DITSOBOTLA LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2015
Auditor General of South Africa (North West)

General Information

Nature of business and principal activities	Municipality
Mayoral committee	
Executive Mayor	Honorable LE Holele
Councillors	Cllr TE Bogatsu
	Cllr VS Dila
	Cllr DO Dipholo
	Cllr HK Ditlhareng
	Cllr R Engelbrech
	Cllr JPG Fourie
	Cllr GF Khambula
	Cllr GA Koloko
	Cllr IE Lethoko
	Cllr PJ Maitshotlo
	Cllr BB Maretlwa
	Cllr W Masekoa
	Cllr ML Mathipe
	Cllr NG Matlaba
	Cllr RB Matholoa
	Cllr TK Melamu
	Cllr QE Mgqamqo
	Cllr MV Mguba
	Cllr MA Mmota
	Cllr ME Mmota
	Cllr SE Moeketsana
	Cllr IM Mogonediwa
	Cllr BJ Moheta
	Cllr DG Moilwa
	Cllr MK Montsho
	Cllr MW Morutse
	Cllr MS Moseki
	Cllr LH Mohibedi
	Cllr ML Mothibi
	Cllr DS Mpame
	Cllr F Naweta
	Cllr AW Ngesman
	Cllr KS Njakanjaka
	Cllr PR Ntoagae
	Cllr AR Schnepel
	Cllr AM Senokwane
	Cllr KM Seribe
	Cllr RE Thabane
	Cllr KM Tootla
	Cllr WG Van Der Linde
Grading of local authority	Grade B
Acting Accounting Officer	Mr S.S Nnnete
Chief Finance Officer (CFO)	Mr LJ Dintwe

General Information

Accounting Officer	Mr S.S Nnete (Acting)
Registered office	Civic Centre Cnr Nelson Mandela and Transvaal Streets Lichtenburg North West 2740
Postal address	PO Box 7 Lichtenburg 2740
Bankers	ABSA Bank
Auditors	Auditor General of South Africa (North West)

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (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 was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The annual financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:

Mr S.S Nnete (Acting)
Acting Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

1. Review of activities

Main business and operations

Ditsobotla Local Municipality is a low capacity local municipality and delivers basic services such as water, electricity and refuse removal services to the Lichtenburg region.

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year. The municipality has been placed under financial administration section 139(B) with effect from August 2013.

4. Accounting policies

No International Financial Reporting Standards were applied prior to the commencement dates in the current year.

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Bankers

The municipality banks primarily with ABSA Bank.

6. Auditors

Auditor General of South Africa (North West) will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2015

Figures in Rand	Note(s)	2015	2014
Assets			
Current Assets			
Inventories	7	175 520 367	3 125 778
Receivables from exchange transactions	8	206 456 029	206 512 871
Receivables from non-exchange transactions	9	(4 807 399)	-
VAT receivable	10	14 622 156	1 206 139
Consumer debtors	11	131 605 709	96 043 567
Cash and cash equivalents	12	132 283 082	5 199 708
		655 679 944	**312 088 063**
Non-Current Assets			
Investment property	3	92 190 220	92 190 220
Property, plant and equipment	4	1 645 017 621	708 900 537
Intangible assets	5	2 100 448	1 050 224
Heritage assets	6	506 794	506 794
Other asset 2		28 906 700	28 906 700
		1 768 721 783	**831 554 475**
Non-Current Assets		1 768 721 783	831 554 475
Current Assets		655 679 944	312 088 063
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**2 424 401 727**	**1 143 642 538**
Liabilities			
Current Liabilities			
Other financial liabilities	14	1 162 095	-
Finance lease obligation		54 537	47 781
Payables from exchange transactions	16	213 380 529	70 315 404
Consumer deposits	17	6 994 170	3 547 833
Unspent conditional grants and receipts	13	1 615 402	19 361 132
Bank overdraft	12	556 616 961	241 308 158
		779 823 694	**334 580 308**
Non-Current Liabilities			
Other financial liabilities	14	164 194	82 097
Provisions	15	48 177 927	55 742 861
		48 342 121	**55 824 958**
Non-Current Liabilities		48 342 121	55 824 958
Current Liabilities		779 823 694	334 580 308
Liabilities of disposal groups		-	-
Total Liabilities		**828 165 815**	**390 405 266**
Assets		2 424 401 727	1 143 642 538
Liabilities		(828 165 815)	(390 405 266)
Net Assets		**1 596 235 912**	**753 237 272**
Accumulated surplus		1 757 506 203	607 046 449

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014
Revenue			
Revenue from exchange transactions			
Service charges	20	174 365 689	148 511 596
Rental of facilities and equipment		3 484 168	2 477 137
Interest received (trading)		4 188 654	349 378
Income from agency services		604 914	4 234 886
Licences and permits		877 622	1 669 688
Administration and management fees received		268 158	-
Fees earned		50 305	-
Other income	22	15 536 787	6 833 907
Interest received - investment		159 662	481 780
Gains on disposal of assets		-	367 104
Total revenue from exchange transactions		**199 535 959**	**164 925 476**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	25 958 965	37 114 935
Property rates - penalties imposed	19	-	(1 271)
Transfer revenue			
Government grants & subsidies	21	96 836 351	93 729 542
Fines		184 608	428 861
Total revenue from non-exchange transactions		**122 979 924**	**131 272 067**
		199 535 959	164 925 476
		122 979 924	131 272 067
Total revenue	18	**322 515 883**	**296 197 543**
Expenditure			
Personnel	24	(144 556 352)	(138 408 873)
Remuneration of councillors	25	(10 871 700)	(5 039 740)
Depreciation and amortisation	26	(53 816 945)	(24 640 971)
Impairment loss/ Reversal of impairments		(7 641 385)	(7 890 033)
Finance costs	27	(7 110 313)	(3 395 732)
Debt impairment		(113 449 153)	(130 000 000)
Repairs and maintenance		(3 243 036)	(6 830 232)
Bulk purchases	30	-	(107 139 208)
Contracted services	29	(2 235 470)	(12 940 482)
Grants and subsidies paid		(3 307 568)	10 494 438
General Expenses	23	(37 715 182)	(46 952 146)
Total expenditure		**(383 947 104)**	**(472 742 979)**
		-	-
Total revenue		322 515 883	296 197 543
Total expenditure		(383 947 104)	(472 742 979)
Operating deficit		**(61 431 221)**	**(176 545 436)**
Deficit before taxation		(61 431 221)	(176 545 436)
Taxation		-	-
Deficit for the year		**(61 431 221)**	**(176 545 436)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2013	**783 591 885**	**783 591 885**
Changes in net assets		
Surplus for the year	(176 545 436)	(176 545 436)
Total changes	(176 545 436)	(176 545 436)
Balance at 01 July 2014	**1 819 097 086**	**1 819 097 086**
Changes in net assets		
Surplus for the year	(61 590 883)	(61 590 883)
Total changes	(61 590 883)	(61 590 883)
Balance at 30 June 2015	**1 757 506 203**	**1 757 506 203**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
Cash flows from operating activities			
Receipts			
Taxation		25 958 965	37 113 664
Sale of goods and services		164 443 696	825 621 783
Grants		95 861 000	94 158 403
Interest income		159 662	481 780
		286 423 323	957 375 630
Payments			
Employee costs		(154 136 612)	(127 145 449)
Suppliers		(111 030 983)	(295 247 781)
Finance costs		(7 110 313)	(3 395 732)
Other cash item		(109 585 677)	(11 985 702)
		(381 863 585)	(437 774 664)
Total receipts		286 423 323	957 375 630
Total payments		(381 863 585)	(437 774 664)
Net cash flows from operating activities		**(95 440 262)**	**519 600 966**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(230 383)	(6 835 634)
Proceeds from sale of investment property	3	9 219 022	367 104
Proceeds from sale of other intangible assets	5	755 000	-
Proceeds from sale of other asset 2		-	2 690 267
Other cash item		-	(685 264 782)
Net cash flows from investing activities		**9 743 639**	**(689 043 045)**
Cash flows from financing activities			
Repayment of other financial liabilities		1 244 192	-
Finance lease payments		6 756	21 361
Other cash item		(3 395 732)	(3 395 732)
Net cash flows from financing activities		**(2 144 784)**	**(3 374 371)**
Net increase/(decrease) in cash and cash equivalents		**(87 841 407)**	**(172 816 450)**
Cash and cash equivalents at the beginning of the year		(236 108 450)	(9 423 104)
Cash and cash equivalents at the end of the year	12	**(323 949 857)**	**(182 239 554)**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	374 878 156	-	**374 878 156**	174 365 689	**(200 512 467)**	
Rental of facilities and equipment	6 679 860	-	**6 679 860**	3 484 168	**(3 195 692)**	
Interest received (trading)	7 311 044	-	**7 311 044**	4 188 654	**(3 122 390)**	
Income from agency services	7 000 000	-	**7 000 000**	604 914	**(6 395 086)**	
Licences and permits	6 000 000	-	**6 000 000**	877 622	**(5 122 378)**	
Administration and management fees received	-	-	**-**	268 158	**268 158**	
Fees earned	-	-	**-**	50 305	**50 305**	
Other income - (rollup)	5 503 282	-	**5 503 282**	15 536 787	**10 033 505**	
Total revenue from exchange transactions	**407 372 342**	**-**	**407 372 342**	**199 376 297**	**(207 996 045)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	86 801 184	-	**86 801 184**	25 958 965	**(60 842 219)**	
Government grants & subsidies	12 422 000	-	**12 422 000**	96 836 351	**84 414 351**	
Transfer revenue						
Fines	502 432	-	**502 432**	184 608	**(317 824)**	
Total revenue from non-exchange transactions	**99 725 616**	**-**	**99 725 616**	**122 979 924**	**23 254 308**	
'Total revenue from exchange transactions'	407 372 342	-	**407 372 342**	199 376 297	**(207 996 045)**	
'Total revenue from non-exchange transactions'	99 725 616	-	**99 725 616**	122 979 924	**23 254 308**	
Total revenue	**507 097 958**	**-**	**507 097 958**	**322 356 221**	**(184 741 737)**	
Expenditure						
Personnel	(47 208 064)	-	**(47 208 064)**	(144 556 352)	**(97 348 288)**	
Remuneration of councillors	(25 820 120)	-	**(25 820 120)**	(10 871 700)	**14 948 420**	
Depreciation and amortisation	(20 000 000)	-	**(20 000 000)**	(53 816 945)	**(33 816 945)**	
Impairment loss/ Reversal of impairments	-	-	**-**	(7 641 385)	**(7 641 385)**	
Finance costs	-	-	**-**	(7 110 313)	**(7 110 313)**	
Debt impairment	-	-	**-**	(113 449 153)	**(113 449 153)**	
Repairs and maintenance	(14 759 000)	-	**(14 759 000)**	(3 243 036)	**11 515 964**	
Contracted Services	(12 354 036)	-	**(12 354 036)**	(2 235 470)	**10 118 566**	
Grants and subsidies paid	(6 211 000)	-	**(6 211 000)**	-	**6 211 000**	
General Expenses	(25 739 166)	-	**(25 739 166)**	(41 022 750)	**(15 283 584)**	
Total expenditure	**(152 091 386)**	**-**	**(152 091 386)**	**(383 947 104)**	**(231 855 718)**	
	355 006 572	-	**355 006 572**	(61 590 883)	**(416 597 455)**	
	-	-	**-**	-	**-**	
Deficit before taxation	**355 006 572**	**-**	**355 006 572**	**(61 590 883)**	**(416 597 455)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Surplus before taxation	355 006 572	-	**355 006 572**	(61 590 883)	**(416 597 455)**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**355 006 572**	**-**	**355 006 572**	**(61 590 883)**	**(416 597 455)**	

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. All figures have been rounded to the nearest Rand.

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

1.1 Consolidation

Entity combinations

The municipality accounts for entity combinations using the acquisition method of accounting. The cost of the entity combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the entity combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal municipality) that are classified as held-for-sale in accordance with the Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the municipality assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for municipality purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from an entity combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual entity combination, and disclosed in the note for entity combinations.

In cases where the municipality held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in surplus or deficit for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other net assets are recognised in surplus or deficit as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the municipality at the end of each reporting period with the adjustment recognised in net assets.

1.2 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:

1.2 Significant judgements and sources of estimation uncertainty (continued)

Trade and other receivables

The municipality assesses its trade and other 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 and other 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.

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 [name a key assumption] assumption 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 15 - Provisions.

Useful lives of property, plant and equipment and intangible assets

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

Effective interest rate

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

Allowance for impairment

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

1.3 Property, plant and equipment

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Investment Property.

Investment property includes (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

1.3 Property, plant and equipment (continued)

At initial recognition, the economic entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Fair Value Model

Investment Property is subsequently measured using the fair value model. Under the fair value, investment property is carried at a price that reflect market conditions at reporting date.

The fair value is determined with reference to current pricesin an active market for similar property in a similar condition and location and used for similar purpose .
If the current prices cannot be determined in the market, reference to current prices of properties of different nature in active markets is made or recent prices for similar property in less active markets, discounted cash flow projectionsof future cash flows are used an adjusted to reflect differences in conditions and locations to get most suitable estimate.

Gains or losses recognised in surplus or deficit
Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal
Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

Additional text

Item	**Average useful life**
Land	Indefinite
Buildings	30 years
Plant and machinery	1-7 years
Furniture and fixtures	1-7 years
Motor vehicles	2-4 years
IT equipment	1-4 years
Investment property	30 years

1.3 Property, plant and equipment (continued)

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2015. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on .

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2015 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

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

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

1.5 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.

1.5 Intangible assets (continued)

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.

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.

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

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

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

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

Item	Useful life
Computer software, other	1-5 years

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

1.6 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.

1.6 Financial instruments (continued)

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.

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).

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.

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

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

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

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

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

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

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

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:

1.6 Financial instruments (continued)

- 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.

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

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

Fair value measurement considerations

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

1.6 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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

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

1.7 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.

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

1.7 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.

1.8 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 weighted average cost 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.

1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.9 Non-current assets held for sale and disposal groups (continued)

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.10 Impairment of cash-generating assets

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

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

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

A cash-generating unit is the smallest identifiable group of assets held with the primary 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.

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

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

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

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

Identification

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

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

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

Value in use

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

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

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 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.

1.11 Impairment of non-cash-generating assets

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

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 held with the primary 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.

1.11 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.

1.11 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.

1.12 Share capital / contributed capital

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

1.13 Employee benefits

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

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

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

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

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

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

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

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

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

1.13 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

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

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.14 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.

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

1.14 Provisions and contingencies (continued)

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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.

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.

1.15 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

Interest

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.

1.16 Revenue from non-exchange transactions

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

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

1.16 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

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

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

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

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

Recognition

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

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

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.

1.16 Revenue from non-exchange transactions (continued)

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.

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.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.17 Investment income

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

1.18 Borrowing costs

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

Irregular expenditure 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.

1.23 Offsetting

Assets, lisbilities, revenue and expenses have not been offset except where offsetting is required or permitted by a Standard of GRAP.

1.24 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 2013-07-01 to 2014-06-30.

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.

1.25 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.

1.25 Related parties (continued)

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

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

1.26 Capital commitments

Items are classified as commitments where the minicipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:
- approved and contracted commitments.

1.27 Going concern assumption

1.28 Investment property

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

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

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.28 Investment property (continued)

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

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

Transitional provision

The municipality changed its accounting policy for investment property in 2015. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on .

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2015 and investment property has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

Accounting Policies

1.29 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

Investments in controlled entities, joint ventures and associates

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:
- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- revenue and expenses for each surplus or deficit item are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of net assets.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially in a separate component of net assets reserve and recognised in surplus or deficit on disposal of the net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign controlled entity are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.30 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

3. Investment property

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	92 190 220	-	92 190 220	92 190 220	-	92 190 220

Reconciliation of investment property - 2015

	Opening balance	**Fair value adjustments**	**Total**
Investment property	92 190 220	9 219 022	101 409 242

Reconciliation of investment property - 2014

	Opening balance	**Fair value adjustments**	**Total**
Investment property	17 409 342	74 780 878	92 190 220

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

4. Property, plant and equipment

	2015			2014		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	415 684 464	-	415 684 464	205 578 863	-	205 578 863
Furniture and fixtures	129 657	-	129 657	129 657	-	129 657
Office equipment	412 924	(52 883)	360 041	-	-	-
Infrastructure	1 082 662 653	-	1 082 662 653	455 580 798	-	455 580 798
Community	225 274 978	(121 903 095)	103 371 883	28 109 607	-	28 109 607
Other property, plant and equipment	5 708 402	(1 746)	5 706 656	-	-	-
Heritage	506 794	-	506 794	-	-	-
Other property, plant and equipment # 4	36 595 473	-	36 595 473	19 501 612	-	19 501 612
Total	**1 766 975 345**	**(121 957 724)**	**1 645 017 621**	**708 900 537**	**-**	**708 900 537**

Reconciliation of property, plant and equipment - 2015

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Land	217 746 986	-	1 022 984	(7 641 385)	211 128 585
Plant and machinery	5 429 126	-	-	(128 882)	5 300 244
Furniture and fixtures	6 659 983	1 569	-	(456 496)	6 205 056
Motor vehicles	14 031 648	-	-	(4 107 620)	9 924 028
	-	-	-	-	360 041
IT equipment	1 025 202	228 814	-	(326 282)	927 734
Infrastructure	621 482 661	-	2 674 394	(43 316 741)	580 840 314
Community	85 762 480	-	-	(10 500 204)	75 262 276
	952 138 086	**230 383**	**3 697 378**	**(66 477 610)**	**889 948 278**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	225 388 371	-	(7 641 385)	217 746 986
Infrastructure	657 541 833	6 835 634	(42 894 806)	621 482 661
Community	96 262 683	-	(10 500 203)	85 762 480
	-	-	-	19 501 612
	979 192 887	**6 835 634**	**(61 036 394)**	**944 493 739**

Pledged as security

None of the assets have been pledged as security.

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

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

5. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Licenses and franchises	-	(659 959)	(659 959)	-	-	-
Computer software	1 710 183	(659 959)	1 050 224	1 710 183	(659 959)	1 050 224
Intangible assets 1	1 710 183	-	1 710 183	-	-	-
Total	**3 420 366**	**(1 319 918)**	**2 100 448**	**1 710 183**	**(659 959)**	**1 050 224**

6. Heritage assets

	2015			2014		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Other	506 794	-	506 794	506 794	-	506 794

7. Inventories

Production supplies	177 394	-
Consumable stores	5 249 238	3 231 348
Water	101 051 198	-
Other	69 148 107	-
	175 625 937	3 231 348
Inventories (write-downs)	(105 570)	(105 570)
	175 520 367	**3 125 778**

8. Receivables from exchange transactions

Trade debtors	9 309 087	9 108 601
Employee costs in advance	(5 388 722)	(5 388 722)
Prepayments	211 905 981	211 905 981
Deposits	(255 144)	3 210
Other receivables 1	1 026	-
Housing debtors	(9 116 199)	(9 116 199)
	206 456 029	**206 512 871**

9. Receivables from non-exchange transactions

Public contributions and subsidies	(4 807 399)	-

10. VAT receivable

VAT	14 622 156	1 206 139

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Consumer debtors

Gross balances		
Rates	47 165 520	16 078 262
Electricity	100 232 424	59 497 991
Water	84 296 234	84 296 234
Sewerage	38 655 013	16 273 613
Refuse	37 140 059	15 910 488
Other (specify)	67 565 612	33 986 979
	375 054 862	**226 043 567**
Less: Allowance for impairment		
Consumer debtors bad debt provision	(243 449 153)	(130 000 000)
Net balance		
Rates	47 165 520	16 078 262
Electricity	100 232 424	59 497 991
Water	84 296 234	84 296 234
Sewerage	38 655 013	16 273 613
Refuse	37 140 059	15 910 488
Other including bad debt provision	(175 883 541)	(96 013 021)
	131 605 709	**96 043 567**
Rates		
Current (0 -30 days)	1 558 606	972 393
31 - 60 days	1 475 343	1 036 950
61 - 90 days	1 309 287	875 580
91 - 120 days	1 278 585	1 223 245
121 - 365 days	9 317 749	4 174 756
> 365 days	32 225 950	7 795 338
	47 165 520	**16 078 262**
Electricity		
Current (0 -30 days)	2 780 344	3 598 362
31 - 60 days	2 950 645	3 837 259
61 - 90 days	1 836 582	3 240 102
91 - 120 days	92 664 853	4 526 647
121 - 365 days	-	15 448 784
> 365 days	-	28 846 837
	100 232 424	**59 497 991**
Water		
Current (0 -30 days)	2 139 538	5 098 129
31 - 60 days	2 123 824	5 436 596
61 - 90 days	80 032 872	4 590 549
91 - 120 days	-	6 413 313
121 - 365 days	-	21 887 703
> 365 days	-	40 869 944
	84 296 234	**84 296 234**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

11. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	784 028	984 206
31 - 60 days	860 501	1 049 551
61 - 90 days	37 010 484	886 218
91 - 120 days	-	1 238 109
121 - 365 days	-	4 225 478
> 365 days	-	7 890 051
	38 655 013	**16 273 613**

Refuse		
Current (0 -30 days)	799 740	962 246
31 - 60 days	771 838	1 026 128
61 - 90 days	35 568 481	866 443
91 - 120 days	-	1 210 479
121 - 365 days	-	4 131 193
> 365 days	-	7 713 999
	37 140 059	**15 910 488**

Other (specify)		
Current (0 -30 days)	362 364	96 013 021
31 - 60 days	348 419	12 069 000
61 - 90 days	(29 431 756)	204 095 042
91 - 120 days	(147 162 568)	(408 190 084)
	(175 883 541)	**(96 013 021)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	-	(130 000 000)
Contributions to allowance	(130 000 000)	-
Debt impairment written off against allowance	(113 449 153)	-
	(243 449 153)	**(130 000 000)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 450	3 450
Bank balances	55 530 608	4 848 474
Short-term deposits	76 749 024	347 784
Bank overdraft	(556 616 961)	(241 308 158)
	(424 333 879)	**(236 108 450)**

Current assets	132 283 082	5 199 708
Current liabilities	(556 616 961)	(241 308 158)
	(424 333 879)	**(236 108 450)**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Library grant	-	8 607
Financial management grant (FMG)	-	-
Municipal infrastructure grant (MIG)	1 615 402	17 812 339
Municipal systems improvement grant (MSIG)	-	631 859
Infrastructure skills development grant (ISDG)	-	1 025 720
EPWP grant	-	(117 393)
	1 615 402	**19 361 132**

Movement during the year

Balance at the beginning of the year	19 361 132	1 033 327
Additions during the year	31 333 000	36 757 957
Income recognition during the year	(49 078 730)	(18 430 152)
	1 615 402	**19 361 132**

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.

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

14. Other financial liabilities

Designated at fair value		
Bank loan	82 097	82 097
Terms and conditions		
At amortised cost		
Loans 1	1 162 095	-
Terms and conditions		
Loans 2	82 097	-
Terms and conditions		
	1 244 192	**-**
Total other financial liabilities	**1 326 289**	**82 097**
Non-current liabilities		
Designated at fair value	82 097	82 097
At amortised cost	82 097	-
	164 194	**82 097**
Current liabilities		
At amortised cost	1 162 095	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

15. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	18 301 199	971 728	-	19 272 927
Long service award	6 405 521	1 809 479	-	8 215 000
Employee benefit cost	31 036 141	-	(10 346 141)	20 690 000
	55 742 861	**2 781 207**	**(10 346 141)**	**48 177 927**

Reconciliation of provisions - 2014

	Opening Balance	Total
Environmental rehabilitation	18 301 199	18 301 199
Long service award	6 405 521	6 405 521
Employee benefit cost	31 036 141	31 036 141
	55 742 861	**55 742 861**

16. Payables from exchange transactions

Trade payables	188 385 966	55 490 631
Accrued leave pay	20 108 268	10 054 134
Accrued bonus	4 343 701	4 343 701
Deposits received	316 043	316 043
Salary creditors	226 551	110 895
	213 380 529	**70 315 404**

17. Consumer deposits

Rates	6 957 570	3 547 833
Electricity	36 600	-
	6 994 170	**3 547 833**

18. Revenue

Service charges	174 365 689	148 511 596
Rental income	3 484 168	2 477 137
Interest received (trading)	4 188 654	349 378
Income from agency services	604 914	4 234 886
Licences and permits	877 622	1 669 688
Administration and management fees received	268 158	-
Fees earned	50 305	-
Other income - (rollup)	15 536 787	6 833 907
Interest received - investment	-	481 780
Property rates	25 958 965	37 114 935
Property rates - penalties imposed	-	(1 271)
Government grants & subsidies	96 836 351	93 729 542
Fines	184 608	428 861
	322 356 221	**295 830 439**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

18. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	174 365 689	148 511 596
Rental of facilities and equipment	3 484 168	2 477 137
Interest received (trading)	4 188 654	349 378
Income from agency services	604 914	4 234 886
Licences and permits	877 622	1 669 688
Administration and management fees received	268 158	-
Fees earned	50 305	-
Other income - (rollup)	15 536 787	6 833 907
Interest received - investment	-	481 780
	199 376 297	**164 558 372**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	25 958 965	37 114 935
Property rates - penalties imposed	-	(1 271)
Transfer revenue		
Government grants & subsidies	96 836 351	93 729 542
Fines	184 608	428 861
	122 979 924	**131 272 067**

19. Property rates

Rates received

Residential	7 694 738	20 318 618
Commercial	11 680 666	10 149 557
State	1 239 137	1 139 401
Small holdings and farms	-	6 596 903
Property rates 1	6 973 389	-
Less: Income forgone	(1 628 965)	(1 089 544)
	25 958 965	37 114 935
Property rates - penalties imposed	-	(1 271)
	25 958 965	**37 113 664**

20. Service charges

Service charges	114 150 901	-
Sale of electricity	33 660 107	96 927 534
Sale of water	26 554 681	33 086 642
Sewerage and sanitation charges	-	7 608 447
Refuse removal	-	10 888 973
	174 365 689	**148 511 596**

Figures in Rand	2015	2014

21. Government grants and subsidies

Operating grants		
Equitable share	64 529 403	83 080 814
	64 529 403	83 080 814
Capital grants		
National: Financial Management Grant	1 600 000	2 341 008
National: Municipal Infrastructure Grant	22 598 598	-
National: MSIG	930 000	-
Provincial: EPWP	1 181 000	1 982 000
INEP grant	558 000	500 000
Infrastructure skill development Grant (ISDG)	2 500 000	5 825 720
Library grant	2 692 893	-
	32 060 491	10 648 728
	96 589 894	**93 729 542**

Library grant

Balance unspent at beginning of year	8 607	8 607
Current-year receipts	350 000	-
Conditions met - transferred to revenue	(350 000)	-
Recovered from equitable share	(8 607)	-
	-	**8 607**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

FMG grant

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

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

MIG

Balance unspent at beginning of year	17 812 339	17 812 339
Current-year receipts	24 214 000	-
Conditions met - transferred to revenue	(22 557 337)	-
Recovered from equitable share	(17 812 339)	-
	1 656 663	**17 812 339**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

MSIG grant

Balance unspent at beginning of year	631 859	631 859
Current-year receipts	930 000	-
Conditions met - transferred to revenue	(930 000)	-
Recovered from equitable share	(631 859)	-

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

21. Government grants and subsidies (continued)

	-	**631 859**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

ISDG grant

Balance unspent at beginning of year	1 025 720	1 025 720
Current-year receipts	2 500 000	-
Conditions met - transferred to revenue	(2 500 000)	-
Recovered from equitable share	(1 025 720)	-
	-	**1 025 720**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

EPWP grant

Balance unspent at beginning of year	(117 393)	(117 393)
Current-year receipts	1 181 000	-
Conditions met - transferred to revenue	(1 181 000)	-
Recovered from equitable share	117 393	-
	-	**(117 393)**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

INEP grant

Current-year receipts	558 000	-
Conditions met - transferred to revenue	(558 000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

22. Other income

Building plan fees	-	43 846
Connection Fees	29 739	50 095
Clearance Certificate	-	4 906
Cemetary Fees	-	347 545
Admin Fees	-	352 764
Sundries	15 284 788	6 382 924
Reference Fees	132 069	96 844
Surplus Cash	28 961	16 558
Other revenue	56 194	(475 911)
Rezoning	-	9 316
Valuation Certificates	3 720	5 020
Reconnection: Electricity	1 316	-
	15 536 787	**6 833 907**

Figures in Rand	2015	2014

23. General expenses

Advertising	788 213	-
Auditors remuneration	232 867	7 504 587
Bank charges	368 590	629 536
Commission paid	-	8 064
Consulting and professional fees	12 289 117	11 267 250
Consumables	428 510	12 683 755
Entertainment	95 138	250 988
Insurance	1 074 981	1 016 901
Lease rentals on operating lease	1 269 584	1 601 962
Skills Development	-	1 756 840
Medical expenses	5 931	36 305
Fuel and oil	4 711 797	4 750 081
Adverts Printing and stationery	(2 747)	1 229 398
Research and development costs	-	60 000
Royalties and license fees	-	1 670 586
Security (Guarding of municipal property)	1 048 723	-
Staff welfare	211 012	-
Subscriptions and membership fees	106 315	93 056
Post Stamps & Telephone	2 296 806	1 882 128
Training	12 189	489 711
Travel - local	-	1 186 740
Refuse	(11 138 567)	-
Uniforms	-	381 329
Rezoning Fees	(14 140)	-
Grant Expenses	6 117 362	(3 384 657)
Expense 8	5 273 069	-
Chemicals	29 194	-
Other expenses	12 511 238	1 837 586
	37 715 182	**46 952 146**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

24. Employee related costs

Basic	83 003 073	86 873 745
Bonus	2 177 796	7 470 818
Medical aid - company contributions	18 248 524	5 689 853
UIF	841 671	799 897
SDL	1 863 759	-
Leave pay provision charge	-	(244 811)
Allownace: Non-pensionable	15 831 714	1 804 386
Allowance: Personal	84 578	62 364
Allowance: Protective Clothing	363 778	55
Defined contribution plans	-	16 423 230
Travel, motor car, accommodation, subsistence and other allowances	1 392 658	1 390 774
Overtime payments	11 058 731	10 719 896
Long-service awards	1 284 568	714 065
Acting allowances	2 739 253	2 028 511
Housing benefits and allowances	219 695	155 098
Nightshift allowance	189 536	159 488
Standby allowance	5 027 018	4 361 504
Other # 7	230 000	-
	144 556 352	**138 408 873**

Remuneration of municipal manager

Annual Remuneration	396 719	680 000
Car Allowance	53 852	135 000
Contributions to UIF, Medical and Pension Funds	326 473	148 080
Acting allowance	52 315	-
	829 359	**963 080**

Remuneration of chief finance officer

Annual Remuneration	615 000	615 000
Car Allowance	205 000	205 000
Contributions to UIF, Medical and Pension Funds	156 201	156 262
Other allowance	902	-
Acting allowance	63 333	126 667
	1 040 436	**1 102 929**

Remuneration of executive directors

Annual Remuneration	753 501	-
Contributions to UIF, Medical and Pension Funds	193 012	-
	946 513	**-**

25. Remuneration of councillors

Executive Mayor	-	640 469
Speaker	876 456	-
Councillors	9 995 244	4 399 271
	10 871 700	**5 039 740**

Notes to the Annual Financial Statements

Figures in Rand	2015	2014

26. Depreciation and amortisation

Property, plant and equipment	53 816 945	24 298 934
Intangible assets	-	342 037
	53 816 945	**24 640 971**

27. Finance costs

Other interest paid	7 110 313	3 395 732

28. Auditors' remuneration

Fees	232 867	7 504 587

29. Contracted services

Other Contractors	2 235 470	12 940 482

30. Bulk purchases

Electricity	-	103 698 243
Water	-	3 440 965
	-	**107 139 208**

31. Unauthorised expenditure

Unauthorised expenditure	21 264 256	-

32. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	9 170 709	-

33. Irregular expenditure

Add: Irregular Expenditure - current year	1 642 110	-