Engcobo Local Municipality
Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa
Nature of business and principal activities	Engcobo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipalities operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operation	The principal activities of the municipality are: - Provide democratic and accountable government - Ensure sustainable service delivery to communities - Provide social and economic development - Provide basic services to the community

Executive committee

Mayor	L. Jiyose
Councillors	N. Matiwane, Speaker
	S. Mbolo, Chief Whip
	S. Nkele, Finance
	Z. Xuba, Corporate Services - resigned
	Z. Jabanga, Infrastructure
	N. Gedeni, Special Programmes Unit
	N. Berana, Community Services
	M. Mbhenyana, IPED
	N. Mgudlwa, Waste & Refuse
	M. Tunce, Ward 1
	T. Bizana, Ward 2
	N. Noludwe, Ward 3
	N. Macingwane, Ward 4
	M. Hokwana, Ward 5
	S. Mbutuma, Ward 6
	M. Paliso, Ward 7
	N. Mgidi, Ward 8
	S. Guma, Ward 9
	P. Ntsibantu, Ward 10
	N. Yalezo, Ward 11
	S. Konile, Ward 12
	M. Macozoma, Ward 13
	B. Gqitiyeza, Ward 14
	J. Poswa, Ward 15
	N. Lumkwana, Ward 16
	N. Bottoman, Ward 17
	M. Saki, Ward 18
	W. Mafufu, Ward 19
	M. Singama, Ward 20
	Y. Ponoshe
	S. Mabadi
	B. Nkele
	N. Beta
	T. Daniel

General Information

	S. Marenene N Tolbhadi N. Nyudwane Z. Madyolo N. Nzabela L. Sizani - resigned
Grading of local authority	Grade 3
Accounting Officer	S. Mahlasela
Chief Finance Officer (CFO)	M. Matomane
Registered office	54 Union Street Engcobo 5050
Postal address	PO Box 24 Engcobo 5050
Bankers	First National Bank
Auditors	Auditor General Registered Auditors
Preparer	The financial statements were internally compiled by: M. Matomane
Published	30 November 2016
Telephone	(047) 548 1221
Fax number:	(047) 548 1078
Email address:	matomanem@engcobolm.org.za

Index

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

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 Municipal Finance Management Act (No 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

S. Mahlasela
Municipal Manager

Audit Report

To the Provincial Legislature of Engcobo Local Municipality

Report on the financial statements

Opinion

Auditor General
Registered Auditors
Partner's name
Additional description
Additional description

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in Engcobo Local Municipality is a South African Category B and operates principally in South Africa.

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

2. Going concern

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

3. Secretary

The municipality had no secretary during the year.

4. Auditors

The Auditor - General South Africa will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2016	2015 (Restated)
Assets			
Current Assets			
Receivables from exchange transactions	10&35	207,417	95,968
Receivables from non-exchange transactions	11	3,498,585	3,640,798
VAT receivable	12	6,948,516	2,762,482
Cash and cash equivalents	13	79,322,802	51,039,768
		89,977,320	**57,539,016**
Non-Current Assets			
Investment property	4	4,775,300	4,775,300
Property, plant and equipment	5	365,561,947	310,209,009
Intangible assets	6	543,323	317,251
Heritage assets	7	6,960,224	-
		377,840,794	**315,301,560**
Total Assets		**467,818,114**	**372,840,576**
Liabilities			
Current Liabilities			
Finance lease obligation	14	413,643	378,048
Payables from exchange transactions	17	19,945,447	15,794,820
Unspent conditional grants and receipts	15	3,281,943	2,194,407
Provisions	16	19,525,529	15,292,853
		43,166,562	**33,660,128**
Non-Current Liabilities			
Finance lease obligation	14	35,216	448,859
Total Liabilities		**43,201,778**	**34,108,987**
Net Assets		**424,616,336**	**338,731,589**
Net Assets			
Accumulated surplus		424,616,336	338,731,589

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 (Restated)
Revenue			
Revenue from exchange transactions			
Service charges	22	838,985	725,019
Rental of facilities and equipment	19	209,177	247,125
Interest earned on outstanding debtors	19	342,060	-
Licenses and permits	19	4,039,874	3,668,351
Other income	24	1,018,758	686,717
Interest received - investment	31	5,047,332	2,838,684
Total revenue from exchange transactions		**11,496,186**	**8,165,896**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	3,495,798	2,999,175
Donations received	21	45,807,139	301,199
Transfer revenue			
Government grants & subsidies	23	201,850,465	159,341,359
Fines	19	16,600	16,950
Total revenue from non-exchange transactions		**251,170,002**	**162,658,683**
Total revenue	19	**262,666,188**	**170,824,579**
Expenditure			
Personnel	27	(53,487,280)	(46,416,871)
Remuneration of councillors	28	(12,750,235)	(11,940,927)
Depreciation and amortisation	33	(35,115,496)	(34,313,196)
Impairment losses	34	-	(2,472,456)
Finance costs	36	(663,578)	(453,884)
Hire of equipment	38	(634,395)	(881,767)
Debt Impairment	30	(549,889)	(704,585)
Repairs and maintenance	29	(5,924,635)	(4,491,395)
General expenses	25	(66,157,795)	(59,615,359)
Total expenditure		**(175,283,303)**	**(161,290,440)**
Operating surplus	26	**87,382,885**	**9,534,139**
Gain/(Loss) on disposal of property, plant and equipment	52	(1,498,138)	(1,582,125)
Reversal of provision for bad debts		-	150,247
Loss on transfer of water and sanitation operations to Chris Hani District Municipality	35	-	(2,546,198)
		(1,498,138)	**(3,978,076)**
Surplus for the year		**85,884,747**	**5,556,063**

Engcobo Local Municipality
Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	330,232,034	330,232,034
Adjustments		
Prior period error	2,943,492	2,943,492
Balance at 01 July 2014 as restated*	**333,175,526**	**333,175,526**
Changes in net assets		
Surplus for the year	5,556,063	5,556,063
Total changes	5,556,063	5,556,063
Balance at 01 July 2015	**338,731,589**	**338,731,589**
Changes in net assets		
Surplus for the year	85,884,747	85,884,747
Total changes	85,884,747	85,884,747
Balance at 30 June 2016	**424,616,336**	**424,616,336**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Sale of goods and services		11,079,552	10,367,123
Grants		201,850,465	156,634,265
Interest income		5,047,332	2,838,684
Other receipts		-	(133,475)
		217,977,349	169,706,597
Payments			
Employee costs		(66,237,515)	(58,654,768)
Suppliers		(70,280,046)	(68,202,809)
Finance costs		(141,515)	(132,470)
		(136,659,076)	(126,990,047)
Net cash flows from operating activities	39	**81,318,273**	**42,716,550**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(53,424,580)	(40,776,825)
Proceeds from sale of property, plant and equipment	5	1,163,936	219,439
Purchase of investment property	4	-	-
Purchase of other intangible assets	6	(396,547)	(54,559)
Net cash flows from investing activities		**(52,657,191)**	**(40,611,945)**
Cash flows from financing activities			
Finance lease payments		(378,048)	(275,430)
Net increase/(decrease) in cash and cash equivalents		**28,283,034**	**1,829,175**
Cash and cash equivalents at the beginning of the year		51,039,768	49,210,593
Cash and cash equivalents at the end of the year	13	**79,322,802**	**51,039,768**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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	1,000,000	-	**1,000,000**	838,985	**(161,015)**	
Rental of facilities and equipment	390,000	-	**390,000**	209,177	**(180,823)**	
Interest earned on outstanding debtors	-	-	**-**	342,060	**342,060**	
Licenses and permits	5,500,000	-	**5,500,000**	4,039,874	**(1,460,126)**	A1
Other revenue	1,265,110	43,559,778	**44,824,888**	1,018,758	**(43,806,130)**	A2
Interest received - investment	3,500,000	-	**3,500,000**	5,047,332	**1,547,332**	A3
Total revenue from exchange transactions	**11,655,110**	**43,559,778**	**55,214,888**	**11,496,186**	**(43,718,702)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4,000,000	(388,809)	**3,611,191**	3,495,798	**(115,393)**	
Donations received	-	-	**-**	45,807,139	**45,807,139**	A4
Transfer revenue						
Government grants & subsidies	139,046,000	-	**139,046,000**	201,850,465	**62,804,465**	A5
Fines	100,000	-	**100,000**	16,600	**(83,400)**	A6
Total revenue from non-exchange transactions	**143,146,000**	**(388,809)**	**142,757,191**	**251,170,002**	**108,412,811**	
Total revenue	**154,801,110**	**43,170,969**	**197,972,079**	**262,666,188**	**64,694,109**	
Expenditure						
Personnel	(47,053,504)	(6,396,310)	**(53,449,814)**	(53,349,234)	**100,580**	
Remuneration of councillors	(12,325,420)	(620,000)	**(12,945,420)**	(12,750,235)	**195,185**	
Depreciation and amortisation	(40,000,000)	-	**(40,000,000)**	(35,115,496)	**4,884,504**	A7
Finance costs	(700,000)	-	**(700,000)**	(663,578)	**36,422**	
Hire of equipment	(1,000,000)	-	**(1,000,000)**	(634,395)	**365,605**	A8
Bad debts written off	(2,000,000)	-	**(2,000,000)**	(549,889)	**1,450,111**	A9
Repairs and maintenance	(7,135,000)	(972,275)	**(8,107,275)**	(5,924,635)	**2,182,640**	A10
General Expenses	(58,766,975)	(16,833,113)	**(75,600,088)**	(66,153,042)	**9,447,046**	A11
Total expenditure	**(168,980,899)**	**(24,821,698)**	**(193,802,597)**	**(175,140,504)**	**18,662,093**	
Operating surplus	**(14,179,789)**	**18,349,271**	**4,169,482**	**87,525,684**	**83,356,202**	
Loss on disposal of property, plant and equipment	-	-	**-**	(1,498,138)	**(1,498,138)**	
Surplus/ (Deficit)	**(14,179,789)**	**18,349,271**	**4,169,482**	**86,027,546**	**81,858,064**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(14,179,789)**	**18,349,271**	**4,169,482**	**86,027,546**	**81,858,064**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Heading		Approved budget	Adjustment	Final Budget	Actual amount	Difference between final budget and actual
Capital expenditure		(84,169,000)	(19,146,811)	(103,316,000)	(90,212,263)	(22,002,669)

Accounting Policies

1. BASIS OF ACCOUNTING

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

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

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

Accounting Policies

These accounting policies are consistent with the previous period, except for the changes set our in note 2 Changes in accounting policy.

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

Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 – Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 27 - Agriculture
- GRAP 31 - Intangible Assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

Standards Issued, Not Yet Effective Date

- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents

Interpretations - Approved and not yet effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting Inhyperinflationary Economies
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 11 - Consolidation - Special Purpose Entities
- IGRAP 12 - Jointly Controlled Entities - Non-Monetary Contributions
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

Interpretations – Approved and not yet effective

- IGRAP 17 - Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

Accounting Policies

1.1 Presentation currency

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

1.2 Critical judgements, estimates and assumptions

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Allowance for doubtful debts

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

1.2 Critical judgements, estimates and assumptions (continued)

Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months.

Provisions and contingencies

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate the various sites discounted back to the statement of financial position date at a risk free rate which is currently 10.5%

The asset is measured using the cost model:
Subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

If the adjustment results in an addition to the cost of the asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Useful lives of property, plant and equipment

The useful lives of assets are based on management’s estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management’s judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time. It is a subjective estimate based on management’s experience.

1.3 Investment property

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

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

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

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

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

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

1.3 Investment property (continued)

Cost model

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

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

Item	**Useful life**
Property - land	indefinite
Property - buildings	25 - 50 years

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

- 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 without determined future use.

1.4 Property, plant and equipment

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

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.

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

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

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

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

1.4 Property, plant and equipment (continued)

Item	Average useful life
Infrastructure	3 - 50 years
Buildings	25 - 50 years
Recreational facilities	25 -30 years
Halls	25 - 50 years
Libraries	25 - 30 years
Plant and machinery	5 years
Motor vehicles	5 years
Furniture and fittings	10 years
Computer equipment	5 years
Memorials and statues	Indefinite life
Museums	Indefinite life
Heritage sites	Indefinite life
Artworks	Indefinite life
Finance lease assets	5 years
Office equipment	5 years

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

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

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

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

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

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

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

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and

(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 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.

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

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

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

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

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

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

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

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

Item	Useful life
Computer software, other	7 years

Accounting Policies

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

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 impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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.

1.7 Heritage assets (continued)

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).

1.8 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

1.8 Financial instruments (continued)

- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Classification

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

Class	Category
Receivables from exchange transcations	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at amortised cost
Short-term deposits (call accounts)	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease laibilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

1.9 Leases

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

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

Finance leases - 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.

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

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

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

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

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.

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

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

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

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

Redesignation

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

1.12 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.

1.12 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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

Accounting Policies

1.12 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.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

Redesignation

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

1.13 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.

1.14 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

1.14 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

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

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

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

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

1.15 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

1.15 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:

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

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

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

1.16 Revenue from exchange transactions

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

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

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

1.16 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

1.17 Revenue from non-exchange transactions (continued)

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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

1.23 Use of estimates

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

1.24 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.

1.25 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.

1.25 Budget information (continued)

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

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

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

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

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

1.26 Related parties

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

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

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

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

1.27 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

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 thereof from the responsible councillors or officials is probable.The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

1.28 Events after reporting date

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

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

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

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

Notes to the Financial Statements

2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

3.2 Standards and interpretations issued, but not yet effective

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

GRAP 16 (as amended 2015): Investment Property

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

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

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

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

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

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

Amendments identified as part of the post-implementation review, affected the following areas:
*Indicator-based assessment of the useful lives of assets
*Use of external valuers
*Encouraged disclosures
*Capital work-in-progress
*Expenditure incurred on repairs and maintenance

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

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

GRAP 18: Segment Reporting

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

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.
This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Notes to the Financial Statements

3. New standards and interpretations (continued)

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The effective date of the standard is not yet set by the Minister of Finance.

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

GRAP 20: Related parties.

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
* identifying related party relationships and transactions;
* identifying outstanding balances, including commitments, between an entity and its related parties;
* identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
* determining the disclosures to be made about those items.

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

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

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the

Notes to the Financial Statements

3. New standards and interpretations (continued)
reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
*Close member of the family of a person;
*Management;
*Related parties;
*Remuneration; and
*Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
*Control;
*Related party transactions; and
*Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

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

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

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:
*simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
*assessing the feasibility of one measurement approach for non-cash-generating assets; and
*assessing the feasibility of combining the two Standards.

Summary of changes:

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

General definitions:

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

Cash generating assets and non-cash-generating assets:

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

Identifying an asset that may be impaired:

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

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.
Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.
Disclosures:
The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.
The effective date of the standard is for years beginning on or after 01 April 2017.

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

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

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess

3. New standards and interpretations (continued)

whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:
*simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
*assessing the feasibility of one measurement approach for non-cash-generating assets; and
*assessing the feasibility of combining the two Standards.

Summary of changes:

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

General definitions:

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

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

Disclosures:

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

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

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

GRAP 108: Statutory Receivables

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

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

The effective date of the standard is not yet set by the Minister of Finance.

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

GRAP 109: Accounting by Principals and Agents

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

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

The effective date of the standard is not yet set by the Minister of Finance.

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

3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 April 2016 or later periods but are not relevant to its operations:

Notes to the Financial Statements

3. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

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

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

The effective date of the standard is not yet set by the Minister of Finance.

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

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

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

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

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

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

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

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

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

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

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

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

4. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	4,775,300	-	4,775,300	4,775,300	-	4,775,300

Reconciliation of investment property - 2016

	Opening balance	**Total**
Investment property	4,775,300	4,775,300

Reconciliation of investment property - 2015

	Opening balance	**Transfers**	**Total**
Investment property	762,000	4,013,300	4,775,300

Please refer to note 44 for prior year adjustments.

5. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	9,123,000	-	9,123,000	9,123,000	-	9,123,000
Buildings	7,925,741	(736,243)	7,189,498	4,075,888	(598,430)	3,477,458
Landfill sites	17,751,940	(6,546,615)	11,205,325	14,260,484	(6,069,135)	8,191,349
Plant and machinery	24,881,634	(11,762,370)	13,119,264	18,167,695	(10,697,233)	7,470,462
Furniture and fixtures	4,146,757	(1,399,376)	2,747,381	3,771,778	(1,503,727)	2,268,051
Motor vehicles	13,164,423	(8,382,724)	4,781,699	15,578,533	(8,526,944)	7,051,589
IT equipment	2,801,957	(1,625,303)	1,176,654	2,826,734	(1,443,867)	1,382,867
Infrastructure	418,780,200	(154,275,200)	264,505,000	363,722,289	(129,085,555)	234,636,734
Community	38,548,892	(6,885,374)	31,663,518	37,241,705	(5,676,073)	31,565,632
Under construction	19,686,925	-	19,686,925	4,335,928	-	4,335,928
Leased assets	1,015,106	(651,423)	363,683	1,014,369	(308,430)	705,939
Total	**557,826,575**	**(192,264,628)**	**365,561,947**	**474,118,403**	**(163,909,394)**	**310,209,009**

Notes to the Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Change in estimate	Depreciation	Total
Land	9,123,000	-	-	-	-	-	9,123,000
Buildings	3,477,458	2,365,422	-	1,484,431	-	(137,813)	7,189,498
Landfill sites	8,191,349	2,802,919	-	-	688,537	(477,480)	11,205,325
Plant and machinery	7,470,462	8,541,962	(220,276)	-	-	(2,672,884)	13,119,264
Furniture and fixtures	2,268,051	1,132,641	(299,989)	-	-	(353,322)	2,747,381
Motor vehicles	7,051,589	290,490	(784,894)	-	-	(1,775,486)	4,781,699
IT equipment	1,382,867	309,950	(53,914)	-	-	(462,249)	1,176,654
Infrastructure	234,636,734	56,399,377	(1,118,819)	2,052,093	-	(27,464,385)	264,505,000
Community halls	31,565,632	825,144	(172,620)	701,986	-	(1,256,624)	31,663,518
Under construction	4,335,928	19,589,507	-	(4,238,510)	-	-	19,686,925
Leased assets	705,939	14,307	(5,367)	-	-	(351,196)	363,683
	310,209,009	**92,271,719**	**(2,655,879)**	**-**	**688,537**	**(34,951,439)**	**365,561,947**

Notes to the Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13,518,000	-	(381,700)	(4,013,300)	-	-	9,123,000
Buildings	2,973,480	496,329	-	184,726	(135,060)	(42,017)	3,477,458
Landfill sites	8,213,372	1,750,530	-	-	(345,604)	(1,426,949)	8,191,349
Plant and machinery	5,512,480	4,269,704	(105,622)	-	(2,206,100)	-	7,470,462
Furniture and fixtures	1,782,918	815,878	(29,831)	-	(300,914)	-	2,268,051
Motor vehicles	8,586,433	379,384	(93,482)	-	(1,820,746)	-	7,051,589
IT equipment	1,432,639	453,019	(79,928)	-	(422,863)	-	1,382,867
Infrastructure	211,063,114	31,188,442	(1,111,001)	21,752,409	(27,393,613)	(862,617)	234,636,734
Community halls	31,895,105	542,972	-	524,964	(1,256,535)	(140,874)	31,565,632
Under construction	23,894,994	2,903,033	-	(22,462,099)	-	-	4,335,928
Leased assets	11,400	995,369	-	-	(300,830)	-	705,939
	308,883,935	**43,794,660**	**(1,801,564)**	**(4,013,300)**	**(34,182,265)**	**(2,472,457)**	**310,209,009**

Assets subject to finance lease (Net carrying amount)

Leased assets	363,683	705,939

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.

Please refer to note 44 for prior year adjustments.

Figures in Rand	2016	2015

6. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	1,135,117	(591,794)	543,323	750,751	(433,500)	317,251

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	317,251	396,547	(6,420)	(164,055)	543,323

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	393,624	54,559	(130,932)	317,251

7. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heroes Park	6,960,224	-	6,960,224	-	-	-

Reconciliation of heritage assets 2016

	Opening balance	Additions	Total
Heroes Park	-	6,960,224	6,960,224

Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation:
During the 2015/16 financial year, the Department of Arts and Culture together with the Department of Environmental Affairs donated the Heroes Park to the municipality of Engcobo in memory of veterans that sacrificed their lives for democracy of South Africa.
The balances reflected above represent the fair value of the assets at the date of acquisition.

8. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2016

	Amortised cost	Total
Receivables from exchange transactions	207,417	207,417
Receivables from non-exchange transactions	3,498,585	3,498,585
Cash and cash equivalents	1,079,889	1,079,889
Short term deposits (call accounts)	78,242,913	78,242,913
VAT receivable	6,939,699	6,939,699
	89,968,503	**89,968,503**

2015

	Amortised cost	Total
Receivables from exchange transactions	95,968	95,968
Receivables from non-exchange transactions	3,640,798	3,640,798
Cash and cash equivalents	1,309,054	1,309,054
Short term deposits (call accounts)	49,729,668	49,729,668
VAT receivable	2,762,482	2,762,482
	57,537,970	**57,537,970**

9. Retirement benefit obligations

Defined contribution plan

The following are defined contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund, National Fund for Municipal Workers and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.
There are 75 employees that belong to the SAMWU Provident Fund (2015: 73), 82 employees that belong to the Cape Joint Pension Fund (2015: 72), 4 employees that belong to the National Fund for Municipal Workers (2015: 1) and there are 2 councillors that belong to the Councillors' Pension Fund (2015: 2).

Amounts contributed to the plans are as follows:

	2016	2015
SAMWU Provident Fund		
- employer	1,070,202	1,626,288
- employee	788,601	813,144
	1,858,803	**2,439,432**
Cape Joint Pension Fund		
- employer	2,212,080	2,194,402
- employee	1,055,220	912,804
	3,267,300	**3,107,206**
Councillors' Pension Fund		
- employee	258,460	241,943
National Fund of Municipal Workers		
- employee	104,683	133,026

Figures in Rand	2016	2015

10. Receivables from exchange transactions

Service debtors	193,836	95,968
Creditors with debit balances	13,581	-
	207,417	**95,968**

Service debtors

Refuse		
Gross balance	825,274	650,519
Less: Provision for bad debts	(634,804)	(557,625)
	190,470	**92,894**

Refuse: Ageing		
Current (0 - 30 days)	130,712	145,774
30 - 60 days	79,072	31,580
60 - 90 days	31,808	26,785
+ 90 days	583,682	446,380
	825,274	**650,519**

Leases		
Gross balance	24,806	22,500
Less: Provision for bad debts	(21,440)	(19,426)
	3,366	**3,074**

Leases: Ageing		
Current (0 - 30 days)	2,306	-
30 - 60 days	-	-
+ 90 days	22,500	22,500
	24,806	**22,500**

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		
Government (A)	8,922	6,673
Business (B)	73,133	49,215
Other (C)	50,963	89,886
	133,018	**145,774**

Group A – These debtors are of good credit quality and no default as expected.

Group B - These debtors are usually good payers but there is a possibility that the debtor may not be able to pay on time.

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

Figures in Rand	2016	2015

10. Receivables from exchange transactions (continued)

Trade and other receivables past due but not impaired

At 30 June 2016, R 149,120 (2015: R 50,155) were past due but not impaired.

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

1 month past due	43,629	3,062
2 months past due	35,443	2,601
3 months past due	18,165	42,519
> 3 months past due	51,882	1,973

Reconciliation of doubtful debt provision

Opening balance	(577,052)	(2,171,909)
Provision for impairment	(79,192)	(153,483)
Amounts written off as uncollectible	-	-
Reversal of provision	-	154,715
Transfer of provision to profit or loss on disposal of water & sanitation debtors	-	1,593,625
	(656,244)	**(577,052)**

11. Receivables from non-exchange transactions

Rates	3,915,587	3,467,105
Less: Provision for doubtful debts	(3,360,673)	(2,871,434)
Sundry debtors	2,943,671	3,045,127
	3,498,585	**3,640,798**

Rates: Ageing		
Current (0 - 30 days)	66,142	293,064
30 - 60 days	50,510	15,761
60 - 90 days	21,912	6,073
+ 90 days	3,777,023	3,152,207
	3,915,587	**3,467,105**

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:

Receivables from non-exchange transactions

Counterparties without external credit rating		
Government (A)	310	-
Business (B)	29,437	145,646
Other (C)	36,395	147,418
	66,142	**293,064**

Notes to the Financial Statements

Figures in Rand	2016	2015

11. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

At 30 June 2016, R 378,956 (2015: R 317,606) were past due but not impaired.

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

1 month past due	269,210	1,614
2 months past due	23,589	622
3 months past due	12,514	544
> 3 months	315,933	314,826

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

Opening balance	(2,871,434)	(2,301,483)
Provision for impairment	(489,239)	(569,951)
Amounts written off as uncollectible	-	-
Balance at year end	**(3,360,673)**	**(2,871,434)**

Please refer to note 44 for prior year adjustments.

12. VAT receivable

VAT receivable	6,948,516	2,762,482

The municipality is registered for VAT on the payment basis.

Please refer to note 44 for prior year adjustments.

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	1,262
Bank balances	1,079,889	1,309,054
Call accounts	78,242,913	49,729,452
	79,322,802	**51,039,768**

Notes to the Financial Statements

Figures in Rand	2016	2015

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank - Public Sector Cheque Acc (Account number: 52171242061)	1,138,366	1,319,946	2,483,282	1,079,889	1,309,054	2,185,506
First National Bank - Municipal Infrastructure Grant (Account number: 62095050523)	6,559,382	3,856,439	8,337,219	6,559,382	3,856,439	8,337,219
First National Bank - Municipal Systems Improvement Grant (Account number: 62095030426)	13,301	13,102	12,508	13,301	13,102	12,508
First National Bank - Finance Management Grant (Account number: 62095026524)	17,218	15,327	13,755	17,218	15,327	13,755
Meeg Bank Investment (Account number: 9191868465)	-	-	-	-	-	185
First National Bank - Extended Public Works Program (Account number: 62095029148)	8,121	1,000	2,000	8,121	1,000	2,000
First National Bank - ELM Main Investment Acc (Account number: 62024356570)	30,102,166	20,764,081	28,826,697	30,102,166	20,764,081	28,826,697
First National Bank - Small Town Revitalisation (Account number: 61217013327)	3,660,375	2,553,076	4,263,989	3,660,375	2,553,076	4,263,989
First National Bank - Equitable Share (Account number: 62012728484)	28,882,350	15,424,286	634,441	28,882,350	15,424,286	634,441
First National Bank - Electrification Grant (Account number: 62027299967)	9,000,000	7,102,142	1,000	9,000,000	7,102,142	1,000
First National Bank - Water Services (Account number: 62286911146)	-	-	4,933,293	-	-	4,933,293
Total	**79,381,279**	**51,049,399**	**49,508,184**	**79,322,802**	**51,038,507**	**49,210,593**

Figures in Rand	2016	2015

14. Finance lease obligation

Minimum lease payments due		
- within one year	452,539	472,728
- in second to fifth year inclusive	35,657	488,196
	488,196	960,924
less: future finance charges	(39,337)	(134,017)
Present value of minimum lease payments	**448,859**	**826,907**

Present value of minimum lease payments due		
- within one year	413,643	378,048
- in second to fifth year inclusive	35,216	448,859
	448,859	**826,907**

It is municipality policy to lease certain equipment under finance leases. The municipality leases photo copiers from Konica Minolta and Nashua. The lease term for Konica Minolta is for 3 years commencing July 2014 and the lease term for Nashua is for 5 years commencing July 2012. Interest rates are fixed at the contract date. The fixed repayment rate for Konica Minolta is R 35,656.71 per month, while the repayment rate for Nashua is R728.32 per month with a ten percent annual escalation rate.

The municipality has entered into a cellphone contract with Vodashop Umtata. The contract period is 2 years commencing December 2014. Interest rates are fixed at the contract date. The fixed repayment rate is R 11,052 per month.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 5.

Please refer to note 44 for prior year adjustments.

15. Unspent conditional grants and receipts

Unspent conditional grants from other spheres of government

Unspent conditional grants and receipts		
Charcoal and Small Town Revitalisation Grant	2,608,161	931,301
Mgwali Grant	-	388,187
Library Grant	673,782	805,383
Other Grants	-	69,536
	3,281,943	**2,194,407**

Movement during the year

Balance at the beginning of the year	2,194,407	5,931,766
Additions during the year	68,094,000	52,639,266
Income recognition during the year	(67,006,464)	(56,376,625)
	3,281,943	**2,194,407**

Non-current liabilities	-	-
Current liabilities	3,281,943	2,194,407
	3,281,943	**2,194,407**

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

15. Unspent conditional grants and receipts (continued)

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

Electrification grant - Used solely on the electrification of households within Engcobo jurisdiction.
EPWP - This should be used on the employment of Engcobo residents.
Small Town revatilisation - Funds should only be spent on revitilizing Engcobo
Mgwali Projects - Funds to be spent on Mgwali projects alone.
Charcoal - Funds should only be spent on charcoal projects.
MIG - Funds should only be spent on infrastructure roads.
MSIG - Funds should be spent on systems improvement only by the municipality.
FMG - Funds should only be spent on improving the financial systems of the municipality.
Wattle Eradication Grant - Funds to eradicate alien vegetation.

Notes to the Financial Statements

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Finance costs for the year	Utilised during the year	Change in estimate	Total
Provision for performance bonuses	801,492	933,192	-	(767,972)	-	966,712
Provision for long services bonuses	51,861	105,797	-	(51,861)	-	105,797
Current portion of landfill site restoration provision	14,439,500	2,802,920	522,063	-	688,537	18,453,020
	15,292,853	**3,841,909**	**522,063**	**(819,833)**	**688,537**	**19,525,529**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Finance costs for the year	Reversed during the year	Transferred to payables	Total
Provision for performance bonuses	205,272	596,220	-	-	-	801,492
Provision for long services bonuses	74,090	51,861	(67,133)	(1,872)	(5,085)	51,861
Current portion of landfill site restoration provision	12,371,673	2,067,827	-	-	-	14,439,500
	12,651,035	**2,715,908**	**(67,133)**	**(1,872)**	**(5,085)**	**15,292,853**

Provision for long service bonus

This provison relates to expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality .

Environmental rehabilitation provision

Figures in Rand	2016	2015

16. Provisions (continued)

The Landfill Rehabilitation Provision consists of once-off costs to be incurred for rehabilitation of the current operational sites. The current non-recurring costs amounted to R 12,837,534 (2015: R 10,156,004). Rehabilitation costs also include annual monitoring costs. Thes costs were determined at an inflation rate of 6.3% per annum and were discounted to its present value, applying a rate of 10.5% per annum. The useful life of the landfill site was assessed to be 30 years from the date of establishment. Monitoring costs was estimated for the remaining 15 years to closure as well as 30 years subsequent to closure.

Please refer to note 44 for prior year adjustments.

17. Payables from exchange transactions

	2016	2015
Trade payables	14,745,522	9,736,128
Accrued leave pay	2,917,499	2,619,198
Deposits received	157,792	160,402
Accruals	1,923,575	3,076,633
Debtors with credit balances	201,059	202,459
	19,945,447	**15,794,820**

Please refer to note 44 for prior year adjustments.

18. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2016

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	19,945,447	19,945,447

2015

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	15,794,820	15,794,820

19. Revenue

	2016	2015
Service charges	838,985	725,019
Rental of facilities and equipment	209,177	247,125
Interest earned on outstanding debtors	342,060	-
Licences and permits	4,039,874	3,668,351
Other income	1,018,758	686,717
Interest received - investment	5,047,332	2,838,684
Property rates	3,495,798	2,999,175
Government grants & subsidies	201,850,465	159,341,359
Fines	16,600	16,950
	216,859,049	**170,523,380**

Figures in Rand	2016	2015

19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	838,985	725,019
Rental of facilities and equipment	209,177	247,125
Interest earned on outstanding debtors	342,060	-
Licences and permits	4,039,874	3,668,351
Other income	1,018,758	686,717
Interest received - investment	5,047,332	2,838,684
	11,496,186	**8,165,896**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,495,798	2,999,175
Donations received	45,807,139	301,199
Transfer revenue		
Government grant & subsidies	201,850,465	159,341,359
Fines	16,600	16,950
	251,170,002	**162,658,683**

20. Property rates

Rates received

Property rates	3,495,798	2,999,175

Valuations

Residential	91,084,000	87,406,000
Commercial	153,569,000	131,621,000
State	34,067,000	51,888,000
Municipal	23,840,900	24,575,900
	302,560,900	**295,490,900**

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

General rates of R 0.0149 for residential and public service infrastucture properties, R0.0162 for business, agriculture and government properties, R0.0155 for mixed business properties and R0.0169 for vacant land (2015: R 0.0141) is applied to property valuations to determine assessment rates. Rebates of R15,000 and 20% (2015: R15,000 and 20%) are granted to residential and state property owners respectively.

Rates are levied on an annual basis with the final date for payment being 30 June 2016 (30 June 2015).

21. Donations received

During the year under review, the municipality received donations of roads from the South African National Roads Agency Limited of R39,217,139 and the Heroes Park (Heritage site) from the Department of Arts and Culture together with the Department of Environmental Affairs of R6,590,000.

Donations received	45,807,139	301,199

Notes to the Financial Statements

Figures in Rand	2016	2015

22. Service charges

Revenue from sale of water and sanitation were transferred to Chris Hani District Municipality with effect from 01 July 2014 in terms of decision taken by Council in May 2014.

Refuse removal	838,985	725,019

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies

Equitable share	134,844,000	103,995,000
Electricification Grant	20,000,000	11,000,000
Municipal Infrastructure Grant	37,304,000	35,804,000
Finance Municipal Grant	1,600,000	1,600,000
Small Town Revitalisation Grant	4,323,140	1,867,897
EPWP Grant	1,672,000	1,687,000
Municipal Systems Improvement Grant	930,000	930,000
Library Grant	719,601	506,213
Other Grants	457,724	1,951,249
	201,850,465	**159,341,359**

Equitable Share

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

Electrification Grant

Current-year receipts	20,000,000	11,000,000
Conditions met - transferred to revenue	(20,000,000)	(11,000,000)
	-	-

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

Municipal Infrastructure Grant

Current-year receipts	37,304,000	35,804,000
Conditions met - transferred to revenue	(37,304,000)	(35,804,000)
	-	-

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

Finance Management Grant

Current-year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,600,000)
	-	-

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

Small Town Revitalisation & Charcoal Project

Balance unspent at beginning of year	931,301	2,799,198
Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	(4,323,140)	(1,867,897)
	2,608,161	**931,301**

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

Mgwali Grant

Balance unspent at beginning of year	388,187	388,187
Conditions met - transferred to revenue	(388,187)	-

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

	-	**388,187**

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

EPWP Grant

Current-year receipts	1,672,000	1,687,000
Conditions met - transferred to revenue	(1,672,000)	(1,687,000)
	-	-

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

Municipal Systems Improvement Grant

Current-year receipts	930,000	930,000
Conditions met - transferred to revenue	(930,000)	(930,000)
	-	-

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

Chris Hani District Municipality Grant

Current-year receipts	-	1,030,266
Conditions met - transferred to revenue	-	(706,163)
Transferred back to Chris Hani District Municipality	-	(324,103)
	-	-

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

Libary Grant

Balance unspent at beginning of year	805,383	723,596
Current-year receipts	588,000	588,000
Conditions met - transferred to revenue	(719,601)	(506,213)
	673,782	**805,383**

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

Other grants

Balance unspent at beginning of year	69,536	2,020,785
Conditions met - transferred to revenue	(69,536)	(1,951,249)
	-	**69,536**

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

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Other income

Other income relating to water operations was transferred to Chris Hani District Municipality with effect from 01 July 2014 in terms of decision taken by Council in May 2014. Please refer to note 14 for further information.

Notes to the Financial Statements

Figures in Rand	2016	2015

24. Other income (continued)

Agricultural Fees	44,241	36,211
LG SETA	119,732	113,550
Cemetery Fees	2,804	3,781
Pound Fees	-	3,081
Discount received	34,291	37,092
Tender Fees	611,300	396,319
Sundry Income	19,010	2,364
Plantation Fees	-	854
Clearance Certificates	400	200
Swimming pool fees	172	-
Blocked drains clearance	189	-
Entrance Fees - Toilets	47,729	6,062
Building Plan Fees	69,291	32,568
Sale of land	63,020	42,505
Rezoning certificates	4,035	3,624
Library fees	2,544	8,506
	1,018,758	**686,717**

Notes to the Financial Statements

Figures in Rand	2016	2015

25. General expenses

Audit committee	125,442	185,308
Advertising	1,899,520	822,605
Membership fees	759,973	1,077,004
Auditors remuneration	3,588,137	3,164,928
Bank charges	117,791	238,064
Cleaning	247,270	220,276
Legal expenses	652,450	117,765
Stock and material	145,429	22,903
Project management unit	40,835	389,384
Entertainment	123,756	66,996
Systems Improvement	532,503	595,186
Insurance	502,338	304,646
Conferences and delegations	106,322	88,234
Small Town Revitalisation	-	1,352,358
Employee health & wellness	201,508	237,588
Development of policies and bylaws	-	437,906
Fuel & Oil	3,065,367	3,162,594
Charcoal projects	-	327,487
Postage	10,798	9,945
Printing & Stationery	496,875	406,037
Special programmes unit	-	346,119
Uniforms and overalls	1,582,732	593,651
Performance management systems	479,665	493,004
Security costs	1,995,408	2,665,730
Telephone & communications	2,283,684	1,491,233
Training	639,975	312,032
Travel, subsistence & accommodation	6,247,811	4,299,061
Refuse bags and bins	234,200	230,474
Skills development & capacity building	1,571,269	1,272,804
Electricity purchases	1,470,512	752,482
HIV/AIDS Porogramme	402,236	260,023
Electrification expenses - DME	18,015,875	19,244,164
Disaster support	407,114	202,300
Public participation	1,108,049	-
Intergrated development plan	273,869	238,626
Indigent Subsidy	2,822,112	1,998,479
Professional fees	5,641,722	5,637,025
Mgwali Projects	319,192	-
Ward committee programmes	3,407,600	3,346,000
Other expenses	4,638,456	3,004,938
	66,157,795	**59,615,359**

Please refer to note 44 for prior year adjustments.

Figures in Rand	2016	2015

26. Operating surplus

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

Hire of equipment		
Equipment		
• Hiring costs	634,395	881,767
Loss on sale of property, plant and equipment	(1,498,138)	(1,582,125)
Impairment on property, plant and equipment	-	2,472,456
Reversal of provision for bad debts	-	(150,247)
Loss on transfer of water and sanitation operations to Chris Hani District Municipality	-	2,546,198
Amortisation on intangible assets	164,055	130,932
Depreciation on property, plant and equipment	34,951,441	34,182,264
Employee costs	66,237,515	58,357,798

Figures in Rand	2016	2015

27. Employee related costs

Basic	36,370,588	32,188,712
Pension fund, UIF and Medical aid - company contributions	5,894,418	5,347,317
Travel, motor car, accommodation, subsistence and other allowances	5,647,110	4,222,108
Overtime payments	1,195,532	965,725
Housing benefits and allowances	285,354	99,318
Other employee related costs	4,094,278	3,593,691
	53,487,280	**46,416,871**

Remuneration of Municipal Manager

Annual Remuneration	879,988	862,579
Travel, motor car, accommodation, subsistence, and other allowances	321,063	249,871
Contributions to UIF, Medical and Insurance Funds	14,312	18,331
Performance bonus	139,309	-
Remuneration paid	(1,354,672)	(1,130,781)
	-	-

Remuneration of Chief Finance Officer

Annual Remuneration	781,220	721,189
Travel, motor car, accommodation, subsistence, and other allowances	275,171	276,951
Contributions to UIF, Medical and Insurance Funds	13,121	16,353
Performance bonus	144,284	-
Remuneration paid	(1,213,796)	(1,014,493)
	-	-

Remuneration of Director: Technical Services

Annual Remuneration	781,210	728,242
Travel, motor car, accommodation, subsistence, and other allowances	357,772	326,274
Contributions to UIF, Medical and Pension Funds	13,122	15,910
Performance bonus	144,283	-
Remuneration paid	(1,296,387)	(1,070,426)
	-	-

Remuneration of Director: Corporate Services

Annual Remuneration	781,251	693,993
Travel, motor car, accommodation, subsistence, and other allowances	273,005	286,785
Contributions to UIF, Medical and Pension Funds	12,932	15,702
Performance bonus	123,671	-
Remuneration paid	(1,190,859)	(996,480)
	-	-

Remuneration of Director: Community Services

Annual Remuneration	289,589	125,743
Car Allowance	144,524	-
Acting allowances	70,583	-
Contributions to UIF, Medical and Pension Funds	69,720	-
Remuneration paid	(574,416)	(125,743)
	-	-

Figures in Rand	2016	2015

27. Employee related costs (continued)

The position of Community Services Director was vacant from January 2013 as the former director community services' contract expired in January 2013. The TROICA Manager and Assistant Manager IDP and PMS were acting in this position for part of the financial year, before the appointment of the Director Community Services during December 2015.

Remuneration of Director: IPED

Annual Remuneration	698,502	635,714
Travel, motor car, accommodation, subsistence, and other allowances	270,236	247,575
Contributions to UIF, Medical and Pension Funds	109,547	117,727
Performance bonus	82,448	-
Remuneration paid	(1,160,733)	(1,001,016)
	-	-

Please refer to note 44 for prior year adjustments.

28. Remuneration of councillors

Mayor	784,982	743,755
Speaker	633,152	588,092
Councillors allowances	3,818,583	3,493,892
Councillors’ pension contribution	53,924	50,478
Councillors' salaries	7,459,594	7,064,710
	12,750,235	**11,940,927**

In-kind benefits

The Mayor, Speaker, the Chief Whip, IPED Portfolio Head and the Finance Portfolio Head are full-time. The Mayor and Speaker are provided with office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at a monthly rental of R2,000 as from the month of February 2016. The Mayor pays for electricity, refuse and water on own account. The Mayor and Speaker have use of a Council owned vehicle for official duties.

29. Repairs and maintenance

Repairs and maintenance - deductible	5,924,635	4,491,395

30. Debt impairment

Contributions to debt impairment provision	549,889	704,585

31. Investment revenue

Interest revenue		
Bank	5,047,332	2,838,684

32. Reversal of provision for bad debt

Reversal of provision for bad debt	-	150,247

Notes to the Financial Statements

Figures in Rand	2016	2015

33. Depreciation and amortisation

Property, plant and equipment	34,951,441	34,182,264
Intangible assets	164,055	130,932
	35,115,496	**34,313,196**

Please refer to note 44 for prior year adjustments.

34. Impairment of assets

Impairments		
Property, plant and equipment	-	2,472,456

35. Losses on transfer of water & sanitation operations to Chris Hani District Municipality

Losses arising from transfer of water debtors to Chris Hani District Municipality	-	(1,185,633)
Losses arising from transfer of sanitation debtors to Chris Hani District Municipality	-	(937,993)
Gains arising from transfer of provision for water debtors to Chris Hani District Municipality	-	889,731
Gains arising from transfer of provision for sanitation debtors to Chris Hani District Municipality	-	703,895
Losses arising from transfer of water services stores on hand to Chris Hani District Municipality	-	(619,669)
Losses arising from transfer of unsold water supply to Chris Hani District Municipality	-	(142,749)
Losses arising from the elimination of CHDM debtors	-	(1,975,355)
Gains arising from transfer of water services accruals to Chris Hani District Municipality	-	709,947
Gains arising from transfer of provision for long service award to Chris Hani District Municipality (Water service employees transferred to CHDM)	-	11,628
	-	**(2,546,198)**

36. Finance costs

Provision for landfill site	522,063	317,296
Interest on overdue accounts	46,835	7,315
Finance lease obligation	94,680	129,273
	663,578	**453,884**

Please refer to note 44 for prior year adjustments.

37. Auditors' remuneration

Fees	3,588,137	3,164,928

38. Rental of equipment

Rental of equipment	634,395	881,768

Please refer to note 44 for prior year adjustments.

Notes to the Financial Statements

Figures in Rand	2016	2015

39. Cash generated from operations

Surplus	85,884,747	5,556,063
Adjustments for:		
Depreciation and amortisation	35,115,496	34,313,196
Loss on sale of property, plant and equpment	1,498,138	1,582,125
Loss on discontinued operations	-	2,395,951
Reversal of long service bonus provision	-	38,967
Landfill site additions	-	(1,750,530)
Impairments of property, plant and equipment	-	2,472,456
Debt impairment	549,889	704,585
Contributions to provisions - current	-	859,551
Donations received	(45,807,139)	(301,199)
Other non-cash items	-	(8,884)
Changes in working capital:		
Inventories	-	762,418
Receivables from exchange transactions	(111,449)	2,491,428
Debt impairment	(549,889)	(704,585)
Receivables from non-exchange transactions	142,213	(130,744)
Payables from exchange transactions	4,150,627	(362,214)
VAT	(4,186,034)	(955,064)
Unspent conditional grants and receipts	1,087,536	(3,737,359)
Finance lease obligation	-	(826,907)
Finance costs - provision for landfill site	-	317,296
Provision - change in estimate	(688,537)	-
Movements in provisions	4,232,675	-
	81,318,273	**42,716,550**

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	2,940,434	3,492,803
• Electrification	8,895,053	7,596,380
	11,835,487	**11,089,183**

Total capital commitments		
Already contracted for but not provided for	11,835,487	11,089,183

Authorised operational expenditure

Already contracted for but not provided for		
• Other	22,096,119	13,511,831

Total operational commitments		
Already contracted for but not provided for	22,096,119	13,511,831

Total commitments

Total commitments		
Authorised capital expenditure	11,835,487	11,089,183
Authorised operational expenditure	22,096,119	13,511,831
	33,931,606	**24,601,014**

This committed expenditure will be financed by government grants and municipal revenue.

Notes to the Financial Statements

Figures in Rand	2016	2015

41. Contingencies

1) Vuyani Macingwane vs Engcobo Municipality - Vuyani Macingwane instituted action against Municipality for the alleged defamatory statements made publicly by the Municipal Manager. He is claiming R100,000.	150,000	150,000
2) Sithilanga Kupa vs Engcobo Municipality - Sithilanga Kupa is demanding the amount of R1,000,000 from the municipality for bodily injuries allegedly sustained by him in a motor vehicle accident which occurred on the 18 December 2013 at the Gubenxa Administrative Area in the district of Engcobo due to negligence of the municipal employees or its contractor whilst constructing or maintaining the road.	1,500,000	1,500,000
3) Nobulali Abraham vs Engcobo Municipality - This is an action instituted by the Plaintiff Nobulali Abraham against the municipality for damages allegedly suffered by her whilst she was walking down the street and fell into an uncovered four cornered valve drainage and sustained a broke ankle. She is suing the municipality for a R100,000	1,500,000	1,500,000
4) Ndindwa Siyabulela vs Engcobo Localo Municipality - The Plaintiff claims R46,000 for Motor Vehicle Accident collision against the Municipality.	50,000	50,000
5) Engcobo Local Municipality vs Unknown - The Municipality evicts a person from a house which was allocated to Xoliswa Bikwana. No claim against the municipality. The attorneys are awaiting the details of the Respondent in order to proceed with the application.	20,000	20,000
6) Engcobo Local Municipality vs Unknown - The Municipality evicts a person from a house which was allocated to Faku Thembela. No claim against the municipality. The attorneys are awaiting the details of the Respondent in order to proceed with the application.	-	20,000
7) Engcobo Local Municipality vs Damoyi - The Municipality evicts a person from a house which was allocated to Mbeshu Lizwe. No claim against the municipality. The application has been made and the hearing date is 26 August 2015 at Engcobo Magistrate Court.	25,000	25,000
8) Engcobo Local Municipality vs Unknown - The Municipality evicts a person from a house which was allocated to Nomathamasanqa Mdemka. No claim against the municipality. The attorneys are awaiting the details of the Respondent in order to proceed with the application.	20,000	20,000
9) Mndebele Jabulani vs Engcobo Local Municipality - Plaintiff claims that the his car was unlawfully confiscated and claims against the municipality R230,000	400,000	400,000
10) Allenby Housing CC vs Engcobo Local Municipality - In this matter the Plaintiff sues the municipality for duty of care in that the municipality paid the invoice due to the Plaintiff to the partner of the Plaintiff. The Plaintiff is suing the municipality for R255,481.79.	350,000	350,000
11) All Saints Authority vs Engcobo Local Municipality - All Saints community were claiming ownership of the land.	25,000	25,000
	4,040,000	**4,060,000**

Notes to the Financial Statements

Figures in Rand	2016	2015

42. Related parties

Relationships

Joint ventures	None identified
Associates	None identified
Close family member of key management	None identified
Joint venture of key management	None identified
Associate of close family member of key management	None identified
Post employment benefit plan for employees of entity and/or other related parties	None identified
Members of key management	None identified

Key management form part of related parties. Remuneration to key management is disclosed in note 27.

Related party transactions

Purchases from related parties	2016	2015
T. Dumezweni Municipal Billing Clerk - Spouse owns New Shelfgret 151	-	17,784
B. Ngubo Municipal Receptionist - Father owns Silo Electrical	-	1,950

43. Change in estimate

Property, plant and equipment

The Landfill Rehabilitation Provision includes annual monitoring costs. These costs are determined at the prevailing inflation rate which was 5% in 2015 and were discounted to its present value, applying the prime interest rate of 8% per annum in 2015.

In the current period management have revised the inflation rate to 8% in line with the South African Reserve Bank. Furthermore, the discounting to present value was done by applying the prime interest rate 10.3% which is the prevailing prime interest rate in 2016. The effect of this revision has increased the landfill rehabilitation provision and the landfill site for the current period by R 688,537 respectively

The impact on the cash flow statement is R 688,537 which is a decrease on the adjustment for non-cash items from operating activities, provision - change in estimate.

44. Prior period errors

Investment Property

Investment property was incorrectly allocated to property, plant equipment during the 2013/14 financial period resulting in a misallocation of R762,000 to property plant and equipment. This misallocation also resulted in accumulated depreciation of property, plant and equipment being overstated by R127,534, depreciation for 2014/15 also being overstated by R25,493 and impairment calculation being overstated by R225,176.

The impact of the misallocation of investment property is disclosed below.

Computer equipment and software

Computer equipment and IT infrastructure that were purchased in prior year included equipment and general expenditure that were not delivered by their respective suppliers but were included on the invoices. The impact of this error resulted in overstatement of computer equipment by R5,974 and general expenditure by R4,505.

The impact of the overstatement of property, plant and equipment and general expenditure is disclosed below.

Finance Lease assets

Finance lease assets of a printer were incorrectly excluded from the list of finance leases and accounted for as rental of office equipment. The impact of this error resulted in understatement of lease assets by R19,000 and accumulated depreciation by R11,400.

The impact of the mistatement of finance lease assets is disclosed below.

VAT Receivable

VAT receivable was mistated as a result of operating expenditure together with capital expenditure being mistated.

The impact of the overstatement of property, plant and equipment is disclosed below.

Overtime Accrual

Overtime accrual was incorrectly calculated during the 2014/15 financial period, resulting in the overtime accrual and expenditure recognised being overstated by R326,195.93. The error in prior period was subsequently corrected and adjusted during the 2015/16 financial period.

The impact of the overstatement of overtime accrual is disclosed below.

Trade Receivables

Receivables from non-exchange transactions of R9,058.75 was processed in error on both the trade receivables sub-ledger and the the general ledger, resulting in the total trade receivables being duplicated.

Also included under trade receivables from non-exchange transactions is an amount of R173, 369 which pertains to pension contributions which were paid during the 2013/14 financial year and in the current financial were refunded by pension fund as the assumptions used by the pension fund were changed in the subsequent period.

During the 2011/12 financial year the municipality identified irregularities in terms of expenditure and the matter was submitted the authoritites for investigation. The matter is currently before the courts pending a verdict. The municipality is expected to recover the money when the case is finalised. The impact of the expenditure is referred below.

The impact of the duplicate entry of receivables from non-exchange transactions is disclosed below.

44. Prior period errors (continued)

Trade Payables

During the current financial year, there were invoices pertaining to prior year which were overstated due to goods received not agreeing to the invoice raised initially, referred to above under computer equipment. The impact of this error, was to decrease trade payables.

Also included under trade payables is an invoice pertaining to telephone costs which was not submitted during the 2014/15 financial year but only submitted during the 2015/16 financial year.

Overtime accrual disclosed during the 2014/15 financial year was overtstated by R326,196 and subsequently corrected in current year.

Retentions disclosed in prior year were overstated by R33,360 in prior year and were adjusted for in current year.

The impact of the errors reflected above is disclosed below.

Provisions

Provisions were understated in the 2014/15 financial year due to the provision for long service bonus being understated. The mistatement of the long service bonus resulted in provisions being understated by R31,737.

The impact of the duplicate entry of receivables from non-exchange transactions is disclosed below.

44. Prior period errors (continued)

Receivables from non-exchange transactions	2015	2014
Previously stated	669,853	703,419
Decrease in receivables due to duplicate entry	(9,059)	(9,059)
Increase in receivables due to prior year error in pension contributions paid	173,370	173,370
Increase in receivables due to payments made in error deemed recoverable	2,806,634	2,806,634
	3,640,798	**3,674,364**

Property, plant and equipment	2015	2014
Previously stated	310,611,681	309,507,001
Decrease in property, plant and equipment due misallocation of investment property	(762,000)	(762,000)
Increase in property, plant and equipment due depreciation incorrectly accounted for on investment property	127,534	127,534
Increase in property, plant and equipment due depreciation incorrectly accounted for on investment property	25,493	-
Increase in property, plant and equipment due impairment incorrectly accounted for on investment property	225,176	-
Increase in property, plant and equipment due to finance lease assets previously not recognised	19,000	19,000
Decrease in Property, plant and equipment due to lease assets accumulated depreciation being understated in error	(3,800)	-
Decrease in property, plant and equipment due to accumulated depreciation on finance lease assets previously not recognised	(7,600)	(7,600)
Decrease in property, plant and equipment due to overstatement of retentions	(29,263)	-
Increase in property, plant and equipment due depreciation previously calculated incorrectly on retentions	2,788	-
	310,209,009	**308,883,935**

VAT Receivable	2015	2014
Previously stated	2,681,652	1,807,418
Increase in VAT receivable due to expenditure previously not recorded	23,637	23,637
Increase in VAT receivable due to expenditure previously not recorded	61,290	-
Decrease in VAT receivables due to overstatement of retentions	(4,097)	-
	2,762,482	**1,831,055**

Intangible assets	**2015**
Previously stated	323,163
Decrease in property, plant and equipment due to computer equipment previously overstated in error	(5,974)
Increase in intangible assets due to depreciation previously overstated due cost of software previously overstated	62
	317,251

Investment Property	2015	2014
Previously stated	4,013,300	-
Increase in investment property due to misallocation to property, plant and equipment	762,000	762,000
	4,775,300	**762,000**

Trade payables	2015	2014
Previously stated	15,497,479	16,157,034
Decrease in trade creditors due to overstatement of IT infrastructure and computer equipment	(10,479)	-
Increase in trade creditors due to understatement of expenses in error	172,134	172,134
Increase in trade creditors due to understatement of expenses in error	495,242	-
Decrease in accruals due to overtime accrual previously overstated	(326,196)	-

44. Prior period errors (continued)

Decrease in accruals due to correction of retention	(33,360)	-
	15,794,820	**16,329,168**

Finance lease obligation	2015	2014
Previously stated	812,683	-
Increase in finance lease obligation due to contract previously not recorded	21,660	21,660
Decrease in finance lease obligation due to movement of lease previously not recorded	(3,609)	(3,609)
Decrease in finance lease obligation due to movement of lease previously not recorded	(3,827)	-
	826,907	**18,051**

Provisions	2015
Previously stated	15,261,116
Increase in provisions due to provision for long service bonus previously understated	31,737
	15,292,853

Accumulated surplus	2015	2014
Previously stated	335,669,700	330,232,034
Decrease in accumulated surplus due to receivables duplicated in error	(9,059)	(9,059)
Increase in accumulated surplus due to payments made in error deemed recoverable	2,806,634	2,806,634
Increase in accumulated surplus due depreciation incorrectly accounted for on investment property	127,534	127,534
Increase in accumulated surplus due to overtime accrual overstated	326,196	-
Increase in accumulated surplus due to penison contributions previously overstated	173,369	173,369
Decrease in accumulated due to expenditure previously understated	(150,994)	(150,994)
Decrease in accumulated accumulated surplus due finance lease depreciation previously not accounted for	(7,600)	(7,600)
Decrease in accumulated surplus due finance costs on finance lease previously not accounted for	(10,181)	(10,181)
Increase in accumulated surplus due to finance lease payment previously treated as rental of office equipment	13,789	13,789
Increase in accumulated surplus due to overstatement of UIF	2,511	-
Decrease in accumulated surplus due to finance costs on finance lease assets previously not recorded	(4,118)	-
Increase in accumulated surplus due to finance lease asset invioces incorrectly recognised as expenditure	7,945	-
Decrease in accumulated surplus due to professional fees previously not recorded	(8,757)	-
Decrease in accumulated surplus due to indigent subsidy previously not recorded	(53,380)	-
Decrease in accumulated surplus due to telephone costs previously not recorded	(374,487)	-
Increase in accumulated surplus due to depreciation incorrectly accounted on investment property	25,493	-
Decrease in accumulated surplsu due to depreciation on finance assets previously not recognised	(3,800)	-
Decrease in impairment losses due to impairment incorrectly accounted for on investment property	225,176	-
Increase in accumulated surplus due to expenditure previously allocated to capital expenditure in error	4,505	-
Decrease in accumulated surplus due to provision for long service bonus previously understated	(31,738)	-
Increase in accumulated surplus due to depreciation previously overstated on retentions	2,789	-
Increase in accumulated surplus due to depreciation previously overstated	62	-
	338,731,589	**333,175,526**

44. Prior period errors (continued)

Statement of financial performance	2015
Employee costs	
Previously stated	46,713,841
Decrease in employee costs due to overstatement of overtime	(326,195)
Decrease in employee costs due to overstatement of UIF	(2,512)
Increase in employee costs due to provision for long service bonus previously understated	31,737
	46,416,871

Depreciation and amortisation	2015
Previously stated	34,337,739
Decrease in depreciation and amortisation due to depreciation incorrectly accounted on investment property	(25,494)
Increase in depreciation and amortisation due to depreciation on finance assets previously not recognised	3,801
Decrease in depreciation due to property, plant and equipment due depreciation previously calculated incorrectly on retentions	(2,788)
Decrease in intangible assets due to depreciation previously overstated due cost of software previously overstated	(62)
	34,313,196

Impairment losses	2015
Previously stated	2,697,632
Decrease in impairment losses due to impairment incorrectly accounted for on investment property	(225,176)
	2,472,456

Finance costs	2015
As previously stated	449,766
Increase in finance costs due to lease asset previously not recorded	4,118
	453,884

Hire of equipment	2015
As previously stated	889,713
Decrease in hire of equipment due to finance rental incorrectly classified previously	(7,946)
	881,767

General expenses	2015
As previously stated	59,178,733
Increase in general expenses due to profeesional fees not previously recorded	8,757
Increase in general expenses due to indigent subsidy previously not recorded	53,380
Increase in general expenses due to telephone costs previously not recorded	374,489
	59,615,359

45. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through maintenance of cash balances.

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
Trade and other payables	19,945,447	-	-	-
Current portion of unspent conditional grants and receipts	3,281,943	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	15,794,820	-	-	-
Current portion of unspent conditional grants and receipts	2,194,407	-	-	-

Interest rate sensitivity analysis

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

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

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

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

Financial instrument	2016	2015
Cash and cash equivalents,	79,322,702	51,039,768
Trade and other receivables from exchange transactions	207,417	95,968
Trade and other receivables from non-exchange transactions	3,519,791	3,640,798
VAT receivable	6,948,516	2,762,482

46. Unauthorised expenditure

Opening balance	-	83,441,011
Less: Written off by Council	-	(83,441,011)
	-	**-**

47. Fruitless and wasteful expenditure

Opening balance	76,202	68,887
Fruitless and wasteful expenditure incurred	46,835	7,315
Less: Written off by Council	(123,037)	-
	-	**76,202**

48. Irregular expenditure

Opening balance	-	22,402,266
Less: Written off by Council	-	(22,402,266)
	-	**-**

49. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	54,073	107,482
Current year subscription / fee	4,090,477	3,606,940
Amount paid - current year	(4,076,005)	(3,660,349)
Amount paid - previous years	-	-
	68,545	**54,073**

PAYE and UIF

Opening balance	79,902	-
Current year payroll deductions	7,912,869	6,208,481
Amount paid - current year	(7,992,771)	(6,128,579)
Amount paid - previous years	-	-
	-	**79,902**

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	8,937,865	7,865,885
Amount paid - current year	(8,937,865)	(7,865,885)
Amount paid - previous years	-	-
	-	**-**

VAT

VAT receivable	6,948,516	2,762,482

VAT output payables and VAT input receivables are shown in note 12.

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

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

Councillors' arrear consumer accounts

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

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
No councillors arrear for the year	-	-	-

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
No councillors arrear for the year	-	-	-

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2016	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

30 June 2015	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

50. Budget differences

Material differences between budget and actual amounts

A1: Licenses and permits: the decrease in licenses and permits was due to the construction work performed by the South African National Road Agency Limited on the main road where testing is normally conducted.

A2: Other revenue: the difference is due to the commitments from the previous years which were now funded internally.

A3: Interest received: the difference is due to an increase in the main investment account as a result of refunds from SARS.

A4: Donations: this is due to donations received during year from the Department of Arts and culture and the Department of Environmental affairs together with donations from the South African National Road Agency Limited.

A5: Government grants and subsidies: the increase is due to the fact that the budget for capital expenditure is disclosed separately on the note.

A6: Fines: the difference is due to the fact that the magistrates court only included the municipality on its database during the financial year.

A7: Depreciation: the difference is due to the disposal of assets during the current financial year.

A8: Hire of equipment: the difference is due the fact that the municipality invested in capital expenditure, namely own plant and machinery thereby resulting in a decrease in the costs of hiring equipment.

A9: Bad debts written off: the significant decrease is due to improved revenue collection during current financial year.

50. Budget differences (continued)

A10: The difference between the final budgeted amount and the actual expenditure of 30%, under expenditure was due to the fact that the municipality invested in capital expenditure to acquire plant and equipment in order to perform the repairs of roads. This investment in plant and equipment by the municipality resulted in reduced hiring costs of plant and equipment in order to repair roads. There were no other material differences between the final budget and the actual amounts.

A11: General expenses: decreased due to cost cutting measures introduced by National Treasury.

A12: Capital expenditure: the difference is due to commitments.

51. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment
Recoverable amounts of property, plant and equipment
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)
Present value of defined benefit obligation
Provision for doubtful debts
Impairment of assets
Provision for long-term service award

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets
Provisions

52. Gains/(losses) on sale of assets

Property, plant and equipment	(1,498,138)	(1,582,125)

Appendix A
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure			
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
FMG	Treasury	1,600,000	-	-	-	(387,626)	(448,119)	(614,255)	(150,000)
MSIG	Treasury	930,000	-	-	-	(300,000)	(300,000)	-	(330,000)
INEP	Treasury	16,000,000	-	4,000,000	-	(3,476,830)	(1,407,924)	(6,169,665)	(8,945,581)
MIG	Treasury	13,300,000	20,456,000	3,548,000	-	(7,431,298)	(11,012,578)	(4,184,232)	(14,675,892)
LIBRARY	DSRAC	-	-	588,000	-	(210,344)	(235,305)	(166,225)	(107,727)
EPWP	Public Works	669,000	502,000	501,000	-	(224,889)	(495,248)	(612,137)	(339,726)
CHDM	CHDM	-	-	-	-	-	-	-	-
Small Town Revitalisation	CHDM	6,000,000	-	-	-	-	(2,092,991)	(633,336)	(1,596,813)
Wattle Eradication	CHDM	-	-	-	-	-	-	(17,852)	(51,684)
Mgwali Grant	CHDM	388,187	-	-	-	-	(28,719)	(18,913)	(340,555)
MIG	Treasury	-	-	-	-	-	-	-	-
		38,887,187	20,958,000	8,637,000	-	(12,030,987)	(16,020,884)	(12,416,615)	(26,537,978)

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.