Chris Hani District Municipality
Annual Financial Statements
for the year ended 30 June 2017

General Information

Nature of business and principal activities	Chris Hani District Municipality is a South African Category C Municipal (District Municipality) as defined by the Municipal Structure Act. (Act no 117 of 1998) The Municipality's operations are governed by: - Municipal Finance Management Act 56 of 2003. - Municipal Structure Act 117 of 1998. - Municipal Systems Act 32 of 2000 and various other acts and regulations.
Mayoral committee	
Executive Mayor	K. Vimbayo: Executive Mayor
	N.C Koyo: Speaker
	B. Van Heerden: Chief Whip
	S.Mbotshane: Portfolio Head Integrated Planning & Economic Development
	N. Makanda: Portfolio Head Budget & Treasury
	S. Zangqa: Portfolio Head Engineering
	N. September - Caba: Portfolio Head Health & Community Services
	N. Matiwane: Portfolio Head Special Programmes Unit
	M. Jack: Portfolio Head Corporate Services
Councillors	W. Gela
	M. Xhelisilo
	K. Mjezu
	S. Tame
	N.C. Goniwe
	E.G. Bomela
	B. Ntsere
	M. Adonisi
	N.Mtyobile
	F.A.N. Hendricks
	S. Kula
	E.L.Gubula
	S.E. Mvana
	N.A. Dayisi
	S.A. Nxozi
	S. Myataza
	Z. Qayiya
	Z.N.E. Ralane
	L,N. Tyali
	S.B. Nxawe
	N.Nkota
	N. Nyukwana
	T. Bikwana
	L.Gunuza- Nkwentsha
	N.C. Lali
	X.P. Xelo
	J. Cengani
	Z.R. Shweni
	M. Kondile
	K. Bizana
	Z.Deliwe

General Information

	R. Venske M. Desha
Grading of local authority	Grade 5
Accounting Officer	M.A. Mene
Registered office	15 Bells Road Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa

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

Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
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 (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2018 and, in light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 5 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

M.A. Mene
Accounting Officer

Statement of Financial Position as at 30 June 2017

	Note(s)	2017 R	2016 Restated* R
Assets			
Current Assets			
Prepayments	7	10,765,507	13,208,472
Inventories	8	11,041,750	7,066,006
Receivables from non-exchange transactions	9	78,734,389	26,454,777
VAT receivable	10	95,992,115	-
Receivables from exchange transactions	11	197,563,112	151,403,219
Cash and cash equivalents	12	235,926,400	358,170,563
		630,023,273	**556,303,037**
Non-Current Assets			
Property, plant and equipment	3	4,002,055,712	3,415,000,063
Intangible assets	4	5,100,456	389,530
Investments in controlled entities	5	1,500,000	1,500,000
		4,008,656,168	**3,416,889,593**
Total Assets		**4,638,679,441**	**3,973,192,630**
Liabilities			
Current Liabilities			
Employee benefit obligation	13&15	9,365,862	8,686,392
Consumer deposits	16	212,588	122,367
Operating lease liability	6	64,595	50,732
Payables from exchange transactions	17	221,536,060	138,684,549
VAT payable	52	-	48,156,556
Unspent conditional grants and receipts	18	70,046,383	80,440,451
Bank overdraft	12	33,854,007	-
		335,079,495	**276,141,047**
Non-Current Liabilities			
Employee benefit obligation	13	42,323,225	43,242,664
Total Liabilities		**377,402,720**	**319,383,711**
Net Assets		**4,261,276,721**	**3,653,808,919**
Accumulated surplus	19	4,261,276,721	3,653,808,919

* See Note 47

Statement of Financial Performance

	Note(s)	2017 R	2016 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	21	171,574,593	335,759,616
Other income	22	93,758,401	76,287,908
Interest received - investment	23	37,255,372	37,939,612
Total revenue from exchange transactions		**302,588,366**	**449,987,136**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	24	1,289,452,959	1,205,279,361
Total revenue	20	**1,592,041,325**	**1,655,266,497**
Expenditure			
Employee related costs	25	(245,075,313)	(235,683,967)
Remuneration of councillors	26	(9,577,450)	(9,630,880)
Depreciation and amortisation	27	(119,620,519)	(158,076,996)
Finance costs	28	(271,493)	(734,791)
Debt Impairment	29	(44,875,963)	(522,558,498)
Bulk purchases	30	(21,588,920)	(22,585,217)
Contracted services	31	(78,782,615)	(62,767,123)
Transfers and Subsidies	32	(246,619,431)	(246,534,918)
General Expenses	34	(224,998,499)	(161,284,061)
Total expenditure		**(991,410,203)**	**(1,419,856,451)**
Operating surplus		**600,631,122**	**235,410,046**
Gain (loss) on disposal of assets and liabilities		903,809	(1,560,554)
Surplus for the year		**601,534,931**	**233,849,492**

* See Note 47

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	3,918,242,733	3,918,242,733
Adjustments		
Correction of errors	(498,283,306)	(498,283,306)
Balance at 01 July 2015 as restated*	**3,419,959,427**	**3,419,959,427**
Changes in net assets		
Surplus for the year	233,849,492	233,849,492
Total changes	233,849,492	233,849,492
Opening balance as previously reported	4,151,097,547	4,151,097,547
Adjustments		
Correction of errors	(496,864,735)	(496,864,735)
Restated* Balance at 01 July 2016 as restated*	**3,654,232,812**	**3,654,232,812**
Changes in net assets		
Other changes in accumulated surplus	5,508,978	5,508,978
Net income (losses) recognised directly in net assets	5,508,978	5,508,978
Surplus for the year	601,534,931	601,534,931
Total recognised income and expenses for the year	607,043,909	607,043,909
Total changes	607,043,909	607,043,909
Balance at 30 June 2017	**4,261,276,721**	**4,261,276,721**

Note(s)

* See Note 47

Cash Flow Statement

	Note(s)	2017 R	2016 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		21,212,040	74,670,403
Grants		1,279,912,133	1,240,982,447
Interest income		37,255,372	37,939,612
		1,338,379,545	1,353,592,462
Payments			
Employee costs		(254,412,794)	(240,429,307)
Suppliers		(531,462,509)	(487,619,958)
Finance costs		(271,493)	(734,791)
		(786,146,796)	(728,784,056)
Net cash flows from operating activities	36	**552,232,749**	**624,808,406**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(709,166,236)	(620,937,068)
Proceeds from sale of property, plant and equipment	3	3,406,562	-
Purchase of other intangible assets	4	(2,585,109)	-
Net cash flows from investing activities		**(708,344,783)**	**(620,937,068)**
Cash flows from financing activities			
Movement in operating leases		13,864	36,721
Net increase/(decrease) in cash and cash equivalents		**(156,098,170)**	**6,596,805**
Cash and cash equivalents at the beginning of the year		358,170,563	351,573,758
Cash and cash equivalents at the end of the year	12	**202,072,393**	**358,170,563**

* See Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	176,403,700	-	**176,403,700**	171,574,593	**(4,829,107)**	Note 51
Other income	81,361,939	-	**81,361,939**	93,758,401	**12,396,462**	Note 51
Interest received - investment	28,283,801	3,000,000	**31,283,801**	37,255,372	**5,971,571**	Note 51
Total revenue from exchange transactions	**286,049,440**	**3,000,000**	**289,049,440**	**302,588,366**	**13,538,926**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,112,677,000	209,464,000	**1,322,141,000**	1,289,452,959	**(32,688,041)**	Note 51
Total revenue	**1,398,726,440**	**212,464,000**	**1,611,190,440**	**1,592,041,325**	**(19,149,115)**	
Expenditure						
Personnel	(312,011,000)	(13,027,000)	**(325,038,000)**	(245,075,313)	**79,962,687**	Note 51
Remuneration of councillors	(11,954,000)	210,000	**(11,744,000)**	(9,577,450)	**2,166,550**	Note 51
Depreciation and amortisation	(130,000,000)	(28,000,000)	**(158,000,000)**	(119,620,519)	**38,379,481**	Note 51
Finance costs	(400,000)	(700,000)	**(1,100,000)**	(271,493)	**828,507**	Note 51
Debt Impairment	(196,237,000)	(3,763,000)	**(200,000,000)**	(44,875,963)	**155,124,037**	Note 51
Bulk purchases	(17,049,855)	(6,000,000)	**(23,049,855)**	(21,588,920)	**1,460,935**	Note 51
Contracted Services	(16,000,000)	(46,991,000)	**(62,991,000)**	(78,782,615)	**(15,791,615)**	Note 51
Transfers and Subsidies	(18,540,000)	(2,000,000)	**(20,540,000)**	(246,619,431)	**(226,079,431)**	Note 51
General Expenses	(512,052,000)	(15,379,000)	**(527,431,000)**	(224,998,499)	**302,432,501**	Note 51
Total expenditure	**(1,214,243,855)**	**(115,650,000)**	**(1,329,893,855)**	**(991,410,203)**	**338,483,652**	
Operating surplus	**184,482,585**	**96,814,000**	**281,296,585**	**600,631,122**	**319,334,537**	
Gain on disposal of assets and liabilities	1,000,000	-	**1,000,000**	903,809	**(96,191)**	Note 51
Surplus before taxation	**185,482,585**	**96,814,000**	**282,296,585**	**601,534,931**	**319,238,346**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**185,482,585**	**96,814,000**	**282,296,585**	**601,534,931**	**319,238,346**	
Reconciliation						

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

All figures have been rounded off to the nearest rand.

1.2 Going concern assumption

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

1.3 Comparative figures

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 the 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.

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 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

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.

1.5 Property, plant and equipment

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

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

Initial Recognition and measurement

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.

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

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

Subsequent measurement - Cost model

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

Depreciation

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

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings		5 - 100 years
Plant and machinery		2 - 17 years
Furniture and fixtures		3 - 18 years
Motor vehicles		4 - 20 years
Office equipment		3 - 18 years
IT equipment		3 - 13 years
Infrastructure		
• Roads and Paving		3 - 100 years
• Security measures		7 - 25 years
• Sewerage		7 - 100 years
• Water infrastructure		5 - 100 years
Community		
• Community facilities		5 - 30 years
• Recreational facilities		10 - 30 years
Emergency equipment		3 - 10 years
Bins and containers		5 - 15 years
Specialised vehicles		10 - 15 years

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

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

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

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

Derecognition

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

The gain or loss arising 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 comparatives.

Repairs and Maintenance

The municipality discloses expenditure to repair and maintain property, plant and equipment under contracted services in the notes to the financial statements (see note 3 and 31).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

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.

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

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

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

Initial Recognition

Intangible assets are initially recognised at cost.

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

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

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

Subsequent Measurement

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

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

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

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.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation and Impairment

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

1.6 Intangible assets (continued)

Item	Useful life
Licenses and franchises	2 - 5 years
Computer software, other	2 - 5 years

Derecognition

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

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

1.7 Non - current Investments

In the municipality's separate financial statements, investments in non-current investments are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

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.
- It is settled at a future date.

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, 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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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 a municipality 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 a municipality 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 a municipality’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 a municipality.

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 municipality had not acquired, issued or disposed of the financial instrument.

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

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

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

Classification

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

Class	Category
Long term receivables	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Cash and Cash Equivalents	Financial asset measured at fair value

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

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the 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, a 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.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.8 Financial instruments (continued)

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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.

Financial liabilities

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

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

1.8 Financial instruments (continued)

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 municipality 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 municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Policies relating to specific financial instruments

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

All trade and other receivables are assessed at least annually for possible impairment. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from reporting date and are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade and other payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and Cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Accounting Policies

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 of its fair value less costs to sell and its value in use.

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

Identification

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

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

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

Value in use

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

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

Recognition and measurement (individual 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.

Accounting Policies

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.

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 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Leave Pay

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 liability is based on the total amount of leave days due to the employees at reporting date and on the total cost to the municipality of the employees.

Annual Bonuses

The municipality recognises the expected cost of bonus, incentive and performance, related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. The liability relating to anticipated bonuses payable is raised and is based on the total cost to the municipality.

Long Service Awards

The municipality provides long service awards to eligible employees, payable on completion of a certain number of years of employment ie 5 yrs, 10 yrs, 15 yrs, 20 yrs etc. A liability is raised to account for the expected long service awards due to be paid in future years.

1.13 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.14 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.

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.

1.14 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss incured 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.

1.15 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.

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

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

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

Measurement

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

Sale of goods

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

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

1.15 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Service Charges - Water

Service charges relating to water are based on consumption. Meters are read on a monthly basis and revenue is recognised providing that the benefits can be measured reliably. Provisional estimates of consumption are made monthly when meter readings have not been performed for whatever reason. The provisional amounts are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service Charges - Sewerage and sanitation Charges

Revenue relating to waste water management services are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage and are levied monthly.

Rental Income

Rental Income is recognised on a straight line basis over the term of the lease agreement.

Interest, royalties and dividends

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

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

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

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

1.16 Revenue from non-exchange transactions

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

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Fines

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

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

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

1.16 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

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

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment when such items of property, plant and equipment are brought into use. Where the contributions have been received but the conditions have not been met, a liability is recognised.

1.17 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.

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

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.20 Internal reserves (continued)

Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.21 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position.

1.22 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements.

1.23 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.

Also included is expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003)

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

1.24 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.

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

1.25 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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.

1.26 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.

1.27 Segment information

A segment is an activity of an entity:

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

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

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

Accounting Policies

1.28 Budget information (continued)

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.29 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 in the annual financial statements.

1.30 Transfer of functions between entities under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality’s objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality‘s objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Accounting Policies

1.30 Transfer of functions between entities under common control (continued)

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

Accounting Policies

1.30 Transfer of functions between entities under common control (continued)

Accounting by the entity as transferor

Derecognition of assets transferred and liabilities relinquished

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

Until the transfer date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in accumulated surplus or deficit.

1.31 Events after reporting date

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

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

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

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

Notes to the Annual Financial Statements

	2017	2016
	R	R

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and Interpretations Issued and Effective

The following accounting standards have been issued and are effective. These have been adopted by the municipality during the current financial period and the annual financial statements have been prepared in accordance with these:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 7	Investments in Associates
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
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 31	Intangible Assets
GRAP 104	Financial Instruments
GRAP105	Transfer of Functions Between Entities Under Common Control
GRAP106	Transfer of Functions Between Entities Not Under Common Control

The following Interpretations have been issued and are effective. These have been adopted by the municipality during the current financial period and the financial statements have been prepared in accordance with these.

IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 3	Determining whether an arrangement contains a Lease
IGRAP 7	The limit on a Defined Benefit Asset, Minimum funding requirements and their interaction
IGRAP 10	Assets received from customers
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the substance of transactions involving the Legal form of a Lease
IGRAP 15	Revenue - Barter Transactions involving advertising services
IGRAP 16	Intangible Assets - Website Cost

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2017 or later periods:

GRAP 20: Related parties

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

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

GRAP 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.

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

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

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

GRAP 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.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	61,159,808	(8,114,389)	53,045,419	57,855,600	(7,616,675)	50,238,925
Infrastructure	3,524,708,248	(873,120,247)	2,651,588,001	3,317,321,211	(778,672,831)	2,538,648,380
Other property, plant and equipment	120,903,772	(57,692,567)	63,211,205	101,854,028	(41,886,507)	59,967,521
Work-in-progress	1,234,211,087	-	1,234,211,087	766,145,237	-	766,145,237
Total	**4,940,982,915**	**(938,927,203)**	**4,002,055,712**	**4,243,176,076**	**(828,176,013)**	**3,415,000,063**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals (cost)	Disposals (acc depreciation)	Transfers	Other changes (Cost)	Depreciation	Total
Land and buildings	50,238,925	3,304,208	-	-	-	-	(497,714)	53,045,419
Buildings	-	-	-	-	-	-	-	-
Infrastructure	2,538,648,380	74,298	(19,068)	19,068	207,331,806	-	(94,466,483)	2,651,588,001
Other property, plant and equipment	59,967,521	30,390,073	(11,340,329)	8,837,576	-	387,218	(25,030,854)	63,211,205
Work-in-progress	766,145,237	675,397,656	-	-	(207,331,806)	-	-	1,234,211,087
	3,415,000,063	**709,166,235**	**(11,359,397)**	**8,856,644**	**-**	**387,218**	**(119,995,051)**	**4,002,055,712**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals (cost)	Disposals (Acc Depreciation)	Transfers	Other changes (Cost)	Other changes (Acc depreciation)	Depreciation	Total
Land and buildings	50,695,450	-	-	-	-	-	-	(456,525)	50,238,925
Infrastructure	2,135,888,145	4,555,764	-	-	498,070,897	-	-	(99,866,426)	2,538,648,380
Other property, plant and equipment	57,724,543	15,220,918	(2,518,920)	1,797,544	-	949,587	1,485,833	(14,691,984)	59,967,521
Work-in-progress	663,055,748	601,160,386	-	-	(498,070,897)	-	-	-	766,145,237
	2,907,363,886	**620,937,068**	**(2,518,920)**	**1,797,544**	**-**	**949,587**	**1,485,833**	**(115,014,935)**	**3,415,000,063**

Pledged as security

There are no assets that have been pledged as security during the current year.

	2017 R	2016 R

3. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Included in Statement of Financial Performance

	2017 R	2016 R
Contracted services (Note 31)	68,939,200	51,076,779

Details of property

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

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2017, no assets were assessed to be impaired.

4. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	8,118,159	(3,017,703)	5,100,456	3,295,674	(2,906,144)	389,530

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Other changes (Cost)	Other changes (acc depreciation)	Amortisation	Total
Computer software, other	389,530	2,585,109	1,919,217	213,423	(6,823)	5,100,456

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Other changes (cost)	Other changes (acc depreciation)	Amortisation	Total
Computer software, other	546,467	-	(19,211)	18,362	(156,088)	389,530

	2017 R	2016 R

5. Investments in controlled entities

Name of company	% holding 2017	% holding 2016	Carrying amount 2017	Carrying amount 2016
Chris Hani Development Agency	100.00 %	100.00 %	1,500,000	1,500,000

The carrying amounts of controlled entities are shown net of impairment losses.

Chris Hani Development Agency

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District. The municipal entity was fully operational during the 12 months and all contributions made by the district municipality were treated as Grants and Subsidies paid, refer to Note 32.

6. Operating lease liability/asset

	2017	2016
Current liabilities	(64,595)	(50,732)

Operating Leases are recognised on a straight line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

	2017	2016
Balance at the beginning of the year	50,732	14,011
Operating lease expense recorded	(4,546,774)	(2,443,790)
Operating lease payments effected	4,560,637	2,480,511
	64,595	**50,732**

7. Prepayments

Prepayments relate to payments made to Eskom for connections. As at 30 June 2017, the connections paid for had not yet been done by Eskom.

The SALGA fees for 2016/17 were paid during 2015/16.

	2017	2016
Payments made in advance		
Eskom - Payments in advance	10,765,507	10,449,832
SALGA Fees - prepayment	-	2,758,640
	10,765,507	**13,208,472**

8. Inventories

	2017	2016
Inventory stores	10,649,898	6,674,154
Water	391,852	391,852
	11,041,750	**7,066,006**

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

	2017	2016
Inventory stores		
Balance as previously reported	-	528,660
Spare parts - reclassified to inventory stores	-	5,231,600
Restated balance	**-**	**5,760,260**

Notes to the Annual Financial Statements

	2017 R	2016 R

9. Receivables from non-exchange transactions

Sundry receivables - Roadworks subsidy	17,661,769	10,813,322
Enoch Mgijima LM assistance	6,003,721	-
Rental and Eskom service deposits	7,333,258	5,805,273
Government grants and subsidies	15,725,808	8,760,181
Other Debtors	6,823,418	1,076,001
DHS Unblocking	23,037,220	-
RBIG debtor	2,149,195	-
	78,734,389	**26,454,777**

Government grants and subsidies consists of subsidies receivable from EC Treasury and COGTA.

Other debtors consists of amounts receivable from auction of assets undertaken by the municipality and bursary loan obligations.

In the current year the Sundry debtors have been reclassified to Receivables from exchange transactions resulting in the following changes in comparative figures, also refer to Note 46.

Sundry Receivables		
Balance as previously reported	-	13,082,530
Sundry debtors - reclassified to receivables from exchange transactions (Note 11)	-	(2,269,208)
Restated Balance	**-**	**10,813,322**

Receivables from non-exchange transactions		
Balance as previously reported	-	28,723,985
Sundry debtors - reclassified to receivables from exchange transactions (Note 11)	-	(2,269,208)
Restated Balance	**-**	**26,454,777**

Fair value of receivables from non-exchange transactions

Other receivables from non-exchange transactions	78,734,389	26,454,777

The fair value of other trade receivables from non-exchange transactions approximates their carrying amount.

10. VAT receivable

VAT	95,992,115	-

11. Receivables from exchange transactions

Gross balances		
Water	680,816,730	619,902,017
Sewerage	324,737,448	299,818,179
Sundry Debtors	14,439,776	9,237,902
	1,019,993,954	**928,958,098**

Less: Allowance for impairment		
Impairment allowance	(822,430,842)	(777,554,879)

	2017 R	2016 R

11. Receivables from exchange transactions (continued)

Net balance		
Water	680,816,730	619,902,017
Sewerage	324,737,448	299,818,179
Sundry Debtors	14,439,776	9,237,902
Impairment allowance	(822,430,842)	(777,554,879)
	197,563,112	**151,403,219**

Water		
Current (0 -30 days)	15,314,740	180,373,390
31 - 60 days	16,017,269	61,791,259
61 - 90 days	13,796,481	13,016,971
91 - 120 days	14,179,354	14,322,055
121 - 365 days	106,330,857	350,398,342
> 365 days	515,178,029	-
	680,816,730	**619,902,017**

Sewerage		
Current (0 -30 days)	60	8,054,634
31 - 60 days	3,891,594	3,807,294
61 - 90 days	3,860,134	3,782,553
91 - 120 days	3,854,900	3,760,858
121 - 365 days	34,018,728	275,026,293
> 365 days	279,112,032	5,386,547
	324,737,448	**299,818,179**

Sundry Debtors		
Current (0 -30 days)	-	14,601
31 - 60 days	3,572	5,058
61 - 90 days	6,031	23,017
91 - 120 days	201,843	5,613
121 - 365 days	18,817	144,194
> 365 days	14,209,513	9,045,419
	14,439,776	**9,237,902**

Impairment allowance		
Current (0-1830+ days)	(822,430,842)	(777,554,879)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(777,554,879)	(341,464,519)
Contributions to allowance	(44,875,963)	(436,090,360)
	(822,430,842)	**(777,554,879)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,200	4,200
Bank balances	-	17,363,030
Short-term deposits	235,922,200	340,803,333
Bank overdraft	(33,854,007)	-
	202,072,393	**358,170,563**

Notes to the Annual Financial Statements

	2017 R	2016 R

12. Cash and cash equivalents (continued)

Current assets	235,926,400	358,170,563
Current liabilities	(33,854,007)	-
	202,072,393	**358,170,563**

Short-term deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.50% to 6.70% per annum. Investments are made up of short-term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utilised.

The bank overdraft was caused by systematic accruals that affected the Cash Book after year-end.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates: Excess cash is invested with reputable finance institutions with good credit ratings.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
First National Bank - Current - 62002510693	80,515,606	132,326,812	31,460,989	(33,854,007)	16,627,715	(42,480,566)
First National Bank - Call Account - 62004499481	19,349,445	113,284,765	266,160,350	19,349,445	113,284,765	266,160,350
First National Bank - Call Account - 62190652521 (CRR)	86,217,296	110,951,667	78,161,586	86,217,296	110,951,667	78,161,586
First National Bank - Call Account - 62187939784 (Infrastructure)	115,876,841	30,031,899	221,653	115,876,840	30,031,899	221,653
First National Bank - Call Account - 62187936532 (NATIONAL)	7,233,597	86,397,673	4,233,171	7,233,597	86,397,673	4,233,171
First National Bank - Call Account - 62187938538 (PROVINCIAL)	1,254,167	3,841	5,274,805	1,254,167	3,841	5,274,805
First National Bank - Public Sector Cheque Account 62610267602	5,857,987	835,822	-	5,857,167	735,315	-
Nedbank - 03 7881076712 - 030	-	-	40,365,129	133,687	133,488	40,000,559
Total	**316,304,939**	**473,832,479**	**425,877,683**	**202,068,192**	**358,166,363**	**351,571,558**

Notes to the Annual Financial Statements

	2017 R	2016 R

13. Employee benefit obligations

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

	2017 R	2016 R
Carrying value		
Post Retirement Medical Obligations	(32,901,878)	(35,058,915)
Long Service Awards	(12,018,079)	(10,962,326)
Staff Bonus Accrual	(5,701,462)	(4,989,860)
Performance Bonus Accrual	(1,067,668)	(917,955)
	(51,689,087)	**(51,929,056)**
Non-current liabilities	(42,323,225)	(43,242,664)
Current liabilities	(9,365,862)	(8,686,392)
	(51,689,087)	**(51,929,056)**

Refer to Note 14 for the disclosure relating to Long service bonus obligation.

Refer to Note 15 for the disclosure relating to the current portion of the staff leave accrual, staff bonus accrual and the performance bonus provision liabilities

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

	2017 R	2016 R
Opening balance	35,070,544	32,216,006
Benefits paid	(1,298,129)	(1,113,516)
Net expense recognised in the statement of financial performance	(870,537)	3,968,054
	32,901,878	**35,070,544**

Net expense recognised in the statement of financial performance

	2017 R	2016 R
Current service cost	1,918,055	1,533,511
Interest cost	3,113,900	2,859,591
Actuarial (gains) losses	(5,902,492)	(425,048)
	(870,537)	**3,968,054**

Calculation of actuarial gains and losses

	2017 R	2016 R
Actuarial (gains) losses – Obligation	(5,902,492)	(425,048)

Key assumptions used

Assumptions used at the reporting date:

	2017	2016
Discount rates used	9.62 %	9.70 %
Net Effective Discount	9.62 %	9.70 %
Consumer Price Inflation	6.41 %	7.34 %
Health Care Cost Inflation Rate	7.91 %	8.84 %

Notes to the Annual Financial Statements

	2017	2016
	R	R

13. Employee benefit obligations (continued)

Other assumptions

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

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	5,835,433	4,368,451
Effect on defined benefit obligation	34,928	30,170

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

	2017 R	2016 R	2015 R	2014 R	2013 R
Defined benefit obligation	32,901,878	35,070,544	32,216,006	27,957,000	26,169,074
Surplus (deficit)	32,901,878	35,070,544	32,216,006	27,957,000	26,169,074
Experience adjustments on plan liabilities (assets)	(870,537)	2,854,538	4,393,102	3,847,353	5,329,200

14. Long Service Awards

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after years of continuous service, and every years thereafter, to 45 years of conitnuous service. the provision is an estimate of the long service based on historical staff turnover.

Reconciliation of long service awards - June 2017	**Opening Balance**	**Additions**	**Utilised during the year**	**Total**
Long Service Awards	10,962,328	1,969,529	(913,778)	12,018,079

	2017 R	2016 R

14. Long Service Awards (continued)

Reconciliation of long service awards - June 2016	Opening Balance	Additions	Utilised during the year	Total
Long Service Awards	9,701,983	2,457,114	(1,196,769)	10,962,328

The most recent acturial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by ARCH Acturial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Credit Unit Method.

At year end 682 (2016: 625) employees were eligible for the Long service awards.

The current service cost for the year ending 30 June 2017 was estimated to be R1 277 322 whereas the cost of the ensuing year is estimated to be R1 490 523.

The principle assumtpions used for the purpose of the acturial valuation were as follows:

	2017	2016
Discount rate	8.42%	8.68%
Consumer price inflation	5.24%	6.38%
Normal salary increase rate	6.24%	7.38%
Net effective discount rate	2.05%	1.21%
	-	-

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

	2017	2016
Opening balance	10,962,328	9,701,983
Current service cost	1,277,322	1,380,328
Interest cost	887,279	723,831
Benefits paid	(913,778)	(1,196,769)
Acturial (gains)/losses	(195,072)	352,955
	12,018,079	**10,962,328**

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

	2017	2016
Present value of the long service awards wholly unfunded	12,018,079	10,962,328

Next expense recognised in the statement of financial performance

	2017	2016
Current service cost	1,277,322	1,380,328
Interest cost	887,279	723,831
Acturial (gains) losses	(195,072)	352,955
	1,969,529	**2,457,114**

Notes to the Annual Financial Statements

	2017 R	2016 R

15. Current Employee Benefits

	2017 R	2016 R
Staff Bonus Accrual	5,701,463	4,989,860
Performance Bonus Accrual	1,067,668	917,955
Current Portion of Post-Retirement Benefits	1,287,658	1,298,129
Current Portion of Long Service Awards	1,309,074	1,480,450
	9,365,863	**8,686,394**

Other Current employee benefits - 2017

	Opening Balance	Additions	Reversed During the year	Total
Staff Bonus Accrual	4,989,860	711,603	-	5,701,463
Performance Bonus Accrual	917,955	149,713	-	1,067,668
	5,907,815	**861,316**	**-**	**6,769,131**

Other Current Employee Benefits - 2016	Opening Balance	Additions	Reversed During the year	Total
Staff Bonus Accrual	4,287,478	702,382	-	4,989,860
Performance Bonus Accrual	838,049	79,906	-	917,955
	5,125,527	**782,288**	**-**	**5,907,815**

16. Consumer deposits

	2017 R	2016 R
Water	212,588	122,367

17. Payables from exchange transactions

	2017 R	2016 R
Trade payables	626,817	1,713,460
Payments received in advanced - contract in process	17,423,074	13,390,150
Retentions	19,460,919	15,603,460
Accrued leave pay	11,050,372	11,272,069
Deposits received (held as Surety)	8,335	8,335
Other payables	172,966,543	96,697,075
	221,536,060	**138,684,549**

Fair value of trade and other payables

	2017 R	2016 R
Trade payables	626,817	1,713,463

The fair value of trade and other payables approximates their carrying amount.

Notes to the Annual Financial Statements

	2017 R	2016 R

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2017 R	2016 R
Unspent conditional grants and receipts		
National: Finance Management Grant	1	1
National: Municipal Water Infrastructure Grant	-	34,529,643
National: Dpt of Water Affairs and Forestry (WSOG)	-	65,445
National: Rural Household Infrastructure Grant (RHIG)	(1)	(1)
National: EPWP	-	747,817
National : WSIG	27,109,971	-
	27,109,971	**35,342,905**

	2017 R	2016 R
Unspent provincial and national funds		
Provincial: Department of Economic Affairs and Trade	360,655	1,539,115
Provincial: Office of the Premier	21,569	21,569
Provincial: Treasury	1,606,965	1,606,965
Provincial: Department of Transport	1,732,096	1,732,096
Provincial: Department of Economic Affairs	14,308,884	14,308,884
Provincial: DHS Unblocking	-	824,912
Other Spheres of Government	7,162,449	7,162,449
Lapesi Project	42,197	42,200
Provincial: Department of Housing, Local Gvt and Traditional Affairs	1,158,656	1,316,415
National: Department of Rural Development and Land Reform	402,614	402,614
National: Sport and Development	16,140,327	16,140,327
	42,936,412	**45,097,546**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

19. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2017

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	964,171,689	3,654,232,810
Surplus	-	-	-	601,534,931	601,534,931
Other movements	-	-	-	5,508,978	5,508,978
	50,896,894	**2,637,664,227**	**1,500,000**	**1,571,215,598**	**4,261,276,719**

Ring-fenced internal funds and reserves within accumulated surplus - 2016

	Capital replacement reserve	Government grant reserve	Donations and public contributions	Other	Total
Opening balance	50,896,894	2,637,664,227	1,500,000	1,228,181,609	3,918,242,730
Surplus	-	-	-	233,849,492	233,849,492
Correction of errors	-	-	-	(498,283,306)	(498,283,306)
	50,896,894	**2,637,664,227**	**1,500,000**	**963,747,795**	**3,653,808,916**

Notes to the Annual Financial Statements

	2017 R	2016 R

20. Revenue

Service charges	171,574,593	335,759,616
Other income	93,758,401	76,287,908
Interest received	37,255,372	37,939,612
Government grants & subsidies	1,289,452,959	1,205,279,361
	1,592,041,325	**1,655,266,497**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	171,574,593	335,759,616
Other income	93,758,401	76,287,908
Interest received	37,255,372	37,939,612
	302,588,366	**449,987,136**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,289,452,959	1,205,279,361

21. Service charges

Service charges	178,400	127,651
Sale of water	128,390,692	293,503,164
Sewerage and sanitation charges	43,005,501	42,128,801
	171,574,593	**335,759,616**

22. Other income

Private telephone calls	59,103	35,265
Tender documents	315,967	453,624
Commission on collections	200,868	194,417
Skill development fund	-	12,000
Plant rentals	-	164,803
Sundry Revenue	91,025,426	75,427,799
Other income	2,157,037	-
	93,758,401	**76,287,908**

23. Investment revenue

Interest revenue		
Bank	2,181,505	1,871,163
Interest - Eskom deposits	934,034	163,601
Interest received - investments	34,139,833	35,862,404
Interest received - other	-	42,444
	37,255,372	**37,939,612**

Notes to the Annual Financial Statements

	2017 R	2016 R

24. Government grants and subsidies

Revenue from conditional grants

	2017 R	2016 R
National: Finance Management Grants	1,500,000	1,500,000
National: Municipal Infrastructure Grant	271,423,000	273,543,999
National: EPWP	7,797,000	5,213,183
National: Department of Transport- Rural Roads Asset Management	3,097,002	3,015,998
National: Municipal Systems Improvement Grant	-	940,000
National: RHIG	-	4,000,000
National: Department of Water Affairs and Forestry	-	4,999,927
National: MWIG	34,529,643	86,078,357
WSIG Operational	4,500,000	-
	322,846,645	**379,291,464**

Revenue from conditional agency fees

	2017 R	2016 R
Provincial: Department of Human Settlement Unblocking	23,862,132	20,422,157
Provincial: Roads Subsidies	27,800,000	30,575,232
Provincial: DHLGTA	157,758	579,526
Provincial: Treasury -COGTA	21,700,000	27,904,146
DEDEAT	3,153,460	1,992,885
Water Services Infrastructure Grant	69,987,029	-
Regional Bulk Infrastructure Grant	335,055,195	291,330,921
	481,715,574	**372,804,867**
	804,562,219	**752,096,331**

Revenue from other Unconditional Grants and Subsidies

	2017 R	2016 R
Equitable share	484,455,262	446,759,000
LGSETA	435,478	310,362
Provincial: Health	-	6,113,668
	484,890,740	**453,183,030**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2017 R	2016 R
Conditional grants received	804,562,219	752,096,331
Unconditional grants received	484,890,740	453,183,030
	1,289,452,959	**1,205,279,361**

Equitable Share

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

Provincial: Treasury

	2017 R	2016 R
Balance unspent at beginning of year	1,606,965	1,606,965

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

Provincial: Treasury - COGTA

	2017 R	2016 R
Current-year receipts	14,034,654	19,843,685
Conditions met - transferred to revenue	(21,700,000)	(27,904,146)
Portion of grant recognised as debtor	7,665,346	8,060,461
	-	-

Notes to the Annual Financial Statements

	2017 R	2016 R

24. Government grants and subsidies (continued)

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

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	-
Current-year receipts	271,423,000	273,544,000
Conditions met - transferred to revenue	(271,423,000)	(273,544,000)
	-	-

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

National: Department of Rural Development and Land Reform

Balance unspent at beginning of year	402,614	402,614

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

National: Sport and Development

Balance unspent at beginning of year	16,140,327	16,140,327

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

Provincial: Office of the Premier

Balance unspent at beginning of year	21,569	21,569

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

Department of Transport

Balance unspent at beginning of year	1,732,096	1,732,096

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

Provincial: Department of Economic Affairs

Balance unspent at beginning of year	14,308,884	14,308,884

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

Provincial: Department of Housing, Local Gvt and Traditional Affairs

Balance unspent at beginning of year	1,316,415	1,395,941
Current-year receipts	-	500,000
Conditions met - transferred to revenue	(157,759)	(579,526)
	1,158,656	**1,316,415**

Notes to the Annual Financial Statements

	2017 R	2016 R

24. Government grants and subsidies (continued)

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

National: Municipal Systems Improvement Grant (MSIG)

Current-year receipts	-	940,000
Conditions met - transferred to revenue	-	(940,000)
	-	**-**

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

National: Other Spheres of Government

Balance unspent at beginning of year	7,162,449	7,162,449

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

National: Department of Water Affairs and Forestry (WSOG)

Balance unspent at beginning of year	65,445	65,372
Current-year receipts	-	5,000,000
Conditions met - transferred to revenue	-	(4,999,927)
Rollover deducted from equitable share	(65,445)	-
	-	**65,445**

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

Provincial: Lapesi Project

Balance unspent at beginning of year	42,200	42,200
Other	(3)	-
	42,197	**42,200**

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

National: EPWP

Balance unspent at beginning of year	747,817	-
Current-year receipts	7,797,000	5,961,000
Conditions met - transferred to revenue	(7,797,000)	(5,213,183)
Rollover deducted from equitable share	(747,817)	-
	-	**747,817**

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

National: Municipal Water Infrastructure Grant

Balance unspent at beginning of year	34,529,643	-
Current-year receipts	-	120,608,000
Conditions met - transferred to revenue	(34,529,643)	(86,078,357)

	2017 R	2016 R

24. Government grants and subsidies (continued)

	-	**34,529,643**

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

National: Rural Household Infrastructure Grant

Balance unspent at beginning of year	(1)	(1)
Current-year receipts	-	4,000,000
Conditions met - transferred to revenue	-	(4,000,000)
	(1)	**(1)**

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

Department of Human Settlement Unblocking

Balance unspent at beginning of year	824,912	1,858,951
Current-year receipts	-	19,388,118
Conditions met - transferred to revenue	(23,862,133)	(20,422,157)
Transferred to debtors	23,037,221	-
	-	**824,912**

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

Provincial: DEDEAT

Balance unspent at beginning of year	1,539,115	-
Current-year receipts	1,975,000	3,532,000
Conditions met - transferred to revenue	(3,153,460)	(1,992,885)
	360,655	**1,539,115**

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

National: Finance Management Grant

Balance unspent at beginning of year	1	1
Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,500,000)
	1	**1**

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

Road Subsidies

Balance unspent at beginning of year	-	-
Current-year receipts	25,798,142	30,575,232
Conditions met - transferred to revenue	(27,800,000)	(30,575,232)
Transferred to Debtors	2,001,858	-
	-	**-**

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

National: DOT - Rural Road Asset Management Grant

Balance unspent at beginning of year	-	-

Notes to the Annual Financial Statements

	2017 R	2016 R

24. Government grants and subsidies (continued)

Current-year receipts	3,097,000	3,016,000
Conditions met - transferred to revenue	(3,097,000)	(3,016,000)
	-	-

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

National: Regional Bulk Infrustructure Grant

Current-year receipts	332,906,000	291,330,921
Conditions met - transferred to revenue	(335,055,195)	(291,330,921)
Transfered to debtors	2,149,195	-
	-	-

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

.

Water services Infrastructure Grant (WSIG)

Current-year receipts	97,097,000	-
Conditions met - transferred to revenue	(69,987,029)	-
	27,109,971	-

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

Municipal Infrastructure Services Grant (WSIG) - Operational

Current-year receipts	4,500,000	-
Conditions met - transferred to revenue	(4,500,000)	-
	-	-

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

Changes in level of government grants

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

Notes to the Annual Financial Statements

	2017 R	2016 R

25. Employee related costs

Basic	154,133,108	153,870,602
Bonus	13,968,969	10,263,362
Overtime payments	9,916,928	6,506,015
Medical aid - company contributions	10,983,417	10,155,188
Pension Fund Contributions	22,298,059	19,058,491
Group Life Insurance	638,381	523,320
UIF	1,374,001	1,023,365
Travel, motor car, accommodation, subsistence and other allowances	23,920,024	21,143,979
Housing benefits and allowances	1,875,440	1,852,144
Leave pay provision charge	3,278,679	4,722,738
Industrial Council Levies	54,635	49,000
Defined contribution plans	-	6,413,538
Long-service awards	2,633,672	21,430
Termination benefits	-	80,795
	245,075,313	**235,683,967**

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

Termination Benefits		
Balance as previously reported	-	19,662,605
Reclassification - to Pension fund contributions	-	(19,058,491)
Reclassification - to Group life insurance	-	(523,319)
Restated Balance	**-**	**80,795**

Employee costs		
Balance as previously reported	-	237,460,873
SDL - reclassified to General expenses (Note 34)	-	(1,776,916)
Restated balance	**-**	**235,683,957**

Remuneration of municipal manager - M.A. Mene

Annual Remuneration	1,168,200	1,025,809
Car and other allowances	430,652	485,994
Contributions to UIF, Medical and Pension Funds	242,325	192,805
Service Bonus	93,465	82,793
Other	41,485	63,929
	1,976,127	**1,851,330**

Remuneration of Chief Financial Officer - N. Fetsha

Annual Remuneration	964,915	869,707
Car and other allowances	400,791	384,085
Contributions to UIF, Medical and Pension Funds	168,911	36,816
Service Bonus	79,242	70,194
Other	36,816	51,507
	1,650,675	**1,412,309**

Remuneration of Director: Corporate Services - Y. Matakane-Dakuse

Annual Remuneration	964,865	869,707
Car and other allowances	354,683	356,550
Contributions to UIF, Medical and Pension Funds	211,132	194,183

Notes to the Annual Financial Statements

	2017 R	2016 R
25. Employee related costs (continued)		
Service Bonus	79,242	70,194
Other	35,094	55,859
	1,645,016	**1,546,493**

Remuneration of Director: Health Services - Y. Sinyanya

Annual Remuneration	964,865	869,707
Car and other allowances	373,137	367,166
Contributions to UIF, Medical and Pension Funds	195,353	178,275
Service Bonus	79,242	70,194
Other	128,196	54,107
	1,740,793	**1,539,449**

Remuneration of Director: Integrated Planning and Development - Z. Shasha

Annual Remuneration	172,179	-
Car Allowance	63,746	-
Contributions to UIF, Medical and Pension Funds	34,976	-
Other	1,095	-
	271,996	**-**

Mr Z. Shasha was appointed from 26 April 2017. In the prior year the position was vacant.

Remuneration of Director: Strategic Services - B. Mthembu

Annual Remuneration	964,762	869,707
Car and other allowances	366,562	361,896
Contributions to UIF, Medical and Pension Funds	208,417	189,328
Service Bonus	79,242	70,194
Other	30,429	48,922
	1,649,412	**1,540,047**

Remuneration of Director: Technical Services - M. Dungu

Annual Remuneration	964,865	869,709
Car and other allowances	354,683	488,832
Contributions to UIF, Medical and Pension Funds	212,328	37,965
Service Bonus	79,242	212,328
Other	37,679	55,856
	1,648,797	**1,664,690**

26. Remuneration of councillors

Executive Major	961,705	942,781
Mayoral Committee Members	5,113,696	4,939,768
Speaker	743,735	762,620
Councillors	2,134,031	2,273,411
Chief Whip	624,283	712,300
	9,577,450	**9,630,880**

Notes to the Annual Financial Statements

	2017 R	2016 R

27. Depreciation and amortisation

Property, plant and equipment	119,613,696	157,920,908
Intangible assets	6,823	156,088
	119,620,519	**158,076,996**

28. Finance costs

Trade and other payables	271,493	734,791

29. Debt impairment

Debt impairment	44,875,963	522,558,498

30. Bulk purchases

Water	21,588,920	22,585,217

31. Contracted services

Outsourced Services	26,040	3,595,234
Consultants and Professional Services	9,817,375	8,095,110
Contractors - repairs and maintenance	68,939,200	51,076,779
	78,782,615	**62,767,123**

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

Contracted Services		
Balance as previously reported	-	11,382,977
Repairs & maintenance - reclassified from Repairs & maintenance (Note 33)	-	51,076,779
Pauper Burials - reclassified from Grants and Subsidies (Note 32)	-	46,880
Consulting & professional fees - reclassified from General expenses (Note 34)	-	401,931
PY Adjustment	-	(141,444)
Restated Balance	**-**	**62,767,123**

32. Grants and subsidies paid

Other subsidies		
CSPS	14,928,607	7,462,751
Community projects	107,479,941	219,470,961
Adopted school	480,000	800,000
Municipal Infrustructure grant	83,957,397	-
Chris Hani Development Agency	33,280,000	17,000,000
ISDR	1,993,486	1,801,206
WSIG operational	4,500,000	-
	246,619,431	**246,534,918**

The municipality donated R13 600 000 to Chris Hani Development Agency for purchase of office building during current year. This amount has been included in the balance of R33 280 000.

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

	2017 R	2016 R

32. Grants and subsidies paid (continued)

Community Projects		
Balance as previously reported	-	230,992,941
Indigent subsidy - reclassified to General expenses (Note 34)	-	(11,521,980)
Restated Balance	**-**	**219,470,961**

Grants and Subsidies		
Balance as previously reported	-	248,839,820
CSPS - reclassified from General expenses (Note 34)	-	7,462,752
Pauper Burials - reclassified to contracted services (Note 31)	-	(46,880)
ISDR - reclassified from General expenses (Note 34)	-	1,801,206
Indigent subsidy - reclassified to General expenses (Note 34)	-	(11,521,980)
Restated Balance	**-**	**246,534,918**

33. Repairs and Maintenance

Building and grounds	-	-
Furniture	-	-
Plant Machinery and Office Equipment	-	-
Vehicle	-	-
	-	**-**

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

Repairs and maintenance		
Balance as previously reported	-	51,076,779
Repairs & maintenance - reclassified to contracted services (Note 31)	-	(51,076,779)
Restated Balance	**-**	**-**

Notes to the Annual Financial Statements

	2017 R	2016 R

34. General expenses

Advertising	2,546,753	1,515,136
Auditors remuneration	5,611,139	5,198,179
Bank charges	1,065,463	266,488
Bad debt write off	43,499,855	-
Computer expenses	3,425,579	2,374,896
Consumables	496,091	424,128
Study assistance reimbursements	76,449	179,611
Entertainment	1,133,253	1,437,684
Insurance	1,347,923	1,060,883
Education and marketing	1,157,749	894,725
Conferences and seminars	-	492,455
Lease rentals on operating lease	5,048,990	5,777,218
Motor vehicle expenses	1,936,784	881,214
Fuel and oil	17,589,710	8,971,367
Postage and courier	268,746	42,240
Printing and stationery	876,279	2,873,264
Promotions activities and presentations	18,729	10,410
Protective clothing and uniforms	1,643,816	1,847,827
VIP Expenditure	234,900	54,000
Software expenses	5,836,860	1,547,811
Staff welfare	216,697	208,706
Subscriptions and membership fees	3,425,380	5,134,319
Telephone and fax	4,344,605	4,286,046
Training	1,329,076	1,561,249
Travel - local	12,623,333	12,565,121
Tools and Equipment	(377,771)	515,858
Electricity	27,100,063	21,919,949
Rates	357,829	371,476
Water Sampling	523,544	881,260
Refuse	69,986	64,996
Water inventory adjustments	-	102,048
Strategic sessions	2,255,736	1,352,462
Public events / Imbizo	6,193,657	5,256,443
Purchase of samples	72,475	205,695
Communication	1,508,451	1,947,569
Approved Course	133,865	66,824
Circumcision programme	94,500	54,787
Delegated Management- Water Services Authority	51,714,033	48,307,825
Sundries	56,846	75,805
Venue expenses	-	107,817
Chemicals	6,209,290	6,931,667
Meeting fees - Audit committee	583,521	217,707
Indigent Subsidy	10,806,763	11,521,980
Skills Development Levy	1,941,552	1,776,916
	224,998,499	**161,284,061**

Due to MSCOA implementation, the following reclassifications have been made in the 2015/16 financial period. Also refer to Note 46: Prior period errors.

General Expenses		
Balance as previously reported	-	157,651,057
ISDR - reclassified to Grants and Subsidies (Note 32)	-	(1,801,206)
CSPS - reclassified to Grants and Subsidies (Note 32)	-	(7,462,752)
Consulting and professional fees - reclassified to contracted services (Note 31)	-	(401,931)
SDL - reclassified from employee costs (Note 25)	-	1,776,916
Indigent subsidy - reclassified from Transfers and subsidies (Note 32)	-	11,521,980
Restated Balance	**-**	**161,284,064**

Notes to the Annual Financial Statements

	2017 R	2016 R

34. General expenses (continued)

35. Auditors' remuneration

	2017 R	2016 R
Fees	5,611,139	5,198,179

36. Cash generated from operations

	2017 R	2016 R
Surplus	601,534,931	233,849,492
Adjustments for:		
Depreciation and amortisation	119,620,519	158,076,996
Loss on sale of assets and liabilities	(903,809)	1,560,554
Debt impairment	44,875,963	436,090,360
Movements in retirement benefit assets and liabilities	239,969	4,885,541
adjustment to impairment processed through acc surp	-	(86,468,138)
Other non cash movements	2,461,194	-
Changes in working capital:		
Inventories	(3,975,745)	911,087
Receivables from exchange transactions	(91,035,855)	(127,045,897)
Other receivables from non-exchange transactions	(52,279,612)	(8,693,127)
Prepayments	2,442,965	12,592,901
Payables from exchange transactions	82,851,505	8,232,669
VAT	(144,148,671)	(44,964,450)
Unspent conditional grants and receipts	(9,540,826)	35,703,086
Consumer deposits	90,221	77,332
	552,232,749	**624,808,406**

Notes to the Annual Financial Statements

	2017 R	2016 R

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	510,157,335	808,541,876
• Community	4,341,400	247,882,185
	514,498,735	**1,056,424,061**

Not yet contracted for and authorised by accounting officer		
• Infrastructure	51,068,837	9,078,055
• Community	14,641,606	1,699,404
	65,710,443	**10,777,459**

Total capital commitments		
Already contracted for but not provided for	514,498,735	1,056,424,061
Not yet contracted for and authorised by accounting officer	65,710,443	10,777,459
	580,209,178	**1,067,201,520**

This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, internally generated funds, etc.

Total commitments

Total commitments		
Authorised capital expenditure	580,209,178	1,067,201,520

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (Buildings)

Minimum lease payments due		
- within one year	721,944	2,798,662
- in second to fifth year inclusive	504,648	369,972
	1,226,592	**3,168,634**

Operating leases - as lessee (Other Equipment)

Minimum lease payments due		
- within one year	417,466	1,907,003
- in second to fifth year inclusive	-	299,161
	417,466	**2,206,164**

Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

The total future minimum sublease payment expected to be received under non-cancellable sublease	1,644,058	5,374,798

Notes to the Annual Financial Statements

	2017 R	2016 R

38. Contingencies

Contingent liabilities

The municipality is party to the following litigation matters

Litigations		
Contractual claim by Ziphi-niphi Enterprise against Eyethu Engineers and CHDM.	96,660	96,660
Claim against CHDM in respect of a contract entered into with Inxuba Yethemba.	-	180,052
Letter of Demand issued by Hlumisa to CHDM in respect of amounts due and payable.	-	3,800,000
Claim by Volcano Sales & Transport CC regarding the supply and delivery of materials.Plea of denial of alleged cession and delivery note and denial that cession is valid in law. The matter has not been taken further for more than six months.	28,885	28,885
Claim by GK Water (t/a GK water solutions) against CHDM in respect of services rendered.Defendant has raised an Exception and exception is pending. The matter has not been taken further for more than a year.	1,391,027	1,391,027
Claim by Cradock Golf Club against CHDM and one other in respect of damages. Special Plea of non-compliance with Section 3 of Act 40 of 2002 and misjoinder and Plea overfilled The matter has not been taken further since May 2016.	32,265	32,265
Claim by T O Madywabe against CHDM in respect of damages for personal injury.	300,000	300,000
Claim by Martiq 876 CC and one other against CHDM in respect of damages as a result of a motor vehicle accident.	-	1,163,314
Claim by Norland Construction (Pty) Limited against CHDM in respect of services rendered.	2,162,442	2,162,442
Claim by Element Consulting Engineers (Pty) Ltd against CHDM for goods supplied and services rendered. Summons issued for breach of contract. Action defended. Plaintiff applied for Summary Judgment. Summary Judgment opposed. Leave to Defend granted. No further action taken by Plaintiff.	1,217,246	-
Claim by City Square Trading 204 (Pty) Ltd against CHDM and one other for goods supplied and services rendered.	5,359,088	-
Claim by Edward Silas Bikitsha against CHDM for damages suffered due to unlawful utilisation of land.	558,000	-
Claim by A M Putter and 4 others regarding obligation of CHDM to pay medical aid contribution to surviving spouse of deceased employee / retired employee. Awaiting Judgment of Makahula J in relation thereto. Amount indeterminable.	-	-
Application by Vezizinto Co-operative to interdict CHDM and 4 others for using applicant's land.	100,000	100,000

Notes to the Annual Financial Statements

	2017 R	2016 R
38. Contingencies (continued)		
Claim by Oducure Eastern Cape (Pty) Ltd for breach of contract. The case has been inactive since the special pleas of non-joinder and lack of locus standi and also of authority were filed. Instead a new action against the party that was joined has been instituted.	180,052	180,052
	11,425,665	**9,434,697**

39. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Associates	Chris hani Development Agency Refer to note 5
MEMBERS OF KEY MANAGEMENT	KEY MANAGEMENT OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Mene Moppo	Member of Gibela Trade and Invest 1118 5
Mfecane Anita	Member of Anitaza Trading
Somkoko Mvuyeleni	Member of Jange and Mlungu Civils; Spouse is a member of Kuvala 205 Trading Enterprise;
Delubom Lindile	Member of Delubom Transport, L Delubom Trading and MTN Zakhane Shares; Spouse is a member of Lulwazi Trading Enterprise and MTN Zakhane Shares
Memani Thobela Headwell	Child is a Member of Vunoleo Building & Civil Youth Construction
Fumbeza Ntombifikile	33,33% Membership in Thembalobom Manufacturing & Enterprise CC
Jaxa-Dusubana Vuyokazi	33,33% Membership in Seven Mile Trading 132 CC, Member of AHLS Investments; Spouse has 33% membership in Galindo Trading 121 CC
Makonza Asanda	100% Membership in Seasons Find 1260 CC; Member of Funumbona Construction &Projects
Shasha Mzwamadoda Moses	100% Membership in Safika Rural Development Consultants
Mapatwana Ntombizanele	Member of Brainwave Project 205
Gqodo Zixolisile	Member of GZ Civil Engineering and Member of FC Builders &Construction
Katsere Tendai	35% Membership of Mazvita Trading; 100% Membership of Jekeso Communications; Member of Relilite Investments; Spouse is a member of Umzali Trading Enterprise
Gobeni Nonelela	Director of Hi-Lite Development Agency; Member of Ulutho Funerals
Makwabe Thandisizwe	50% Membership in Mokoti Construction
Tito Sibongile	Director of Smith Tabata
Lucando Bulelani	33% membership in El Shaddai Civil and Building Contractors
Mohale Reatile	Director of Reatile Transport and Projects
Manciya Aviwe	Director of M&M Makwande Trading
Petela Neziwe	Member of Kumbu &Lam Trading Enterprise; Member of Kei Recyclers; Spouse is a member of Cool Ideas 1413
Baatjies Eldridge Denzil	Director in BS Holdings
Dlova Zingisile Gidion	Director in Zinbar Enterprise
Madikane Thozama	50% Membership in Secreets Trading; 50% Membership in Koelro No 106; 100% Membership in Silkyline Hair Studio
Nqwemeshe Nomvuyo	Spouse is a member of Liso Security Services &Trading
COUNCILLORS	REFER TO LIST OF COUNCILLORS DISCLOSED UNDER GENERAL INFORMATION. COUNCILLORS OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Bula Mzwandile Nelson	20% Membership in Polonius Investments; 25% Membership in Bendis Investments; 100% Membership in Gobashe Trading Enterprise; 100% Membership in Zinkamba Trading 1002; Membership in Mthunziwethu Trading Co-operative Limited.

39. Related parties (continued)

Cengani Jongumzi	25% Membership in Four of us Construction & Development; 50% Membership in Manga Manga Trading Enterprise; 100% Membership in Ntandoyam Trading 44; 33% Membership in CMZ Tours
Deliwe Zanemvula	Director of Beyond 2030 Consulting Services; Member of Top-Town Farmers Agricultural Cooperation
Dyantyi Sinethemba Reginald	Director and Founding Member of Happy Valley Abattoir Co-operative Limited; Director of Sanelisa Services; Director of Tlholo Entrepreneur Support Centre
Gela Wongama	Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuselu'Iuntu Protection and Training Services; 20% Membership in The Best Mining and Transportation Services; 20% Membership in Urafile Trading
Goniwe Nyameka	33,33% Membership in Karoo Furniture Manufacturers; 33,33% Membership in Umehluko Developments; 33,34% Membership in Imvelo Agencies; 50% Membership in Balisa Sivelise Productions
Koyo Mxolisi Clifford	Director of Tsomo Valley Farmers; 100% Membership in MBK Consulting Services; Spouse has membership in Buyie's Catering Service, Liwalama Trading Enterprise and Qamata Agric Service
Kulashe-Ndyumbu Thandeka	Director and Founding Member of DDX General Trading; Director and Founding Member of Mayidede General Trading
Mdwayingana William	Member of Mdwamtwa Construction &faciliation; Member of Mpoza-mpoza Business Solutions; Member of Masichume Fattening Agriculture; Director of Bring About
Magwashu Nongazi Gladys	50% Membership in Magwashu Development Projects
Mandile Prince Phillip	50% Membership in Mfe-Gebe Trading
Mbolo Skosana	25% Membership in Amabandla Construction; 50% Membership in Monde Skosana Building Construction
Mfundsi Nomalizo	33% Membership in Hewu Farming Project
Myataza Saziso	Member of Hluthamhlali Multi-purpose Trading
Nkwentsha-Gunuza Lindiwe	Director of Lembede Investment Holdings (Pty) Ltd; Director of Lembede Strategic Investments (Pty) Ltd
Nobongoza Humphrey	Director of Madcomsol Holdings (company has been deregistered); 25% Membership in Sangolekhaya Funeral Services; 100% Membership in Sunrise Coach Services; 100% Membership in TandoLuzuko Trading & Projects
Nquma Nombuyiselo Patricia	33,40% Membership in Fenas and Nquma Civils and Property Developers
Ntakana Siyavuma	100% Membership in Ntakana Brothers Transport and Construction; Member of Abahlobo Benene Trading and Projects
Plata Sithembele David	100% Membership in Daves Energy Distribution CC
Radzilani NR	Mmeber of Forecast Traders
Roskruge N	30% Membership in Liqhakazi Construction and Projects; 100% Membership in Amilile Trading Enterprise

39. Related parties (continued)

Shweni ZR	Spouse is a member of Shweni Trading, Ngxongounathi security, Bomi investment Holdings, Bomi investment Holdings, Eand So civil engineering and construction, Hlumisa Travelling Agency, Ezomso training and conference centre, Lilitha vehicle hire, Manzana Mancoba and Shweni Heavy Duty Transportation; Olona Trading and Project
Twani Sylvia	Director of Qamata Tembisile Hani Intergrated Energy Centre Co-operative limited
Vimbayo Kholisa	Member of Border Rural Committee; 50% membership in Sikho Social Development Facilitators
Xoseni Nkululeko George	100% Membership of Danscho Financial Services
MUNICIPAL EMPLOYEES	EMPLOYEES OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Hlahla Mtibe NNV	Spouse is a member of Yovo Trading Enterprise
Mankayi BJ	Spouse is a member of Mandush General Trading (Pty) Ltd
Pukwana PC	Spouse is a director of Chris Hani District Cooperative Development Centre
BUYILE MKHONTWANA	Has interest in Mvulane Catering & Construction
Mrs T SIQWAYI- ENVIR HEALTH PRACT GR 2	SPOUSE SAKIWO SIQWAYI- has an interest in JOLKS TRADING
MR MM SHASHA- SENIOR MANAGER WSA	Spouse/Partner/Associate NOMALIZO MONICA DAMOYI has an interest in BITLINE SA 1060CC
Mrs. SL PETER- ENVIR HEALTH ASSIST GR 2	Spouse/Partner/Associate NOMBULELO CYNTHIA KHANZI has an interest in BUYILE NO88 CONSTRUCTION AND CATERING
MR M KAMTENI- WATER PROCESS CONTROLLER	Spouse/Partner/Associate MPUTHUMI NELSON DYANTYI has an intereset in GOLDEN REWARDS 954 CC
MR MT MAVUNDHLA- WSP: O & M TECHN (INKWANCA)	Spouse/Partner/Associate AGNES MAKAZI MATROSS has an interest in MAMA TROSKIE TRADING ENTERPRISE
MR PCK PUKWANA- LED OFFICER (SMME)	Spouse/Partner/Associate SIPHENDULWE MATANZIMA has an interest in UBUSO BETHU QAMATA GENERAL TRADING
TURWANA MKUMBUZI	Spouse has an interest in Blooming Africa Trading (Pty) Ltd
MASHEBA LINDA	Spouse has an interest in Bayolo Business Enterprise (Pty) Ltd.
LWANA KOLEKA	Interest in Zano-Buntu Trading Enterprise (Pty) Ltd

Related party transactions

	2017 R	2016 R
Purchases from (sales to) related parties		
RURAL SUPPORT SERVICES	-	148,109
Classy Trade Investments 1094 CC	-	6,092,491
SMITH TABATA INC	-	2,376
Yovo Trading Enterprise	7,500	26,650
Chris Hani District Co-operative Development Centre	-	17,603,950
PASIN PETROLEUM ENERGY	-	59,900
NDUMIE AND THOZIE TRADING ENTERPRISE	-	19,810
THIVOVO GENERAL TRADING(PTY)LTD	-	13,410
ROYAL HASKONING DHV	-	12,977,162
DIMENSION DATA (PTY)LTD	-	39,505
BIGEN AFRICA GROUP HOLDINGS (PTY) LTD	-	2,164,334
CQS TECHNOLOGY HOLDINGS (PTY) LTD	-	149,983

	2017 R	2016 R
39. Related parties (continued)		
BITLINE SA 1060CC	-	485,427
BUYILE NO88 CONSTRUCTION AND CATERING	-	24,065
GOLDEN REWARDS 954 CC	-	7,300
MAMA TROSKIE TRADING ENTERPRISE	-	17,600
Maliphathwe Trading	37,170	-
Wezi Gqiza	13,185	-
Izaphetha Trading & Projects	18,400	-
K2011115430 (Pty) Ltd	3,590	-
Hope Fountain Investment 268 CC	97,475	-
Phalethu 0513 Event Management	9,000	-
Bonelani Supplying Services Cc	17,900	-
Somila Constructors CC	372,671	-
PP Joni Trans Enterprise T/A PP Joni	16,860	-
Lukhozi Consulting Engineers	2,375,548	-
Stopsina General Trading	8,400	-

40. Unauthorised expenditure

Opening balance	665,860,717	482,420,015
Unauthorised expenditure	3,037,340	183,440,702
Unauthorised expenditure - written off	(183,440,702)	-
	485,457,355	**665,860,717**

During 2016/17 financial year, the municipality tabled the adjusted budget for 2015/16 to council in addressing unauthorised expenditure for the 2015/16 financial year in terms of section 28(2)(g) of the MFMA read together with regulation 23(6)(b) of the MBRR. An adjustment budget contemplated in section 28(2)(g) of the Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act.

The unauthorized expenditure amounting to R3 307 340 was caused by the Department of Roads which had a budgeted amount of R27 800 000 and actual expenditure amounting to R30 837 340. An invoice was sent to the department of Roads.

41. Fruitless and wasteful expenditure

Opening balance	3,062,710	2,177,236
Fruitless and wasteful expenditure - current year: Finance Costs	271,493	734,792
Fruitless and wasteful expenditure - current year: Cancellation of tender adverts	263,435	150,682
	3,597,638	**3,062,710**

No investigations have been held to follow up on Fruitless and Wasteful expenditure identified.

42. Irregular expenditure

Opening balance	1,204,892,781	1,105,183,087
Add: Irregular Expenditure - current year	41,607,571	99,709,694
Write-off of prior year amount	(93,898,546)	-
	1,152,601,806	**1,204,892,781**

Analysis of expenditure awaiting condonation per age classification

Current year	41,607,571	99,709,694
Prior years	1,110,994,235	1,105,183,087
	1,152,601,806	**1,204,892,781**

Notes to the Annual Financial Statements

Figures in Rand

42. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Procurement process not followed	None	2,163,119
Tender documentation not obtained	None	38,946,419
SCM Treasury Regulations for procurement of goods/services not followed	None	498,033
		41,607,571

Details of irregular expenditure written off

	Write off by	
Irregular expenditure written off 30 August 2017	Council	93,898,546

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	-
Current year subscription / fee	2,758,640	2,309,578
Amount paid - current year	(2,758,640)	(2,309,578)
	-	-

Audit fees

Opening balance	-	-
Current year subscription / fee	5,611,139	5,198,179
Amount paid - current year	(5,611,139)	(5,198,179)
	-	-

PAYE and UIF

Opening balance	-	-
Current year subscription / fee	37,388,790	33,271,170
Amount paid - current year	(37,388,790)	(33,271,170)
	-	-

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	33,291,603	29,291,230
Amount paid - current year	(33,291,603)	(29,291,230)
	-	-

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

VAT

VAT receivable	95,992,115	-
VAT payable	-	48,156,556
	95,992,115	**48,156,556**

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

All VAT returns have been submitted during the year based on a 1 month, category C tax period, ie submission is due on the last day of each of the 12 months. The municipality uses the payments Basis to account for the tax payable.

Non- compliance with the Municipal Finance Management Act

A summary of the Municpalty's pertinent non-compliance with the MFMA are as follows:

- Section 15 of MFMA - Appropriation of funds for expenditure: Expenditure was incurred in excess within the limits of the amounts appropriated for the different votes in an approved budget.
- Section 62 of MFMA - General financial management functions: The accounting officer did not take all reasonable steps to ensure the appropriate management of expenditure of the Municipality.
- Section 32(4) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General of any unauthorised, irregular or fruitless and wasteful expenditure incurred.
- Section 32(2) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not take the necessary steps to recover Unauthorised, irregular or fruitless and wasteful expenditure.
- Section 65 of MFMA - Expenditure management: The accounting officer did not take all reasonable steps to ensure that the financial administration of the Municipality is appropriately managed.
- Section 122 of MFMA - Preparation of financial statements: The Municipality did not prepare Annual Financial Statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.
- Section 63 of MFMA - Asset and liability management: The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.
- Section 115 of MFMA - Supply Chain Management - Implementation of the system: The accounting officer did not take all reasonable steps to implement the supply chain management policy of the municipality and to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of irregular practices.Section 15 of the MFMA - Appropriation of funds for expenditure

44. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

Deviations - 30 June 2017	Mayor's office and MM's office	Budget and Treasury Office	Technical Services	IPED	Corporate services and health services	Total
Emergency situation	-	-	100,719	-	-	100,719

45. Water Distribution Losses

Water Losses	47,962,670	40,913,332

46. Change in estimate

Property, plant and equipment

The revised GRAP 17 - Property, Plant and Equipment, requires the review of the useful life of an asset at least at each financial year end. The Municipality revised the estimated remaining useful lives for moveable assets with effect from 30 June 2017.

The revisions were accounted for prospectively as a change in accounting estimates and as a result , the carrying amounts of the moveable assets of the municipality for the current financial year end have been increased by R 1,732,932

The amount of the effect in future periods is not disclosed because estimating it is impracticable.

47. Prior period errors

Property, Plant and Equipment opening balances were corrected to take into account differences between the general ledger and the Fixed Asset Register.

Land previously incorrectly classified as buildings was correctly classified and recorded as land. Depreciation that was charged due to this incorrect classification was reversed.

The WIP balance was also corrected to take into account completed projects that were erraneously included in the WIP balance and not transferred to infrastructure assets. Opening balances were corrected to take into account differences between the general ledger and the fixed asset register.

The infrastructure opening balances were corrected to take into account differences between the general ledger and the fixed asset register. The opening balances for cost and accumulated depreciation were corrected to take into account completed projects that were previously not transferred from WIP.

Other property, plant and equipment opening balances for cost and accummulated depreciation were corrected to take into account differences between the general ledger and the fixed asset register.

In the prior year the debtors balance was overstated due to overbilling for some debtors, the Trade and other receivables balance from exchange transactionshas been corrected to take into account the overbilling. The impairment has also been reduced as a result of the decrease in debtors balance.

Trade and other payables have been adjusted to take into account prior year accruals that were previously not raised but were paid during current year and to correct the retention balances that were incorrectly raised.

Revenue from government grants has been corrected to take into account retention amounts that were incorrectly recognised as revenue thus overstating the prior year balance.

Prepayments were restated to account for SALGA 16/17 fees that were paid in 15/16.

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

47. Prior period errors (continued)

Comparatives

Land and Buildings		
Carrying amount as previously reported	-	50,383,209
Land incorrectly classified as buildings- adjustments to acc dep	-	(144,284)
Restated Balance	**-**	**50,238,925**
Infrastructure assets		
Carrying amount as previously reported	-	2,628,138,667
Correction of opening balances to align to FAR - cost	-	6,001,223
Correction of opening balances to align to FAR and accounting for dep on projects previously not transferred - acc dep	-	(113,207,549)
Accounting for completed projects previously not transferred	-	17,730,051
Prior year adjustment for retention amount previously not accounted for	-	(14,012)
Restated Balance	**-**	**2,538,648,380**
Other property, plant and equipment		
Carrying amount as previously reported	-	56,636,705
Correction of opening balances to align to FAR - Cost	-	1,709,223
Correction of opening balances to align to FAR - acc dep	-	1,621,592
Restated Balance	**-**	**59,967,520**
Work in progress		
Carrying amount as previously reported	-	1,093,976,173
Accounting for completed projects previously not transferred	-	(17,730,051)
Correction of opening balances to align to FAR - Cost	-	(310,100,885)
Restated Balance	**-**	**766,145,237**
Intangible Assets		
Balance as previously reported	-	389,530
Adjustment to cost	-	(137,726)
Adjustment to Accum depreciation	-	137,726
Restated Balance	**-**	**389,530**
Trade and other receivables from exchange transactions		
Balance as previously reported	-	111,349,407
Prior year adjustment to debtors due to overstatement of debtors	-	(172,936,275)
Adjustment to impairment as a result of change in balance	-	86,468,138
Reclassification of sundry debtors	-	2,269,208
Adjustment for VAT	-	124,252,742
Restated Balance	**-**	**151,403,220**
Payables from exchange transactions		
Balance as previously reported	-	138,486,442
Raising prior year accruals paid in current year	-	320,479
Correcting prior year retentions raised incorrectly	-	(312,159)
reclassification of consumer deposits	-	(122,367)
Correcting retention amounts	-	(111,738)
Restated Balance	**-**	**138,260,657**

47. Prior period errors (continued)

Government Grants and subsidies		
Balance as previously reported	-	1,204,426,119
Correcting prior year conditions met that were overstated by retention amount	-	853,241
Restated Balance	**-**	**1,205,279,360**

Prepayments		
As previously reported	-	10,449,832
SALGA prepayment raised	-	2,758,640
Restated balance	**-**	**13,208,472**

The aggregate effect of the prior period adjustments and reclassifications on the comparative figures in the financial statements for the year ended 30 June 2016 is as follows;

Statement of financial performance	As ppreviously reported	Prior Period error	Reclassifications	Restated as at 30 June 2016
Revenue				
Revenue from exchange transactions				
Service charges	335,759,616	-	-	335,759,616
Other Income	76,287,909	-	-	76,287,909
Interest received	37,939,612	-	-	37,939,612
Revenue from non- exchange transactions				
Government grants and subsidies	1,204,426,119	853,242	-	1,205,279,361
Expenditure				
Employee related costs	(237,460,873)	-	1,776,916	(235,683,957)
Remuneration of councillors	(9,630,879)	-	-	(9,630,879)
Depreciation and amortisation	(158,076,997)	-	-	(158,076,997)
Finance costs	(734,792)	-	-	(734,792)
Debt impairment	(522,558,497)	-	-	(522,558,497)
Repairs and maintenance	(51,076,779)	-	51,076,779	-
Bulk purchases	(22,585,217)	-	-	(22,585,217)
Contracted services	(11,382,977)	141,444	(51,525,590)	(62,767,123)
Grants and subsidies paid	(248,839,820)	-	2,304,902	(246,534,918)
General expenses	(157,651,057)	-	(3,633,007)	(161,284,064)
Loss on disposal of assets and liabilties	(1,560,555)	-	-	(1,560,555)
Surplus for the year	**232,854,813**	**994,686**	**-**	**233,849,499**

Statement of financial position	As previously reported	Prior period errors	Reclassifications	Restated as at 30 June 2016
Current Assets				
Inventories	7,066,006	-	-	7,066,006
Receivables from non- exchange transactions	28,723,985	-	(2,269,208)	26,454,777
VAT Receivable /(Payable)	76,073,387	(124,229,942)	-	(48,156,555)
Prepayments	10,449,832	2,758,640	-	13,208,472

47. Prior period errors (continued)

Receivables from exchange transactions	111,349,407	37,784,604	2,269,208	151,403,219
Cash and Cash equivalents	358,170,563	-	-	358,170,563
Non current assets				
Property, plant and equipment	3,829,134,754	(414,134,691)	-	3,415,000,063
Intangible assets	389,530	-	-	389,530
Non-current investments	1,500,000	-	-	1,500,000
Current Liabilities				
Operating lease liability	(50,732)	-	-	(50,732)
Payables from exchange transactions	(138,486,442)	103,418	122,367	(138,260,657)
Consumer deposits	-	-	(122,367)	(122,367)
Employee benefit obligation	(8,686,392)	-	-	(8,686,392)
Unspent conditional grants and receipts	(81,293,691)	853,240	-	(80,440,451)
Non- current liabilities				
Employee benefit obligation	(43,242,664)	-	-	(43,242,664)
Net assets				
Accumulated surplus	(4,151,097,543)	496,864,731	-	(3,654,232,812)
	-	-	-	-

48. Risk management

Financial risk management

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

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

48. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settles by delivering cash or another financial asset.

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

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The budget and treasury office monitors the cashflow requirements on a regular basis.

The municipality's cashflows consist of short term deposits and current accounts with notice periods of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the municipality's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such , the municipality is not able to select only credit worthy counterparts

Credit risk consists mainly of cash deposits, cash equivalents, investments 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 evaluates credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The existing trade receivables portfolio has historically been significantly impaired as a result of a number of contributing factors . Trade receivables are thus presented net of an allowance for impairment

Except for trade and other receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Financial instrument	2017	2016
Cash and Cash equivalents - FNB	316,304,939	473,832,479

Market risk

48. Risk management (continued)

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk
Interest rate risk is defined as the risk that the fair value of future cashflows associated with a financial instrument will flactuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cashflow risk exposures on long term financing.

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.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures risk.

49. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	197,563,112	-	197,563,112
Other receivables from non-exchange transactions	-	78,734,389	-	78,734,389
Prepayments	-	10,765,507	-	10,765,507
Cash and cash equivalents	235,926,400	-	-	235,926,400
	235,926,400	**287,063,008**	**-**	**522,989,408**

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	221,112,161	-	221,112,161
Retirement benefit obligation	-	51,689,087	-	51,689,087
	-	**272,801,248**	**-**	**272,801,248**

2016

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	27,150,477	-	27,150,477
Other receivables from non-exchange transactions	-	26,454,777	-	26,454,777

Notes to the Annual Financial Statements

. Financial instruments disclosure (continued)

Prepayments	-	13,208,472	-	13,208,472
Cash and cash equivalents	358,170,563	-	-	358,170,563
	358,170,563	**66,813,726**	**-**	**424,984,289**

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Retirement benefit obligation	-	51,929,056	-	51,929,056
Trade and other payables from exchange transactions	-	138,260,659	-	138,260,659
	-	**190,189,715**	**-**	**190,189,715**

50. Events after the reporting date

There were no non-adjusting events after the reporting date.

51. Budget differences

Material differences between budget and actual amounts

Revenue:

1. Services charges: The decrease on billing is caused by the write off of indigent. there was also a decrease due to the overcharge of levy debtors during 2015/16 financial year which were corrected in 2016/17 financial year.

2. Other Income: Over collected because of spending on conditional grants as the material amount of other revenue relates to VAT from conditional.

3. Interest received - Investment : The municipality has invested more during the financial year;

4. Government Grants and subsidies: This amount includes capital grants. The budget include full budget allocation of Department of human settlement, the department did not transfer the expenditure incurred during the financial year.

Expenditure

1. Personnel: Under – expenditure arose due to certain vacant position that were budgeted for were not filled earlier in the financial year or not filled at all.

2. Remuneration of Councilors: The underspending of 17% was due to medical aid that was budgeted for but not fully spent.

3. Depreciation and amortization: CHDM did accommodate the adjusted budget, however the actual depreciation decrease was caused by the review of asset infrastructure after the full verification of infrastructure assets.

4. Finance cost: There was an improvement in the payment of service providers hence the reduction in interest.

5. Bulk purchase: Variance is not significant.

6. Contracted service: The increase on contracted service is caused by the reclassification of repairs and maintenance.

7. Government grants and subsidies: Under – expenditure was as a result of projects under equitable share that could not been completed and the rollover was requested for 2017/18

Notes to the Annual Financial Statements

Figures in Rand

51. Budget differences (continued)

8. General expense : Under expenditure was due to the budget that was allocated , however the municipality paid less than the budgeted amount as the projects moved over to 2017/18

9. Debt impairment : The variance in debt impairment was caused by the decrease in the required provision to be made versus the current debt book in line with the credit control policy.

10. Bad debts written off : the variance is due to indigent debtors that have been written off during the financial year as per council resolution.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The financial statements for local government are prepared on the accrual basis using a classification based on the nature of expense in the statement of financial performance. The financial statements differ from the budget, as the budget reflects on projections whilst annual financial statements reflect the actual expenditure of the municipality..

Changes from the approved budget to the final budget

The changes between the final and adjusted budget are consequence of changes in the municipal performance and additional funding receipts from states institutions. For details on these changes please refer to the annual report.

52. VAT payable

Tax refunds payables	-	48,156,556