073,79
Roads and stormwater	392,016,461	8,556,618	-	3,711,940	(22,062,831)	(405,836)	381,816,35
	894,969,210	**64,599,501**	**(864,826)**	**-**	**(52,062,734)**	**(405,836)**	**906,235,31**

Pledged as security

Leased assets: Office equipment	-	99,638

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

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	21,073,799	21,073,799

Figures in Rand	2016	30 June 2016 2016

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	28,447,319	28,447,319
Additions/capital expenditure	21,022,730	21,022,730
Transferred to completed items	(28,396,250)	(28,396,250)
	21,073,799	**21,073,799**

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

The prior year balance has been restated due to errors corrected during the year, refer to note for further details.

9. Heritage assets

	2016			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	1,049,100	-	1,049,100	1,049,100	-	1,049,100

Reconciliation of heritage assets 2016

	Opening balance	Total
Art Collections, antiquities and exhibits	1,049,100	1,049,100

Reconciliation of heritage assets 2016

	Opening balance	Total
Art Collections, antiquities and exhibits	1,049,100	1,049,100

Pledged as security

No heritage assets pledged as security.

10. Other financial assets

At amortised cost		
Fixed Deposits Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 3.55 % to 5.35 % per annum. (2012 - 5.39% to 6.02%) with a accredited financial services institution (ABSA).	329,505	325,633

Fixed deposits consist out of the following accounts:

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

10. Other financial assets (continued)

Account number 20-5775-0882 ABSA FIXED DEPOSIT	-	22,954
Account number 20-6068-1802 ABSA FIXED DEPOSIT	-	47,954
Account number 20-6068-1577 ABSA FIXED DEPOSIT	-	54,225
Account number 20-4601-2562 ABSA FIXED DEPOSIT	-	11,461
Account number 20-6066-7315 ABSA FIXED DEPOSIT	-	6,872
Account number 20-5423-8637 ABSA FIXED DEPOSIT	-	16,000
Account number 20-5441-0158 ABSA FIXED DEPOSIT	-	7,629
Account number 20-5487-1867 ABSA FIXED DEPOSIT	-	7,382
Account number 20-5488-0953 ABSA FIXED DEPOSIT	-	7,382
Account number 20-5533-9377 ABSA FIXED DEPOSIT	-	10,100
Account number 20-5759-5270 ABSA FIXED DEPOSIT	-	14,500
Account number 20-5868-1438 ABSA FIXED DEPOSIT	-	15,930
Account number 20-5874-5343 ABSA FIXED DEPOSIT	-	14,177
Account number 20-5874-5458 ABSA FIXED DEPOSIT	-	10,935
Account number 20-5874-5521 ABSA FIXED DEPOSIT	-	8,266
Account number 20-5874-6583 ABSA FIXED DEPOSIT	-	11,612
Account number 20-5923-6672 ABSA FIXED DEPOSIT	-	25,974
Account number 20-6423-5597 ABSA FIXED DEPOSIT	-	32,280
	-	**325,633**

Non-current assets		
At amortised cost	329,505	325,633

11. Other financial liabilities

There are no loans outstanding. The loans carried interest at 9.79% and 9.89% per annum respectively and were fully redeemed on 01 December 2015 and 30 June 2016 respectively.

The loan is secured by an call investment deposit disclosed in note 5

12. Finance lease obligation

Minimum lease payments due		
- within one year	43,858	43,858
- in second to fifth year inclusive	3,655	3,655
	47,513	47,513
less: future finance charges	(5,406)	(5,406)
Present value of minimum lease payments	**42,107**	**42,107**
Present value of minimum lease payments due		
- within one year	38,515	38,515
- in second to fifth year inclusive	3,591	3,591
	42,106	**42,106**
Non-current liabilities	3,591	3,591
Current liabilities	38,515	38,515
	42,106	**42,106**

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

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016

13. Payables from exchange transactions

Trade payables	1,877,014	10,271,944
Debtors received in advance	4,831,647	5,712,119
Payroll payables	(15,822)	(15,860)
Pre-paid electricity	(7,516)	(7,516)
Other payables	2,586,876	2,607,793
	9,272,199	**18,568,480**

The prior year balance has been restated due to errors corrected during the year, refer to note for further details.

14. Consumer deposits

Electricity	9,594,137	9,592,387

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

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

15. Employee benefit obligations

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

Carrying value		
Non-current portion of post-retirment benefits	(36,081,245)	(36,081,245)
Non-current portion of long-term services	(6,307,815)	(6,307,815)
Current portion of post retirement benefits	(1,481,040)	(1,481,040)
Current portion of long term services	(892,801)	(892,801)
Accrual for bonuses	(3,532,406)	(2,876,207)
Accrual for leave gratuity	(15,910,559)	(14,671,297)
	(64,205,866)	**(62,310,405)**
Non-current liabilities	(42,452,059)	(42,452,059)
Current liabilities	(21,726,939)	(19,858,346)
	(64,178,998)	**(62,310,405)**

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

15. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	-	2,650,910
Interest cost	-	4,317,262
Actuarial (gains) losses	-	(3,104,001)
	-	**3,864,171**

Calculation of actuarial gains and losses

Other assumptions

	2016	**'2016**
Pre retirment mortality	SA 85-90 L	SA 85-90 L
Post retirment mortality	PA (90)-1	PA (90)-1
Normal retirement age	63 years	63 years
Spouse age differences (male older than female)	3 years	3 years
AIDS	No assumption made	No assumption made

Defined contribution plan

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance:

SALA Pension Fund	2,450,843	2,450,843
Cape Joint Retirement Fund	7,319,142	7,319,142
Cape Joint Pension Fund	235,865	235,865
Municipal Councillors Pension Fund	1,347,963	1,347,963
Municipal Employees Pension Fund	3,158,110	3,158,110
SAMWU National Provident Fund	630,586	630,586

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Expanded Public Works Program	17,225	17,225
Finance Management Grant	1,619	1,619
Municipal Infrastructure Grant	5,412,977	5,412,977
Municipal Systems Improvement Grant	644	644
Skills Development Grant - ISDG	240,414	240,414
Library Subsidy	174,700	174,700
LED Strategies & Spatial	821,689	821,689
Other Provincial Funds	3,762,004	3,762,004
District Municipality Grants	823,374	823,374
Other Grant Providers	1,805,261	1,805,261
Integrated National Electrification Grant	592,132	592,132
	13,652,039	**13,652,039**

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

16. Unspent conditional grants and receipts (continued)

Movement during the period

Balance at the beginning of the period	13,652,039	14,374,907
Additions during the period	-	45,084,449
Income recognition during the period	-	(45,807,317)
	13,652,039	**13,652,039**

See note 23 for reconciliation for breakdown of grants.

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

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Total
Environmental rehabilitation	16,881,913	16,881,913

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	4,245,104	12,636,809	16,881,913

The municipality has 3 Landfill sites.

It is estimated that no site will be decommissioned within 1 year from reporting date and thus there are no short term portion associated with this provision. The timing of the outflow of resources relating this provision is uncertain, but management expects the timing to be in line with the closure dates of the various sites.

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. These costs are based on 100% utilisation of the site The assumptions used are as follows:

The discount rate used the calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. The following rate was used - 5% (2014 - 5%).

18. Service charges

Sale of electricity	17,271,875	192,197,905
Refuse removal	3,273,486	30,280,649
	20,545,361	**222,478,554**

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

19. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	17,780	197,268
Rental of equipment	-	162,973
Rental of container	1,715	20,342
Rental of munical property	196,209	2,682,305
	215,704	**3,062,888**

20. Other income

Advert Costs	-	789
Availability Charges	16,521	170,957
Certificates	16,276	372,158
Commission	2,636	41,327
Community Levy	163,980	173,544
Digging of Graves	-	15,341
Electricity Meters	-	3,029
Fees	152,953	3,310,003
Gate Monies	663	87,460
Hunting Packages	-	326,474
Internet	-	203
Lost Books and Records	-	678
Photocopies	718	61,214
Sales	14,400	972,995
Special Permits	5,768	171,655
Sundry Revenue	215,002	822,977
	588,917	**6,530,804**

21. Interest received - investments

Interest revenue		
Bank Accounts	568,775	10,308,899
Call Deposits	91,711	1,145,456
	660,486	**11,454,355**

Figures in Rand	2016	30 June 2016 2016 Restated*

22. Property rates

Rates received

Assessment rates	77,120,328	72,825,319

Basic Rate:		
Residential	0.000831	0.00705900
Businesses, Commercial, Industrial	0.01038	0.0089250
Educational	0.00831	0.0070590
Public Service Infrastructure	0.00209	0.0018020
Vacant Land	0.03649	0.032970
Infrastructure Rate	77.28	81.91

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

Valuations

Agricultural	897,236,027	897,236,027
Business	2,198,430,567	2,198,430,567
Churches	877,500	877,500
Education	523,657,473	523,657,473
Government	262,980,972	262,980,972
Industrial	24,244,000	24,244,000
Municipal	260,625,151	260,625,151
Public Benefit Organisation	19,995,540	19,995,540
Public Service Infrastructure	31,460,803	31,460,803
Residential	6,151,987,317	6,151,987,317
Specialised Non-Market Properties	1,190,000	1,190,000
Vacant Land	250,179,775	250,179,775
	0,622,865,125	**0,622,865,125**

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2015. Rebates were granted on land with buildings used solely for dwellings purposes as follows: Residential - The first R15 000 on the valuation is exempted.

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

23. Government grants and subsidies

Operating grants		
Equitable share	18,071,000	117,675,235
National Government Grants	2,686,000	7,049,563
Provincial Government Grants	-	4,150,000
Other grant providers	14,423	1,234,791
	20,771,423	130,109,589
Capital grants		
Municipal Infrastructure Grant	-	32,001,814
Integrated National Electrification Grant	-	2,366,596
	-	34,368,410
	20,771,423	**164,477,999**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of period	5,412,977	5,443,790
Current-year receipts	-	31,971,000
Conditions met - transferred to revenue	-	(32,001,813)
	5,412,977	**5,412,977**

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

The grant was used to construct roads and storm water infrastructure, with the main focus on the historically disadvantaged areas.

Integrated National Electrification Grant

Balance unspent at beginning of period	592,131	958,727
Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	-	(2,366,596)
	592,131	**592,131**

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

The grant was provided for rural electrification, with the main focus on the historically disavantaged areas.

The prior year was adjusted refer to note .

Expanded Public Works Program

Balance unspent at beginning of period	17,225	-
Current-year receipts	-	1,529,000
Conditions met - transferred to revenue	-	(1,511,775)
	17,225	**17,225**

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

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

23. Government grants and subsidies (continued)

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

The prior year was adjusted refer to note .

Municipal Systems Improvement Grant

Balance unspent at beginning of period	644	375,465
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(1,304,821)
	644	**644**

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

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

FMG Funds

Balance unspent at beginning of period	1,619	-
Current-year receipts	-	1,675,000
Conditions met - transferred to revenue	-	(1,673,381)
	1,619	**1,619**

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

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

Skills Development Grant - ISDG

Balance unspent at beginning of period	240,414	-
Current-year receipts	-	2,800,000
Conditions met - transferred to revenue	-	(2,559,586)
	240,414	**240,414**

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

Library Subsidy

Balance unspent at beginning of period	174,700	174,700
Current-year receipts	-	4,150,000
Conditions met - transferred to revenue	-	(4,150,000)
	174,700	**174,700**

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

LED Strategies & Spatial

Balance unspent at beginning of period	821,689	821,689

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

23. Government grants and subsidies (continued)

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

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

Other Provincial Funds

Balance unspent at beginning of period	3,762,004	4,001,350
Conditions met - transferred to revenue	-	(239,346)
	3,762,004	**3,762,004**

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

District Municipality Grants

Balance unspent at beginning of period	823,374	823,374

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

Other Grant Providers

Balance unspent at beginning of period	1,805,261	1,775,812
Current-year receipts	-	29,449
	1,805,261	**1,805,261**

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

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

24. Employee related costs

Basic	8,496,383	85,871,050
Bonus	46,453	530,104
Casual labour	284,735	3,512,127
Contract Workers	691,508	5,332,821
Defined contribution plans	-	3,729,126
Leave encashment	-	(16,859)
Housing benefits and allowances	89,232	1,617,092
Leave pay provision charge	2,352,825	13,072,293
Medical aid - company contributions	702,087	8,313,490
Group Life Insurance	55,256	614,757
Pension Fund Contributions	1,286,469	14,388,855
Other short term costs	33,865	392,120
Overtime payments	588,885	6,360,317
Travel, motor car, accommodation, subsistence and other allowances	425,470	5,146,787
UIF	78,236	828,435
WCA	-	927,826
	15,131,404	**150,620,341**

Remuneration of Municipal Manager

Annual Remuneration	94,479	1,092,038
Car Allowance	-	41,717
Contributions to UIF, Medical and Pension Funds	12,000	144,000
	-	120,000
Performance Bonuses	-	-
Other	24,127	36,000
Other	-	-
	130,606	**1,433,755**

Remuneration of Chief Finance Officer

Annual Remuneration	81,334	862,530
Car Allowance	12,000	-
Contributions to UIF, Medical and Pension Funds	9,500	114,000
Other	11,572	177,600
Performance Bonuses	-	27,999
Other	-	100,000
	114,406	**1,282,129**

Remuneration of the Director: Technical Services

Acting allowance	14,279	75,468

Remuneration of the Director: Community and Social Services

Acting allowance	11,399	132,986
Other	-	-
Other	-	-
	11,399	**132,986**

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

24. Employee related costs (continued)

Remuneration of the Director: Corporate and Support Services

Annual Remuneration	76,122	778,251
Car Allowance	5,000	61,098
Other	3,303	60,000
Bonus structured from package	90,278	85,625
	174,703	**984,974**

Remuneration of the Director: Human Settlements

Acting allowance	21,481	164,561
Other	-	-
	21,481	**164,561**

Remuneration of the Director: Strategic Executive

Annual Remuneration	71,232	664,788
Other	-	-
Car Allowance	6,377	96,118
Performance Bonuses	-	86,116
Other	1,238	76,524
	78,847	**923,546**

Remuneration of the Director: IPED

Annual Remuneration	107,019	976,657
Backpay	-	195,093
Other	-	-
	107,019	**1,171,750**

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

25. Remuneration of councillors

Honourable Mayor	71,629	811,529
M-PAC	65,132	655,132
Chief Whip	55,337	619,711
Speaker	57,674	654,110
Ward Committee Members	267,625	3,211,500
Councillors' Salaries	835,625	10,935,066
Contributions to Medical, Pension Funds and UIF	160,532	1,926,378
Executive Committee Members	777,777,777	4,390,951
	779,291,331	**23,204,377**

Executive Committee Members		
Mrs. S. Van Heerden	54,190	541,984
Mt T.M. Jocki	54,190	557,008
Ms N.C. Pambo	54,190	512,300
Mr. M. Peter	54,772	614,764
Mr. M.Z. Gwantshu	54,190	541,984
Mrs. A.E. Hulushe	54,190	541,984
Mrs. Sopapaza Lungisa	54,190	541,984
Mr. M.L. Dyan	-	538,943
	379,912	**4,390,951**

26. Depreciation and amortisation

Property, plant and equipment	4,562,973	52,224,730

The prior year balance has been restated refer to note .

27. Finance costs

Current borrowings	2,681	139,230
Other interest paid	-	199,520
	2,681	**338,750**

28. Debt impairment

Contributions to debt impairment provision	-	22,542,851

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

29. Repairs and maintenance

Electricity reticulation	-	6,182,324
Fencing	-	17,970
	-	-
Land and buildings	80,881	563,652
	-	-
Plant and machinery	-	3,298,503
	-	-
Street and stormwater	32,780	9,445,632
	-	-
Other	-	5,058
	113,661	**19,513,139**

30. Bulk purchases

Electricity	23,861,630	185,160,441

31. Contracted services

Other Contractors	32,737	7,436,536

32. Grants expenditure

Other subsidies		
Other	172,213	8,347,694

Refer to note for change in comparative.

* See Note

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

33. General expenses

Advertising	-	2,488,344
Auditors remuneration	-	4,587,499
Bank charges	69,963	670,847
Aids council	-	4,800
World Aids Day	-	177,730
Computer expenses	-	5,789
Consulting and professional fees	140,218	10,500,836
Consumables	40,199	775,746
Debt collection	-	6,773
Donations	12,500	150,000
Entertainment	2,163	970,964
Animal Costs	-	1,052,537
Insurance	-	1,876,009
Conferences and delegations	-	63,782
IT expenses	-	86,935
Horticulture	-	6,987
Promotions	99,772	679,439
Levies	128,103	3,045,792
Medical expenses	-	19,631
Motor vehicle expenses	-	129,990
Fuel and oil	11,895	8,154,768
Postage and courier	11,658	702,659
Printing and stationery	855	979,579
Protective clothing	-	465,659
License fees	-	1,670,998
Subscriptions and membership fees	-	25,582
Telephone and fax	101,643	3,560,134
Training	5,520	2,869,237
Travel - local	39,739	1,444,354
Assets expensed	-	(45,839)
Electricity	-	1,704,475
Water	-	7,145
Refuse	-	10,746
Utilities - Other	-	261,851
Tourism development	-	27,200
Ammunition	-	1,847,926
Clean-up Projects	-	(8,511,050)
Vending management fee	34,191	392,580
Chemicals & laboratory services	-	64,896
Valuation costs	-	1,233,566
Other expenses	328,794	5,317,405
	1,027,213	**49,484,301**

The prior year balance has been restated due to errors corrected during the year, refer to note for further details.

34. Auditors' remuneration

Fees	-	4,587,499

35. Fair value adjustments

Biological assets - (Fair value model)	-	3,059,780

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

36. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total
Other financial assets	325,633	325,633
Trade and other receivables from exchange transactions	63,073,855	63,073,855
Other receivables from non-exchange transactions	36,921,565	36,921,565
Cash and cash equivalents	107,977,094	107,977,094
	208,298,147	**208,298,147**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	18,568,480	18,568,480
Taxes and transfers payable (non-exchange)	9,595,687	9,595,687
Other liability 1	13,652,039	13,652,039
	41,816,206	**41,816,206**

37. Cash (used in) generated from operations

Surplus	73,430,707	792,595
Adjustments for:		
Depreciation and amortisation	4,562,973	52,224,730
Gain on sale of assets and liabilities	-	864,826
Fair value adjustments	-	(3,059,780)
Finance costs - Finance leases	2,681	338,750
Actuarial loss/(Gain)	-	(3,104,001)
Impairment deficit	-	405,836
Debt impairment	-	22,542,851
Movements in retirement benefit assets and liabilities	(101,916,018)	3,501,939
Movements in provisions	12,636,809	12,636,809
Changes in working capital:		
Receivables from exchange transactions	(6,502,901)	(28,446,522)
Other receivables from non-exchange transactions	(66,410,855)	(11,729,775)
Payables from exchange transactions	74,152,824	(28,642,381)
VAT	(1,423,706)	(5,071,678)
Unspent conditional grants and receipts	(722,868)	(722,868)
Consumer deposits	1,750	361,435
	(12,188,604)	**12,892,766**

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	95,360,846	95,360,846
Total capital commitments		
Already contracted for but not provided for	95,360,846	95,360,846

This committed expenditure relates to property and will be financed by government grants.

39. Contingencies

The list of contingent liabilities is as follows:

Matter: Lukhanji vs. Siyahlutha developers	1,724,288	1,724,288
Matter: Lukhanji vs. Skweyiya TS / Blekiwe M	100,000	100,000
Matter: Lukhanji vs. Motile A	94,814	94,814
Matter: Lukhanji vs. Madywabe	300,000	300,000
Matter: Lukhanji vs. Jan Draghoender	992,926	992,926
Matter: Lukhanji vs Nosibulele Dalasile	100,000	100,000
Matter: Lukhanji vs. Mr and Mrs Mongameli Micheal Mgijima	1,408,550	1,408,550
Matter: Likhanji vs. Madlavu	1,500,000	1,500,000
Matter: Lukhanji vs Benkro CC	422,107	422,107
Matter: Lukhanji vs. Giyose C	28,000	28,000
Matter: Lukhanji vs. SAMWU employees	1,914,034	1,914,034
	8,584,719	**8,584,719**

Contingent assets

The list of contingent assets is as follows:

1. Matter: Lukhanji Municipality vs Ariano 222 CC (1st Def) K P Mflatelwa (2nd Def) R19247.28
2. Matter: Lukhanji Municipality vs Bright Ideas Project (Mr & Mrs. Yaka) R112196.55

40. Related parties

Refer to note 24 and 25 for the disclosure of the remuneration of key management and members of councillors.

No councillors or staff disclosed that they were members of entities which was listed on the approved supplier database.

41. Risk management

Financial risk management

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

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

Liquidity risk

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

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

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

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

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

Receivables are disclosed net after provisions are made for impairment and bad debts. Receivables comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to receivables are considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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

Financial instrument	2017	2016
Trade and other receivables from exchange transactions	69,576,756	63,073,855
Receivables from non-exchange transactions	103,332,420	36,921,565
Cash and cash equivalents	95,788,490	107,977,094

Market risk

Interest rate risk

Notes to the Annual Financial Statements

41. Risk management (continued)

As the municipality has significant interest-bearing assets, the municipality's income and operating cash flows are substantially dependent of changes in market interest rates.

Price risk

The municipality is not exposed to price risk.

42. Events after the reporting date

There were no discloseable events after reporting date.

43. Unauthorised expenditure

Opening balance	106,683,884	104,327,640
Unauthorised expenditure	-	2,356,244
	106,683,884	**106,683,884**

Details of unauthorised expenditure - prior year		
Overspending on operating budget	-	2,356,244

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of criminal or disciplinary proceedings.

(iii) No material losses have been written off.

44. Fruitless and wasteful expenditure

Opening balance	-	1,662,599
Add: Fruitless and wasteful expenditure - current year	297	480,712
	297	**2,143,311**

Categories of fruitless and wasteful expenditure		
Interest paid	297	480,712

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of criminal or desciplinary proceedings.

(iii) No material losses have been written off.

Notes to the Annual Financial Statements

Figures in Rand	2016	30 June 2016 2016 Restated*

45. Irregular expenditure

Opening balance	271,072,101	242,286,323
Add: Irregular Expenditure	84,943	28,785,778
	271,157,044	**271,072,101**

Analysis of expenditure awaiting condonation per age classification

Current year	84,943	28,785,778
Prior years	271,072,101	242,286,323
	271,157,044	**271,072,101**

(i) No expenditure has been identified as being recoverable.

(ii) No procedures have been taken in terms of discplinery or criminal proceedings.

(iii) No material losses have been written off.

* See Note

Figures in Rand	2016	30 June 2016 2016 Restated*

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	-	1,638,871
Amount paid - current year	-	(1,638,871)
	-	-

Material losses

Current year subscription / fee	-	57,753,496

Electricity distribution losses as at 30 June 2016 relate to 71,627,760.60 kWh (2015; 77,527,211 kWh), due to environmental and technical factors. In addition to this, the factor of illegal connections which remains a concern for the municipality.

Audit fees

Current year subscription / fee	-	4,585,579
Amount paid - current year	-	(4,585,579)
	-	-

PAYE and UIF

Current year subscription / fee	-	17,816,340
Amount paid - current year	-	(17,816,340)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	-	24,047,081
Amount paid - current year	-	(24,047,081)
	-	-

VAT

VAT receivable	10,950,138	9,526,432

VAT output payables and VAT input receivables are shown in note 4.

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

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/condoned by the Manager and noted by Council. The expenses incurred as mentioned is R8,038,659.

All departures in terms of section 36 have been approved by the Municipal Manager and noted by Council unless noted in note 45

47. Acquisitions with a view to its subsequent disposal

48. Consumer debtors disclosure

49. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.