# Merafong City Local Municipality

## Annual Financial Statements

for the year ended 30 June 2016

## General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Municipality |
| **Legislation governing the municipality's operations** | Municipal Finance Management Act (Act no.56 of 2003) |
| **Grading of local authority** | The municipality is a category C grade 4 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998 |
| **Mayoral committee** | |
| Executive Mayor | Mogale Letsie SM |
| Councillors | Speaker: Letheya RI |
| | MMC Roads Stormwater and Public Works: Dyonase M |
| | MMC Health and Social Development: Fani NM |
| | MMC Corporate and Shared Services: Mosiane T |
| | MMC Integrated Environmental Management: Lephuting MB |
| | MMC Local Economic, Tourism and Rural Development: Molubi MMW |
| | MMC for Finance: Tabane DV |
| | MMC Public Safety and Transport: Xulu B |
| | MMC Electricity Gas and Water: Mogale IM |
| | MMC Human Settlement and Land Development: Moyeni M |
| | MMC Sports, Recreation, Arts And Culture: Sello GM |
| **Chief Financial Officer (CFO)** | Ngwenya, Antoinette Rinky |
| **Accounting Officer** | Thibini Langa, Reginald |
| **Registered office** | Halite Street Carletonville |
| **Business address** | Halite Street Carletonville |
| **Postal address** | PO Box 3, Carletonville, 2500 |
| **Bankers** | Nedbank Ltd |
| **Auditors** | Auditor-General of South Africa |

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**Abbreviations**

| | |
|---|---|
| WRDM | West Rand District Municipality |
| GRAP | Generally Recognised Accounting Practice |
| NLDTF | National Lottery Distribution Trust Fund |
| VAT | Value Added Tax |
| EPWP | Extended Public Works Programme |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| UIF | Unemployment Insurance Fund |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| SDL | Skills Development Levy |
| WCA | Workmen's Compensation |
| SALGBC | South African Local Government Bargaining Council |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 4 to 72, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016:

**Thibini Langa, Reginald**
**Accounting Officer**

# Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 11 | 30,848,787 | 23,780,603 |
| Receivables from exchange transactions | 12 | 27,809,108 | 87,972,518 |
| Consumer debtors | 14 | 242,493,131 | 171,619,463 |
| Long-term receivables | 7 | - | 1,816 |
| Cash and cash equivalents | 15 | 84,789,166 | 85,947,955 |
| | | **385,940,192** | **369,322,355** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 4 | 3,019,869,319 | 3,004,218,600 |
| Intangible assets | 5 | 2,774,902 | 3,180,190 |
| Heritage assets | 6 | 197,084 | 198,084 |
| Long-term receivables | 7 | - | 1,523 |
| Investments | 10 | 4,171,083 | 11,271,568 |
| | | **3,027,012,388** | **3,018,869,965** |
| **Total Assets** | | **3,412,952,580** | **3,388,192,320** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Long-term liabilities | 16 | 4,887,531 | 10,755,496 |
| Finance lease obligation | 17 | 576,805 | 889,260 |
| Payables from exchange transactions | 20 | 308,682,631 | 271,260,093 |
| VAT payable | 21 | 50,997,537 | 59,274,825 |
| Consumer deposits | 22 | 12,686,551 | 12,484,996 |
| Employee benefit obligation | 9 | 3,028,788 | 2,844,924 |
| Unspent conditional grants and receipts | 18 | 15,122,680 | 17,835,307 |
| Provisions | 19 | 26,747,880 | 25,364,679 |
| | | **422,730,403** | **400,709,580** |
| **Non-Current Liabilities** | | | |
| Long-term liabilities | 16 | 68,532,373 | 47,127,091 |
| Finance lease obligation | 17 | 345,601 | 922,405 |
| Employee benefit obligation | 9 | 118,689,302 | 123,377,522 |
| Provisions | 19 | 30,631,930 | 29,945,640 |
| | | **218,199,206** | **201,372,658** |
| **Total Liabilities** | | **640,929,609** | **602,082,238** |
| **Net Assets** | | **2,772,022,971** | **2,786,110,082** |
| **Net Assets** | | | |
| Accumulated surplus | | 2,772,022,971 | 2,786,110,082 |

* See Note 2 & 44

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| Property rates | 25 | 202,538,770 | 190,456,167 |
| Property rates - penalties imposed and collection charges | | 1,070,224 | 969,528 |
| Service charges | 26 | 592,243,503 | 536,339,819 |
| Rental of facilities and equipment | | 1,381,410 | 1,189,401 |
| Interest earned - external investments | | 5,602,314 | 8,194,090 |
| Interest earned - outstanding receivables | | 54,673,641 | 43,477,465 |
| Fines | | 13,496,334 | 17,109,282 |
| Licences and permits | | 11,410,584 | 7,798,257 |
| Government grants & subsidies | 27 | 347,064,153 | 476,222,697 |
| Public contributions and donations | | 922,931 | 16,542,875 |
| Other income | 28 | 4,803,834 | 13,531,525 |
| **Total revenue** | | **1,235,207,698** | **1,311,831,106** |
| **Expenditure** | | | |
| Employee related costs | 31 | (296,105,178) | (312,717,437) |
| Remuneration of councillors | 32 | (19,795,029) | (18,761,865) |
| Depreciation and amortisation | 35 | (106,082,035) | (105,970,433) |
| Impairment loss | | (15,271,219) | (21,495,787) |
| Finance costs | 36 | (9,969,414) | (3,818,737) |
| Debt impairment | 33 | (227,205,755) | (250,725,986) |
| Collection costs | | (2,645,120) | (5,117,475) |
| Repairs and maintenance | | (11,839,876) | (33,600,459) |
| Bulk purchases | 39 | (382,313,992) | (341,599,234) |
| Contracted services | 37 | (81,951,675) | (130,539,910) |
| Grants and subsidies paid | 38 | (26,548,130) | (103,538,593) |
| General expenses | 30 | (69,567,386) | (90,284,295) |
| **Total expenditure** | | **(1,249,294,809)** | **(1,418,170,211)** |
| **Operating deficit** | | **(14,087,111)** | **(106,339,105)** |
| **Deficit for the year** | | **(14,087,111)** | **(106,339,105)** |

* See Note 2 & 44

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 2,892,276,582 | 2,892,276,582 |
| Adjustments | | |
| Prior period errors | 172,605 | 172,605 |
| **Balance at 01 July 2014 as restated** | **2,892,449,187** | **2,892,449,187** |
| Changes in net assets | | |
| Deficit for the year | (106,339,105) | (106,339,105) |
| Total changes | (106,339,105) | (106,339,105) |
| **Restated* Balance at 01 July 2015** | **2,786,110,082** | **2,786,110,082** |
| Changes in net assets | | |
| Deficit for the year | (14,087,111) | (14,087,111) |
| Total changes | (14,087,111) | (14,087,111) |
| **Balance at 30 June 2016** | **2,772,022,971** | **2,772,022,971** |

Note(s)

* See Note 2 & 44

# Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services & taxes | | 604,229,974 | 619,031,952 |
| Grants | | 343,026,566 | 383,769,824 |
| Interest income | | 5,602,314 | 8,194,090 |
| Other receipts | | 25,538 | 14,134,453 |
| | | 952,884,392 | 1,025,130,319 |
| **Payments** | | | |
| Employee costs | | (290,664,908) | (289,029,675) |
| Suppliers | | (531,634,455) | (575,658,042) |
| Finance costs | | (9,969,414) | (3,423,177) |
| Other payments | | 5,675,980 | (85,986,369) |
| | | (826,592,797) | (954,097,263) |
| **Net cash flows from operating activities** | 40 | **126,291,595** | **71,033,056** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 4 | (148,647,475) | (197,276,324) |
| Purchase of other intangible assets | 5 | (554,790) | (2,192,016) |
| Proceeds from sale of financial assets | | 3,339 | 1,522 |
| Proceeds from sale of investments | | 7,100,485 | - |
| Purchase of investments | | - | (573,953) |
| **Net cash flows from investing activities** | | **(142,098,441)** | **(200,040,771)** |
| **Cash flows from financing activities** | | | |
| Proceeds from long-term liabilities | | 30,300,000 | 21,000,000 |
| Repayment of long-term liabilities | | (14,762,683) | (8,645,949) |
| Finance lease payments | | (889,260) | (1,344,164) |
| **Net cash flows from financing activities** | | **14,648,057** | **11,009,887** |
| **Net decrease in cash and cash equivalents** | | **(1,158,789)** | **(117,997,828)** |
| Cash and cash equivalents at the beginning of the year | | 85,947,955 | 203,945,783 |
| **Cash and cash equivalents at the end of the year** | 15 | **84,789,166** | **85,947,955** |

* See Note 2 & 44

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 151,595,120 | 60,946,970 | 212,542,090 | - | | 212,542,090 | 203,608,994 | | (8,933,096) | 96 % | 134 % |
| Service charges | 622,287,690 | (5,594,000) | 616,693,690 | - | | 616,693,690 | 592,243,503 | | (24,450,187) | 96 % | 95 % |
| Investment revenue | 8,385,751 | (5,600,145) | 2,785,606 | - | | 2,785,606 | 5,602,314 | | 2,816,708 | 201 % | 67 % |
| Transfers recognised - operational | 183,241,398 | 14,822,000 | 198,063,398 | - | | 198,063,398 | 198,657,169 | | 593,771 | 100 % | 108 % |
| Other own revenue | 110,554,533 | 4,263,320 | 114,817,853 | - | | 114,817,853 | 86,688,734 | | (28,129,119) | 76 % | 78 % |
| **Total revenue (excluding capital transfers and contributions)** | **1,076,064,492** | **68,838,145** | **1,144,902,637** | **-** | | **1,144,902,637** | **1,086,800,714** | | **(58,101,923)** | **95 %** | **101 %** |
| Employee costs | (290,899,378) | (15,338,812) | (306,238,190) | - | - | (306,238,190) | (296,105,178) | - | 10,133,012 | 97 % | 102 % |
| Remuneration of councillors | (18,466,422) | (1,328,608) | (19,795,030) | - | - | (19,795,030) | (19,795,029) | - | 1 | 100 % | 107 % |
| Debt impairment | (96,589,370) | (202,108,827) | (298,698,197) | | | (298,698,197) | (227,205,755) | - | 71,492,442 | 76 % | 235 % |
| Depreciation and asset impairment | (109,946,800) | 3,720,727 | (106,226,073) | | | (106,226,073) | (121,353,254) | - | (15,127,181) | 114 % | 110 % |
| Finance charges | (8,458,976) | 1,258,976 | (7,200,000) | - | - | (7,200,000) | (9,969,414) | (2,769,414) | (2,769,414) | 138 % | 118 % |
| Materials and bulk purchases | (392,390,430) | (5,497,041) | (397,887,471) | - | - | (397,887,471) | (382,313,992) | - | 15,573,479 | 96 % | 97 % |
| Other expenditure | (235,632,911) | 69,020 | (235,563,891) | - | - | (235,563,891) | (192,552,187) | - | 43,011,704 | 82 % | 82 % |
| **Total expenditure** | **(1,152,384,287)** | **(219,224,565)** | **(1,371,608,852)** | **-** | **-** | **(1,371,608,852)** | **(1,249,294,809)** | **(2,769,414)** | **122,314,043** | **91 %** | **108 %** |
| **Surplus/(Deficit)** | **(76,319,795)** | **(150,386,420)** | **(226,706,215)** | **-** | | **(226,706,215)** | **(162,494,095)** | | **64,212,120** | **72 %** | **213 %** |

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 76,008,000 | 86,827,737 | 162,835,737 | - | | 162,835,737 | 148,406,984 | | (14,428,753) | 91 % | 195 % |
| **Surplus (Deficit) after capital transfers and contributions** | **(311,795)** | **(63,558,683)** | **(63,870,478)** | **-** | | **(63,870,478)** | **(14,087,111)** | | **49,783,367** | **22 %** | **4,518 %** |
| **Surplus/(Deficit) for the year** | **(311,795)** | **(63,558,683)** | **(63,870,478)** | **-** | | **(63,870,478)** | **(14,087,111)** | | **49,783,367** | **22 %** | **4,518 %** |
| **Capital expenditure and funds sources** | | | | | | | | | | | |
| Total capital expenditure | 76,008,000 | 118,393,237 | 194,401,237 | - | | 194,401,237 | 167,427,584 | | (26,973,653) | 86 % | 220 % |
| **Sources of capital funds** | | | | | | | | | | | |
| Transfers recognised - capital | 76,008,000 | 86,827,737 | 162,835,737 | - | | 162,835,737 | 148,406,984 | | (14,428,753) | 91 % | 195 % |
| Borrowing | - | 28,300,000 | 28,300,000 | - | | 28,300,000 | 9,995,606 | | (18,304,394) | 35 % | DIV/0 % |
| Internally generated funds | - | 3,265,500 | 3,265,500 | - | | 3,265,500 | 9,024,994 | 5,759,494 | 5,759,494 | 276 % | DIV/0 % |
| **Total sources of capital funds** | **76,008,000** | **118,393,237** | **194,401,237** | **-** | | **194,401,237** | **167,427,584** | | **(26,973,653)** | **86 %** | **220 %** |

## Appropriation Statement

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash flows** | | | | | | | | | | | |
| Net cash from (used) operating | 107,852,121 | (123,899,793) | (16,047,672) | - | | (16,047,672) | 126,291,595 | | 142,339,267 | (787)% | 117 % |
| Net cash from (used) investing | (76,008,000) | 132,372,969 | 56,364,969 | - | | 56,364,969 | (142,098,441) | | (198,463,410) | (252)% | 187 % |
| Net cash from (used) financing | (11,798,827) | 87,665,020 | 75,866,193 | - | | 75,866,193 | 14,648,057 | | (61,218,136) | 19 % | (124)% |
| **Net increase/(decrease) in cash and cash equivalents** | **20,045,294** | **96,138,196** | **116,183,490** | **-** | | **116,183,490** | **(1,158,789)** | | **(117,342,279)** | **(1)%** | **(6)%** |
| Cash and cash equivalents at the beginning of the year | 108,505,683 | (58,755,026) | 49,750,657 | - | | 49,750,657 | 85,947,955 | | 36,197,298 | 173 % | 79 % |
| **Cash and cash equivalents at year end** | **128,550,977** | **37,383,170** | **165,934,147** | **-** | | **165,934,147** | **84,789,166** | | **81,144,981** | **51 %** | **66 %** |

# 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.

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

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

### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

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

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

The impairment for trade 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.

**Fair value estimation**

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

**Impairment testing**

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

# Accounting Policies

### 1.2 Property, plant and equipment

**INITIAL RECOGNITION**

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 year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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.

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

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

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

**SUBSEQUENT MEASUREMENT - COST MODEL**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset and the cost or fair value of the item can be measured reliably.

**DEPRECIATION AND IMPAIRMENT**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| **Infrastructure** | | **Other** | |
|---|---|---|---|
| Roads and Paving | 20 - 80 Years | Buildings | 10 - 50 Years |
| Pedestrian Malls | 30 Years | Specialist vehicles | 6 - 10 Years |
| Electricity | 20 - 50 Years | Other vehicles | 5 Years |
| Water | 10 - 80 Years | Office equipment | 3 - 7 Years |
| Sewerage | 15 - 80 Years | Furniture and fittings | 7 - 22 Years |
| | | Watercraft | 15 Years |
| **Community** | | Bins and containers | 10 Years |
| | | Plant and equipment | 7 - 25 Years |
| Buildings | 30 Years | Landfill sites | 15 Years |
| Recreational Facilities | 20 - 30 Years | Quarries | 15 Years |
| Security | 5 Years | Emergency equipment | 5 Years |
| Halls | 30 Years | Computer equipment | 5 Years |
| Libraries | 30 Years | Library Material | 8 -15 Years |
| Parks and gardens | 30 Years | Land | Indefinite |
| Other assets | 5 Years | | |

# Accounting Policies

**Finance lease assets**

| | |
|---|---|
| Office equipment | 3 - 6 Years |
| Other assets | 5 Years |

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**DERECOGNITION**

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.3 Intangible assets**

An asset is identified as an intangible asset when it:

- 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, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

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

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

# Accounting Policies

**INITIAL RECOGNITION**

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

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

**SUBSEQUENT MEASUREMENT - COST MODEL**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**AMORTISATION AND IMPAIRMENT**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

| | |
|---|---|
| Computer software | 3 - 10 years |

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**DERECOGNITION**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

### 1.4 Heritage assets

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

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

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements. Heritage assets at the municipality are primarily art work.

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

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

# Accounting Policies

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

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

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

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

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

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

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

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

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

**Recognition**

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

**Initial measurement**

Heritage assets are measured at cost.

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

**Subsequent measurement**

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

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

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

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

**Impairment**

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

**Transfers**

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

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

# Accounting Policies

**Derecognition**

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

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

**1.5 Financial instruments**

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

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.

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.

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

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 municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

## Accounting Policies

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

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- 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.

# Accounting Policies

**Classification**

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

| Class | Category |
|---|---|
| Trade and other receivables (including long-term receivables) | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Investments | Financial asset measured at amortised cost |

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

| Class | Category |
|---|---|
| Long-term liabilities | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |

**Initial recognition**

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

The municipality recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

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

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

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

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

# Accounting Policies

**Subsequent measurement of financial assets and financial liabilities**

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

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

**Fair value measurement considerations**

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

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

**Reclassification**

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

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

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

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

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

## Accounting Policies

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.

# Accounting Policies

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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 municipality 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 municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality 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 municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

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

# Accounting Policies

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 municipality 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 municipality directly to net assets. Transaction costs incurred on residual interests is accounted for as a deduction from net assets.

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

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

**1.6 Leases**

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

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

**Finance leases - lessee**

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

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

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

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

**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.

**1.7 Inventories**

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or

# Accounting Policies

- 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.

### 1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

# Accounting Policies

**Identification**

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

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

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

**Value in use**

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

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

**Basis for estimates of future cash flows**

In measuring value in use the municipality:

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

**Composition of estimates of future cash flows**

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

**Foreign currency future cash flows**

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The municipality translates the present value using the spot exchange rate at the date of the value in use calculation.

# Accounting Policies

**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.

# Accounting Policies

**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.

**1.9 Impairment of non-cash-generating assets**

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

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

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

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

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

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

# Accounting Policies

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 most appropriate between the following approaches:

**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.

**Restoration cost approach**

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

**Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

# Accounting Policies

**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.

**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.

**1.10 Employee benefits**

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

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.

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

# Accounting Policies

**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.

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 municipality 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 municipality 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 municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the 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 municipality provides post-employment benefits for one or more employees.

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

**Multi-employer plans**

The municipality classifies a multi-employer plan 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 municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality 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 municipality account for the plan as if it was a defined contribution plan.

# Accounting Policies

**Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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 municipality during a reporting period, the municipality 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 municipality 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

**Post-employment benefits: Defined benefit plans**

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

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

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

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

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

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 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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;
- plus any liability that may arise as a result of a minimum funding requirement

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

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality 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 municipality 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.

# Accounting Policies

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.

**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.

**Other post retirement obligations**

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

The municipality recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- actuarial gains and losses, which are recognised immediately;
- past service cost, which are recognised immediately; and
- the effect of any curtailments or settlements.

# Accounting Policies

### 1.11 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality 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.

**LANDFILL REHABILITATION**

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

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 8.54% (2015:6.58%).

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The 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, and any impairment loss is recognised in surplus or deficit.

# Accounting Policies

**Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.8 and 1.9.

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

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

**1.12 Revenue from exchange transactions**

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

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

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

# Accounting Policies

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on. the average of the past six months readings

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

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

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

• The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:
- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- 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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**1.13 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.

# Accounting Policies

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.

# Accounting Policies

**Taxes (Property Rates)**

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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

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

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

**Transfers**

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.

**Debt forgiveness and assumption of liabilities**

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

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

**Fines**

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

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.

**Bequests**

Bequests that satisfy the definition of an asset 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.

**Gifts and donations, including goods in-kind**

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

# Accounting Policies

**Services in-kind**

Except for financial guarantee contracts, the entity recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

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

### 1.14 Borrowing costs

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

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

**Change in accounting policy due to amendments to GRAP 5 - Borrowing costs**

The adoption of amendments to GRAP 5 - Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since 01/07/14. The effective date of the amendments were 01/04/14.

Borrowing costs, incurred both before and after the effective date of this amendment and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this Standard, is recognised in accordance with the municipality's previous accounting policy.

### 1.15 Comparative figures

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

### 1.16 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

### 1.18 Irregular expenditure

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

### 1.19 Use of estimates

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

# Accounting Policies

### 1.20 Going concern

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

### 1.21 Commitments

The annual financial statements have been prepared on the basis of accounting policies applicable to liquidation. 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 until the entity is deregistered.

### 1.22 VAT

VAT is payable on the receipts basis. The municipality is liable to account for VAT at the standard rate (14%) interms of section 7 (1) (a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the Vat Act or is out of scope for VAT purposes.

VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once payment is made to a creditor.

### 1.23 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 provides information on whether resources were obtained and used in accordance with the legally adopted budget.

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

The approved budget covers the fiscal period from 01/07/15 to 30/06/16.

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.

### 1.24 Related parties

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

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

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

### 1.25 Events after reporting date

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

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

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

## Accounting Policies

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following newly effective standards in 2015.

- GRAP 103 - Heritage Assets (Transitional period)

**2015**

**GRAP 103 - Heritage Assets**
The municipality changed its accounting policy with respect to the treatment of Heritage Assets, in order to conform with the requirements of GRAP 103 – Heritage Assets. The municipality now present Heritage Assets as a separate line item in the Statement of Financial Position and not as part of Property, plant and equipment. There is also now a separate Accounting Policy (see accounting policy note 1.4), as well as separate note for Heritage assets (see note 6). The change in accounting policy is made in accordance with the transitional provision in Directive 3, where the municipality is granted a 3 year period to comply with the measurement requirements of the standard.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2016 is as follows:

**Statement of financial position**

| | | |
|---|---|---|
| **Heritage assets** | | |
| Previously stated | - | 14,549 |
| Adjustment | - | 183,535 |
| | **-** | **198,084** |
| **Opening retained earnings** | | |
| Previously stated | - | (2,860,897,652) |
| Adjustment | - | (183,535) |
| | **-** | **(2,861,081,187)** |

## 3. New standards and interpretations

### 3.1 Standards and interpretations issued, but not yet effective

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • GRAP 18: Segment Reporting | 01 April 2017 | Not Material |
| • GRAP 20: Related parties | 01 April 2017 | Not Material |
| • GRAP 32: Service Concession Arrangements: Grantor | 01 April 2017 | Not Material |
| • GRAP 108: Statutory Receivables | 01 April 2017 | Not Material |
| • IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset | 01 April 2017 | Not Material |
| • GRAP 16 (as amended 2015): Investment Property | 01 April 2016 | Not Material |
| • GRAP 17 (as amended 2015): Property, Plant and Equipment | 01 April 2016 | Not Material |
| • GRAP 109: Accounting by Principals and Agents | 01 April 2017 | Not Material |
| • GRAP 21 (as amended 2015): Impairment of non-cash-generating assets | 01 April 2017 | Not Material |
| • GRAP 26 (as amended 2015): Impairment of cash-generating assets | 01 April 2017 | Not Material |

### 4. Property, plant and equipment

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land and buildings | 740,586,385 | (224,517,710) | 516,068,674 | 734,154,861 | (210,503,433) | 523,651,428 |
| Infrastructure | 4,064,937,411 | (1,588,627,545) | 2,476,309,866 | 3,964,895,222 | (1,507,100,631) | 2,457,794,591 |
| Community | 23,102,800 | (16,422,850) | 6,679,949 | 20,602,406 | (15,522,804) | 5,079,602 |
| Finance lease assets | 1,740,035 | (1,323,229) | 416,806 | 1,917,236 | (1,327,225) | 590,011 |
| Other property, plant and equipment | 46,650,600 | (26,256,576) | 20,394,024 | 41,300,518 | (24,197,550) | 17,102,968 |
| **Total** | **4,877,017,230** | **(1,857,147,911)** | **3,019,869,319** | **4,762,870,243** | **(1,758,651,643)** | **3,004,218,600** |

**Reconciliation of property, plant and equipment - 2016**

| | **Opening balance** | **Additions** | **Impairment loss** | **Other changes/ movements** | **Depreciation** | **Total** |
|---|---|---|---|---|---|---|
| Land and buildings | 523,651,427 | 11,967,964 | - | (5,536,439) | (14,014,278) | 516,068,674 |
| Infrastructure | 2,457,794,591 | 126,197,275 | (13,484,652) | (7,089,386) | (87,107,964) | 2,476,309,864 |
| Community | 5,079,602 | 3,081,549 | (588,123) | - | (893,078) | 6,679,951 |
| Finance lease assets | 590,011 | - | (16,750) | - | (156,456) | 416,805 |
| Other property, plant and equipment | 17,102,968 | 7,400,687 | (1,159,451) | - | (2,950,181) | 20,394,023 |
| | **3,004,218,599** | **148,647,475** | **(15,248,975)** | **(12,625,825)** | **(105,121,957)** | **3,019,869,317** |

**Reconciliation of property, plant and equipment - 2015**

| | **Opening balance** | **Additions** | **Disposals** | **Other changes/ movements** | **Depreciation** | **Total** |
|---|---|---|---|---|---|---|
| Land and buildings | 528,040,005 | 10,741,428 | - | (1,204,263) | (13,925,742) | 523,651,427 |
| Infrastructure | 2,380,331,907 | 179,672,891 | (21,551,250) | 4,489,316 | (85,148,274) | 2,457,794,591 |
| Community | 5,187,422 | 2,427,398 | (168,255) | - | (2,366,963) | 5,079,602 |
| Finance lease assets | 395,880 | 316,255 | (5,896) | - | (116,228) | 590,011 |
| Other property, plant and equipment | 15,481,010 | 4,118,352 | (502,513) | 60 | (1,993,941) | 17,102,968 |
| | **2,929,436,224** | **197,276,324** | **(22,227,914)** | **3,285,113** | **(103,551,148)** | **3,004,218,599** |

**Work-in-progress (Included in Infrastructure)**

| | | |
|---|---|---|
| Opening balance | 313,109,297 | 237,962,204 |
| Additions | 137,096,622 | 190,414,320 |
| Transferred to finished items (transfers from work-in-progress to completed assets) | (140,017,865) | (115,267,227) |
| | **310,188,054** | **313,109,297** |

**Other information**

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 | 2016 | 2015 |
|---|---|---|

## 5. Intangible assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software | 8,574,681 | (5,799,779) | 2,774,902 | 8,044,761 | (4,864,571) | 3,180,190 |

**Reconciliation of intangible assets - 2016**

| | **Opening balance** | **Additions** | **Other changes, movements** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 3,180,190 | 554,790 | - | (960,078) | 2,774,902 |

**Reconciliation of intangible assets - 2015**

| | **Opening balance** | **Additions** | **Impairment reversal** | **Amortisation** | **Total** |
|---|---|---|---|---|---|
| Computer software | 2,502,805 | 2,192,016 | 43,228 | (1,557,859) | 3,180,190 |

## 6. Heritage assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Art Collections, antiquities and exhibits | 198,084 | (1,000) | 197,084 | 198,084 | - | 198,084 |

**Reconciliation of heritage assets 2016**

| | **Opening balance** | **Impairment losses recognised** | **Total** |
|---|---|---|---|
| Art Collections, antiquities and exhibits | 198,084 | (1,000) | 197,084 |

**Reconciliation of heritage assets 2015**

| | **Opening balance** | **Total** |
|---|---|---|
| Art Collections, antiquities and exhibits | 198,084 | 198,084 |

Deemed cost was determined using fair value.

## 7. Long-term receivables

| | | |
|---|---|---|
| **At amortised cost** | | |
| Computer loans | - | 3,339 |
| Computer loans are charged at an interest rate equivalent to the rate that Council invests funds during the year | | |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 7. Long-term receivables (continued)

| | | |
|---|---|---|
| **Non-current assets** | | |
| At amortised cost | - | 1,523 |
| **Current assets** | | |
| At amortised cost | - | 1,816 |

## 8. Financial assets by category

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

| | | |
|---|---|---|
| **At amortised cost** | | |
| Consumer debtors | 242,493,130 | 171,619,464 |
| Long-term receivables | - | 3,339 |
| Cash and cash equivalents | 84,789,166 | 85,947,955 |
| Investments | 4,171,083 | 11,271,568 |
| Other receivables from exchange transactions | 27,809,108 | 87,972,518 |
| | **359,262,487** | **356,814,844** |

## 9. Employee benefit obligations

**Defined benefit plan**

The following is defined as a benefit plan: Joint Municipal Pension Fund. These are not treated as defined benefit plans as defined by GRAP25, but are accounted for as defined contribution plans. This is in line with the exemption in GRAP 25.31 which states that where information required for defined benefit plan accounting is not available in respect of multi-employer plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

ARCH Actuaries performed the actuarial valuations at 30 June 2016 as well as 30 June 2015.

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

| | | |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | (121,718,090) | (126,222,446) |
| Non-current liabilities | (118,689,302) | (123,377,522) |
| Current liabilities | (3,028,788) | (2,844,924) |
| | **(121,718,090)** | **(126,222,446)** |

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

| | | |
|---|---|---|
| Opening balance | (126,222,446) | (110,718,963) |
| Benefits paid | 2,844,924 | 2,602,740 |
| Net expense recognised in the statement of financial performance | 1,659,332 | (18,106,223) |
| | **(121,718,190)** | **(126,222,446)** |

**Net expense recognised in the statement of financial performance**

| | | |
|---|---|---|
| Current service cost | (6,437,738) | (6,146,337) |
| Interest cost | (11,064,638) | (9,935,993) |
| Actuarial (gains) losses | 19,161,708 | (2,023,893) |
| | **1,659,332** | **(18,106,223)** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 9. Employee benefit obligations (continued)

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Discount rates used | 9.45 % | 8.86 % |
| Medical cost trend rates | 8.48 % | 8.07 % |
| Expected increase in healthcare costs | 0.89 % | 0.74 % |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**9. Employee benefit obligations (continued)**

**Sensitivity Analysis on the Accrued Liability (R Millions)**

| Assumption | Change | In-service |
|---|---|---|
| Central Assumptions | | 59.767 |
| Health care inflation | 1% | 69.299 |
| | -1% | 26.023 |
| Post-retirement mortality | -1 yr | 29.533 |
| Average retirement age | -1 yr | 65.203 |
| Withdrawal Rate | -50% | 65.020 |

**Sensitivity Analysis on the Accrued Liability (R Millions)**

| Assumption | Continuation | Total | % change |
|---|---|---|---|
| Central Assumptions | 28.245 | 88.012 | |
| Health care inflation | 30.735 | 100.034 | 14% |
| | 26.023 | 77.472 | -12% |
| Post-retirement mortality | 29.533 | 91.432 | 4% |
| Average retirement age | 28.245 | 93.448 | 6% |
| Withdrawal Rate | 28.245 | 93.265 | 6% |

**Sensitivity Analysis on the Current-service and Interest Costs**

| Assumption | Change | Current-service Cost |
|---|---|---|
| Central Assumptions | | 6,437,700 |
| Health care inflation | 1% | 7,688,900 |
| | -1% | 5,367,100 |
| Post-retirement mortality | -1 yr | 7,916,600 |
| Average retirement age | -1 yr | 6,938,500 |
| Withdrawal Rate | -50% | 5,622,300 |

**Sensitivity Analysis on the Current-service and Interest Costs**

| Assumption | Interest Cost | Total | % change |
|---|---|---|---|
| Central Assumptions | 11,064,500 | 17,502,200 | |
| Health care inflation | 12,788,900 | 20,477,800 | 18% |
| | 9,590,000 | 14,957,100 | -15% |
| Post-retirement mortality | 6,455,000 | 14,371,600 | 4% |
| Average retirement age | 6,535,200 | 13,473,700 | 7% |
| Withdrawal Rate | 6,518,300 | 12,140,600 | 8% |

There are no plan assets.

**Key demographic assumptions**

| Assumption | Value |
|---|---|
| Average retirement age | 65 for males; 60 for females |
| Continuation of membership at retirement | 95% |
| Proportion assumed married at retirement | 90% |
| Proportion of eligible current non-member employees joining the scheme by retirement | 10% |
| Mortality during employment | SA 85-90 |
| Mortality post-retirement | PA90-1 |

| Withdrawals from service (sample annual rates) | Age | Females | Males |
|---|---|---|---|
| | 20 | 24% | 16% |
| | 30 | 18% | 12% |
| | 40 | 10% | 8% |
| | 50 | 4% | 4% |
| | >55 | 2% | 2% |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 9. Employee benefit obligations (continued)

**Other assumptions**

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

| | **One percentage point increase** | **One percentage point decrease** |
|---|---|---|
| Effect on the aggregate of the service cost and interest cost | 20,477,800 | (14,957,100) |
| Effect on defined benefit obligation | 142,195,890 | 106,760,990 |

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

| | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| | **R** | **R** | **R** | **R** | **R** |
| Defined benefit obligation | (121,718,090) | (126,222,446) | (110,718,963) | (88,011,586) | (79,823,065) |
| Surplus (deficit) | 19,161,708 | (2,023,893) | (12,164,631) | (22,250) | (3,159,314) |
| Experience adjustments on plan liabilities | (15,076,000) | (356,000) | (10,286,000) | 937,000 | 4,075,000 |

## 10. Investments

| | | |
|---|---|---|
| **At amortised cost** | | |
| Fixed deposits | 4,171,083 | 11,271,568 |

Pledged investments

Fixed deposits amounting to R4,171,083 (2015 - R11,271,568) has been invested for the purpose of repaying long-term liabilities. The investment is with Standard Bank at an interest rate of 4.4%.

**Credit quality of investments**

The credit quality of investments can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 11. Inventories

| | | |
|---|---|---|
| Consumable stores | 7,754,619 | 6,013,668 |
| Water | 669,185 | 597,098 |
| Properties Held for Resale | 22,424,983 | 17,169,837 |
| | **30,848,787** | **23,780,603** |

**Properties held for sale**
Where properties have been identified as being held for sale in the ordinary course of operations, and the intention is to dispose of them, they are recognised as inventory.

**Reconciliation of Consumable stores**

| | | |
|---|---|---|
| Opening balance | 6,017,296 | 4,778,387 |
| Additions | 6,587,231 | 5,555,004 |
| Issued (expensed) | (4,849,908) | (4,316,095) |
| | **7,754,619** | **6,017,296** |

**Reconciliation of Water**

| | | |
|---|---|---|
| Opening balance | 597,098 | 690,357 |
| Additions | 182,745,512 | 174,343,647 |
| Issued (expensed) | (182,673,425) | (174,436,906) |
| | **669,185** | **597,098** |

## 12. Receivables from exchange transactions

| | | |
|---|---|---|
| Other receivables | 898,952 | 1,002,845 |
| SARS | 26,506,153 | 86,826,573 |
| Prepaid expenses | 404,003 | 143,100 |
| Fraud - cashiers | - | 1,800,080 |
| Less: Provision for debt impairment | - | (1,800,080) |
| | **27,809,108** | **87,972,518** |

Fraud Cashiers Debtor has been written off in the 2015/16 financial year as the State has withdrawn the cases against the employees.

**Credit quality of trade and other receivables**

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

**Reconciliation of provision for impairment of receivables from exchange transactions**

| | | |
|---|---|---|
| Opening balance | (1,800,080) | (1,800,080) |
| Debt written off | 1,800,080 | - |
| | **-** | **(1,800,080)** |

## 13. Receivables from non-exchange transactions

| | | |
|---|---|---|
| North West Department of Health | - | 16,206,906 |
| Provision for impairment | - | (16,206,906) |
| | **-** | **-** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 13. Receivables from non-exchange transactions (continued)

**Credit quality of receivables from non-exchange transactions**

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

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

| | | |
|---|---|---|
| Opening balance | 16,206,906 | 16,206,906 |
| Provision for impairment | (16,206,906) | - |
| | **-** | **16,206,906** |

### 14. Consumer debtors

| | | |
|---|---|---|
| **Gross balances** | | |
| Rates | 229,792,542 | 134,646,145 |
| Electricity | 54,265,470 | 52,643,349 |
| Water | 296,474,858 | 258,447,305 |
| Sewerage | 53,432,398 | 44,007,513 |
| Refuse | 85,385,675 | 67,267,983 |
| Other | 265,596,509 | 227,415,642 |
| | **984,947,451** | **784,427,937** |
| **Less: Allowance for impairment** | | |
| Rates | (141,327,739) | (106,617,510) |
| Electricity | (22,844,684) | (25,929,700) |
| Water | (268,962,323) | (236,276,942) |
| Sewerage | (49,382,106) | (40,395,324) |
| Refuse | (79,314,708) | (60,404,287) |
| Other | (180,622,760) | (143,184,711) |
| | **(742,454,320)** | **(612,808,474)** |
| **Net balance** | | |
| Rates | 88,464,803 | 28,028,636 |
| Electricity | 31,420,786 | 26,713,649 |
| Water | 27,512,535 | 22,170,362 |
| Sewerage | 4,050,292 | 3,612,189 |
| Refuse | 6,070,966 | 6,863,696 |
| Other | 84,973,749 | 84,230,931 |
| | **242,493,131** | **171,619,463** |
| **Included in above is receivables from exchange transactions** | | |
| Electricity | 31,420,786 | 26,713,649 |
| Water | 27,512,535 | 22,170,362 |
| Sewerage | 4,050,292 | 3,612,189 |
| Refuse | 6,070,966 | 6,863,696 |
| Other | 84,973,749 | 70,229,453 |
| | **154,028,328** | **129,589,349** |
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| Rates | 88,464,803 | 28,028,636 |
| Other | - | 14,001,478 |
| | **88,464,803** | **42,030,114** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 14. Consumer debtors (continued)

| | | |
|---|---|---|
| **Net balance** | **242,493,131** | **171,619,463** |
| | | |
| **Rates** | | |
| Current (0 -30 days) | 1,319,122 | 9,854,505 |
| 31 - 60 days | 1,677,475 | 8,411,781 |
| 61 - 90 days | 4,776,620 | 5,543,992 |
| 91 - 120 days | 4,951,940 | 5,188,290 |
| 121 - 365 days | 4,874,716 | 6,943,791 |
| > 365 days | 212,192,670 | 98,703,786 |
| | **229,792,542** | **134,646,145** |
| | | |
| **Other** | | |
| Current (0 -30 days) | 23,314,665 | 67,108,331 |
| 31 - 60 days | 6,306,748 | 27,775,729 |
| 61 - 90 days | 40,305,578 | 18,763,759 |
| 91 - 120 days | 16,064,603 | 15,197,061 |
| 121 - 365 days | 37,457,446 | 14,218,158 |
| > 365 days | 631,705,869 | 506,718,754 |
| | **755,154,909** | **649,781,793** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

**14. Consumer debtors (continued)**

**Summary of debtors by customer classification**

| | | |
|---|---|---|
| **Consumers/Households** | | |
| Current (0 -30 days) | 75,430,467 | 36,103,174 |
| 31 - 60 days | 45,005,530 | 21,394,808 |
| 61 - 90 days | 47,263,438 | 16,293,809 |
| 91 - 120 days | 17,377,520 | 13,732,524 |
| 121 - 365 days | 41,032,114 | 15,296,964 |
| > 365 days | 510,084,853 | 300,269,599 |
| | 736,193,922 | 403,090,879 |
| Less: Allowance for impairment | (614,668,283) | (317,729,286) |
| | **121,525,640** | **85,361,594** |
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 32,763,266 | 24,149,275 |
| 31 - 60 days | 22,337,949 | 13,161,760 |
| 61 - 90 days | 10,438,346 | 6,967,277 |
| 91 - 120 days | 8,898,784 | 5,752,845 |
| 121 - 365 days | 9,151,559 | 5,157,915 |
| > 365 days | 140,239,633 | 278,341,858 |
| | 223,829,537 | 333,530,930 |
| Less: Allowance for impairment | (127,540,549) | (278,822,118) |
| | **96,288,988** | **54,708,812** |
| **National and provincial government** | | |
| Current (0 -30 days) | 2,908,575 | 2,465,697 |
| 31 - 60 days | 1,976,910 | 1,415,617 |
| 61 - 90 days | 1,415,635 | 820,849 |
| 91 - 120 days | 1,054,013 | 715,233 |
| 121 - 365 days | 1,089,212 | 617,165 |
| > 365 days | 14,300,125 | 11,388,754 |
| | **22,744,470** | **17,423,316** |
| **Other** | | |
| Current (0 -30 days) | 153,128 | 28,116,619 |
| 31 - 60 days | 81,048 | 225,326 |
| 61 - 90 days | 85,990 | 225,815 |
| 91 - 120 days | 81,283 | 184,748 |
| 121 - 365 days | 92,344 | 89,908 |
| > 365 days | 1,685,726 | 1,540,398 |
| | 2,179,520 | 30,382,815 |
| Less: Allowance for impairment | (245,487) | (16,257,070) |
| | **1,934,033** | **14,125,745** |
| **Total** | | |
| Current (0 -30 days) | 111,255,437 | 90,834,766 |
| 31 - 60 days | 69,401,437 | 36,197,511 |
| 61 - 90 days | 59,203,409 | 24,307,751 |
| 91 - 120 days | 27,411,601 | 20,385,351 |
| 121 - 365 days | 51,365,229 | 21,161,950 |
| > 365 days | 666,310,337 | 591,540,608 |
| | 984,947,450 | 784,427,936 |
| Less: Allowance for impairment | (742,454,319) | (612,808,474) |

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 14. Consumer debtors (continued)

| | | |
|---|---|---|
| | **242,493,131** | **171,619,462** |

**Reconciliation of allowance for impairment**

| | | |
|---|---|---|
| Balance at beginning of the year | (612,808,474) | (477,777,164) |
| Contributions to allowance | (236,495,811) | (250,725,985) |
| Debt impairment written off against allowance | 106,849,966 | 115,694,675 |
| | **(742,454,319)** | **(612,808,474)** |

**Fair value of consumer debtors**

The fair value of consumer debtors approximates their carrying amounts.

**Consumer debtors past due but not impaired**

Consumer debtors which are less than 90 days past due are not considered to be impaired. At 30 June 2016, R 14,803,865 (2015: R 36,103,174) were past due but not impaired.

**Consumer debtors impaired**

As of 30 June 2016, consumer debtors, including sundry debtors and rentals, of R106,849,965 (2015: R115,694,673) were impaired and provided for.

**Trade and other receivables from non-exchange transactions included in the total above**

| | | |
|---|---|---|
| Rates | 88,464,803 | 84,230,931 |

### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand (Credit grade: High) | 14,525 | 14,525 |
| Bank balances (Credit grade: High) | - | 15,278 |
| Call deposits & short-term investments (Credit grade: High) | 84,774,641 | 85,918,152 |
| | **84,789,166** | **85,947,955** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 15. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2016 | 30 June 2015 | 30 June 2014 |
| NEDBANK Ltd - Current account No. 1454087331 | 1,351,369 | 1,635,684 | 11,570,670 | 2,630,685 | (687,110) | 12,276,429 |
| NEDBANK Ltd - Current account No. 1454087358 | - | 70,260 | - | - | - | - |
| NEDBANK Ltd - Current account No. 1454087366 | - | 5,724 | 8,954 | - | 5,725 | 8,954 |
| NEDBANK Ltd - Current account No. 1454087374 | - | 9,535 | - | - | 9,538 | - |
| NEDBANK Ltd - Current account No. 1454087382 | - | (569) | - | - | 15 | - |
| NEDBANK Ltd - Savings account No. 7492501323/5 | 82,143,956 | 86,206,102 | 70,979,319 | 82,143,956 | 86,605,262 | 70,979,319 |
| NEDBANK Ltd - Savings account No. 7492501323/7 | - | - | 2,424,606 | - | - | 2,424,606 |
| NEDBANK Ltd - Savings account No. 7492501323/13 | - | - | 1,120,244 | - | - | 1,120,244 |
| NEDBANK Ltd - Savings account No. 7492501323/15 | - | - | 117,121,704 | - | - | 117,121,704 |
| Cash on hand | - | 14,525 | 14,525 | 14,525 | 14,525 | 14,525 |
| **Total** | **83,495,325** | **87,941,260** | **203,240,022** | **84,789,166** | **85,947,955** | **203,945,781** |

## 16. Other financial liabilities

| | | |
|---|---|---|
| **At amortised cost** | | |
| Bank loans | 73,419,904 | 57,882,587 |
| Various loans with redemption dates ranging from 30 June 2016 and 30 September 2027 and interest rates that ranges between floating and 11.22% | | |
| **Non-current liabilities** | | |
| At amortised cost | 68,532,373 | 47,127,091 |
| **Current liabilities** | | |
| At amortised cost | 4,887,531 | 10,755,496 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 17. Finance lease obligation

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 687,835 | 1,131,673 |
| - in second to fifth year inclusive | 379,275 | 1,067,110 |
| | 1,067,110 | 2,198,783 |
| less: future finance charges | (144,705) | (387,117) |
| **Present value of minimum lease payments** | **922,405** | **1,811,666** |
| | | |
| **Present value of minimum lease payments due** | | |
| - within one year | 576,805 | 889,260 |
| - in second to fifth year inclusive | 345,600 | 922,406 |
| | **922,405** | **1,811,666** |
| | | |
| Non-current liabilities | 345,601 | 922,405 |
| Current liabilities | 576,805 | 889,260 |
| | **922,406** | **1,811,665** |

The finance leases are for photocopiers. The lease terms average from two to five years and the effective borrowing rate is as determined by the Standard Interest Rate to be levied on debt owing to the state. Obligations under finance leases are secured by the lessor's title to the leased asset.

## 18. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| WRDM | 119,910 | - |
| Department of Mineral Energy | (1,315,711) | (2,651,323) |
| Department of Water Affairs | 1,392,681 | - |
| Human Settlement Grant | 11,971,003 | 17,406,706 |
| | | |
| Other grants and donations | 2,954,797 | 2,241,391 |
| Department of Agriculture and Rural Development (GDARD) | - | 838,533 |
| | **15,122,680** | **17,835,307** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 17,835,307 | 109,462,890 |
| Additions during the year | 176,311,745 | 208,995,007 |
| Income recognition during the year | (179,024,372) | (300,622,590) |
| | **15,122,680** | **17,835,307** |

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 19. Provisions

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Long service awards | 25,631,569 | 2,516,390 | - | - | 28,147,959 |
| Provision for rehabilitation of landfill sites | 6,960,441 | 468,655 | (183,785) | - | 7,245,311 |
| Performance bonus | 2,072,629 | 1,520,428 | (1,396,120) | (676,455) | 1,520,482 |
| Leave | 20,645,680 | 9,449,667 | (9,629,289) | - | 20,466,058 |
| | **55,310,319** | **13,955,140** | **(11,209,194)** | **(676,455)** | **57,379,810** |

**Reconciliation of provisions - 2015**

| | Opening Balance | Additions | Utilised during the year | Reversed during the year | Total |
|---|---|---|---|---|---|
| Long service awards | 23,157,693 | 2,473,876 | - | - | 25,631,569 |
| Provision for rehabilitation of landfill sites | 6,676,864 | 501,718 | (218,141) | - | 6,960,441 |
| Performance bonus | 2,093,178 | 1,110,873 | (790,012) | (341,410) | 2,072,629 |
| Leave | 15,725,289 | 11,276,716 | (6,356,325) | - | 20,645,680 |
| | **47,653,024** | **15,363,183** | **(7,364,478)** | **(341,410)** | **55,310,319** |

| | | |
|---|---|---|
| Non-current liabilities | 30,631,930 | 29,945,640 |
| Current liabilities | 26,747,880 | 25,364,679 |
| | **57,379,810** | **55,310,319** |

**Provision for rehabilitation of landfill sites**

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at the prevailing prime interest rate, over the estimate useful life of the landfill site. The calculation was done internally.

**Performance bonus**

Performance bonuses are paid one year in arrears as the assessment of eligible employees has not taken place at the reporting date and no present obligation exists.

Performance bonuses are provided at 14% of the packages of section 57 employees.

## 20. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 119,487,420 | 183,347,817 |
| Payments received in advanced | 12,066,608 | 10,879,668 |
| Outstanding cheques | 140,433,980 | 55,935,790 |
| Retentions | 27,270,056 | 16,439,921 |
| Deposits received | 461,900 | 461,900 |
| Accruals and sundry creditors | 8,962,667 | 4,194,997 |
| | **308,682,631** | **271,260,093** |

**Fair value of trade and other payables**

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

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 21. VAT payable

| | | |
|---|---|---|
| VAT payable | 50,997,537 | 59,274,825 |

VAT is accounted for on the payment (cash) basis.

## 22. Consumer deposits

| | | |
|---|---|---|
| Electricity and Water and sundries | 12,686,551 | 12,484,996 |

## 23. Financial liabilities by category

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

| | | |
|---|---|---|
| **At amortised cost** | | |
| Payables | 359,680,168 | 330,534,918 |
| Finance lease obligation | 922,406 | 1,811,665 |
| Long-term liabilities | 73,419,904 | 57,882,587 |
| Consumer deposits | 12,686,551 | 12,484,996 |
| Unspent conditional grants and receipts | 15,122,680 | 17,835,307 |
| | **461,831,709** | **420,549,473** |

## 24. Revenue

| | | |
|---|---|---|
| Property rates | 202,538,770 | 190,456,167 |
| Property rates - penalties imposed and collection charges | 1,070,224 | 969,528 |
| Service charges | 592,243,503 | 536,339,819 |
| Rental of facilities and equipment | 1,381,410 | 1,189,401 |
| Licences and permits | 11,410,584 | 7,798,257 |
| Government grants & subsidies | 347,064,153 | 476,222,697 |
| Public contributions and donations | 922,931 | 16,542,875 |
| Fines | 13,496,334 | 17,109,282 |
| Interest earned - outstanding receivables | 54,673,641 | 43,477,465 |
| Interest earned - external investment | 5,602,314 | 8,194,090 |
| Other income | 4,803,834 | 13,531,525 |
| | **1,235,207,698** | **1,311,831,106** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 592,243,503 | 536,339,819 |
| Rental of facilities and equipment | 1,381,410 | 1,189,401 |
| Licences and permits | 11,410,584 | 7,798,257 |
| Interest earned - outstanding receivables | 54,673,641 | 43,477,465 |
| Interest earned - external investment | 5,602,314 | 8,194,090 |
| Other income | 4,803,834 | 13,531,525 |
| | **670,115,286** | **610,530,557** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 24. Revenue (continued)

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

| | | |
|---|---|---|
| **Taxation revenue** | | |
| Property rates | 202,538,770 | 190,456,167 |
| Property rates - penalties imposed and collection charges | 1,070,224 | 969,528 |
| **Transfer revenue** | | |
| Government grants & subsidies | 347,064,153 | 476,222,697 |
| Public contributions and donations | 922,931 | 16,542,875 |
| Fines | 13,496,334 | 17,109,282 |
| | **565,092,412** | **701,300,549** |

## 25. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 234,875,200 | 219,826,644 |
| Less: Income forgone | (32,336,430) | (29,370,477) |
| | 202,538,770 | 190,456,167 |
| Property rates - penalties imposed and collection charges | 1,070,224 | 969,528 |
| | **203,608,994** | **191,425,695** |

**Valuations R'000**

| | | |
|---|---|---|
| Residential | 8,067,210 | 8,067,210 |
| Commercial | 2,783,892 | 2,783,892 |
| State | 25,132 | 25,132 |
| Municipal | 137,299 | 137,299 |
| | **11,013,533** | **11,013,533** |

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2012. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions. A general rate of R 0.01214 (2015: R 0.011342) is applied to property valuations for residential properties, R 0.02913 (2015: R 0.02722) for businesses and R 0.03641 (2015: R 0.03403) for mines to determine assessment rates. Rates are levied on a monthly basis on property owners. Interest at the Prime interest rate is levied on outstanding rates.

## 26. Service charges

| | | |
|---|---|---|
| Sale of electricity | 252,957,913 | 220,161,696 |
| Sale of water | 253,089,487 | 237,782,202 |
| Sewerage and sanitation charges | 30,404,336 | 26,453,260 |
| Refuse removal | 54,973,351 | 51,156,468 |
| Rent subsidised housing | 818,416 | 786,193 |
| | **592,243,503** | **536,339,819** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 27. Government grants and subsidies

| | | |
|---|---|---|
| Equitable share and other government grants | 347,064,153 | 476,222,697 |

**Equitable Share**

The amount received and spent for equitable share was R168,320,000 (2015: R178,318,625).

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

All registered indigents receive a monthly subsidy of R341.80 (2015: R315.56), which is funded from this grant.

**MIG Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 12,309,304 |
| Current-year receipts | 56,008,000 | 57,929,000 |
| Conditions met - transferred to revenue | (56,008,000) | (70,238,304) |
| | **-** | **-** |

**Human Settlement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 17,406,707 | 83,865,618 |
| Current-year receipts | 82,566,162 | 125,171,000 |
| Conditions met - transferred to revenue | (88,001,865) | (191,629,911) |
| | **11,971,004** | **17,406,707** |

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

This grant was used to construct housing. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

This grant used to be called North West Provincial Housing Board.

**West Rand District Municipality**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 1,294,883 |
| Current-year receipts | 6,493,248 | 1,415,472 |
| Conditions met - transferred to revenue | (6,373,338) | (2,710,355) |
| | **119,910** | **-** |

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

This grant was used to construct infrastructure and to finance a HIV Programme. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

**Department of Energy**

| | | |
|---|---|---|
| Balance unspent at beginning of year | (2,651,324) | 6,386,089 |
| Current-year receipts | 10,000,000 | 10,000,000 |
| Conditions met - transferred to revenue | (8,664,387) | (19,037,413) |
| | **(1,315,711)** | **(2,651,324)** |

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met. Funds withheld, and thus not received during the year, amounted to R0 (2015: R2,386,089).

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 27. Government grants and subsidies (continued)

**Department of Sports, arts, culture and recreation**

| | | |
|---|---|---|
| Current-year receipts | 9,903,000 | 5,845,000 |
| Conditions met - transferred to revenue | (9,903,000) | (5,845,000) |
| | - | - |

This grant was used to acquire a library management system. Other than the unspent amount, the conditions of the grant were met. No funds have been withheld.

**EPWP**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 4,208,535 |
| Current-year receipts | 2,275,000 | 1,954,000 |
| Conditions met - transferred to revenue | (2,275,000) | (6,162,535) |
| | - | - |

This grant was used to construct infrastructure. Other than the unspent amount, the conditions of the grant were met. Funds withheld, and thus not received during the year, amounted to R0 (2015: R2,708,535).

**North West Provincial Government (NWPG)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 989,775 |
| Other | - | (989,775) |
| | - | - |

**Financial Management Grant (FMG)**

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

**Municipal Systems Improvement Grant**

| | | |
|---|---|---|
| Current-year receipts | 930,000 | 934,000 |
| Conditions met - transferred to revenue | (930,000) | (934,000) |
| | - | - |

**Department of Water Affairs**

| | | |
|---|---|---|
| Current-year receipts | 4,900,000 | - |
| Conditions met - transferred to revenue | (3,507,319) | - |
| | **1,392,681** | - |

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

**National Lottery Fund**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 407,503 | 407,503 |

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

**Department of Agriculture and Rural Development (GDARD)**

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 27. Government grants and subsidies (continued)

| | | |
|---|---|---|
| Balance unspent at beginning of year | 838,534 | - |
| Current-year receipts | - | 2,855,435 |
| Conditions met - transferred to revenue | (838,534) | (2,016,901) |
| | **-** | **838,534** |

**Changes in level of government grants**

Based on the allocations set out in the Division of Revenue Act, 2006, significant changes will occur as all grants allocated to the municipality are reduced substantially.

## 28. Other income

| | | |
|---|---|---|
| Administrative costs | 353,414 | 413,759 |
| Building plan fees | 464,295 | 554,320 |
| Certificates and levies | 167,989 | 960,484 |
| Claims | 677,954 | 2,197,689 |
| Commission and other recoveries | 259,537 | 292,390 |
| Dumping | 75,121 | 132,257 |
| Electricity meter conversions | 207,633 | 273,979 |
| Fees and permits | 736,652 | 676,835 |
| Other income | 1,861,239 | 8,029,812 |
| | **4,803,834** | **13,531,525** |

## 29. Public contributions and donations

| | | |
|---|---|---|
| **Public contributions and donations** | | |
| Donations | 922,930 | 3,855,986 |

These contributions and donations were used for social upliftment. Other than the unspent amount, the conditions of these were met. No funds have been withheld.

| | | |
|---|---|---|
| **Reconciliation of unspent public contributions and donations** | | |
| Balance unspent at the beginning of the year | (1,050,781) | 38,581 |
| Current year receipts | 1,636,336 | 2,766,624 |
| Conditions met - transferred to revenue | (922,930) | (3,855,986) |
| | **(337,375)** | **(1,050,781)** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 30. General expenses

| | | |
|---|---|---|
| Advertising | 371,359 | 231,778 |
| Assets expensed | 285,063 | 849,200 |
| Bank charges | 2,713,862 | 2,946,976 |
| Clean-up projects | 12,508,705 | 9,236,114 |
| Cleaning | 370,238 | 331,556 |
| Community development and training | 2,186,552 | 5,316,392 |
| Conferences and seminars | 6,315 | 184,046 |
| Consumables | 790,110 | 6,949,174 |
| Disaster management | - | 3,854,789 |
| Donations | - | 2,000 |
| Electricity | 17,746,892 | 16,396,975 |
| Employment equity | 1,546,490 | 4,118,583 |
| Entertainment | 161,570 | 420,212 |
| Fuel and oil | 7,767,055 | 12,228,573 |
| Gifts and donations | - | 186,113 |
| Hire | 709,013 | 622,290 |
| Horticulture | 34 | 209,051 |
| IT expenses | 1,301,161 | 1,309,283 |
| Khutsong resettlement costs | 5,635 | 7,315 |
| Magazines, books and periodicals | 5,186 | 113,086 |
| Maintenance of valuation roll | 1,000 | 246,416 |
| Maps | 12,056 | 33,265 |
| Other expenses | 12,693,793 | 12,948,841 |
| Printing and stationery | 771,964 | 960,692 |
| Promotions and sponsorships | 20,298 | (89,120) |
| Reference material | - | 21,376 |
| Refuse | 508,196 | 827,338 |
| Secretarial fees | 101,623 | 67,587 |
| Sewerage | 56,043 | 57,528 |
| Software expenses | 2,508,254 | 3,424,515 |
| Telephone and fax | 3,386,160 | 3,588,321 |
| Title deed search fees | 40,333 | 77,669 |
| Tourism development | 54,764 | 49,385 |
| Training | 817,478 | 1,664,763 |
| Travel - local | 120,184 | 892,213 |
| | **69,567,386** | **90,284,295** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 31. Employee related costs

| | | |
|---|---|---|
| Housing benefits and allowances | 1,959,257 | 1,587,166 |
| Performance bonus | 995,999 | 778,533 |
| Medical aid - company contributions | 21,073,601 | 19,685,065 |
| Overtime payments | 22,899,679 | 23,565,804 |
| Pension | 32,692,738 | 52,254,772 |
| Long service bonus | 2,320,950 | 2,020,457 |
| Provident fund | 1,962,356 | 1,952,792 |
| SALGBC | 86,893 | 85,272 |
| SDL | 2,395,466 | 1,884,409 |
| Salaries and wages | 197,309,002 | 195,064,925 |
| Travel, motor car, accommodation, subsistence and other allowances | 9,718,449 | 10,808,594 |
| UIF | 1,510,954 | 1,379,838 |
| WCA | 1,179,834 | 1,649,810 |
| | **296,105,178** | **312,717,437** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 1,003,560 | 784,669 |
| Travel, motor car, accommodation, subsistence and other allowances | 179,550 | 173,459 |
| Performance & other bonuses | 192,172 | 103,432 |
| Contributions to UIF, Medical and Pension Funds | 357,753 | 104,298 |
| | **1,733,035** | **1,165,858** |

**Remuneration of Chief Financial Officer**

| | | |
|---|---|---|
| Annual Remuneration | 967,644 | 1,021,593 |
| Travel, motor car, accommodation, subsistence and other allowances | 245,819 | 246,388 |
| Performance & other bonuses | 168,323 | - |
| Contributions to UIF, Medical and Pension Funds | 327,400 | 179,567 |
| | **1,709,186** | **1,447,548** |

**Remuneration of Chief Operating Officer**

| | | |
|---|---|---|
| Annual Remuneration | - | 527,741 |
| Travel, motor car, accommodation, subsistence and other allowances | - | 91,735 |
| Contributions to UIF, Medical and Pension Funds | - | 104,299 |
| | **-** | **723,775** |

The Chief Operating Officer is now the Acting Municipal Manager since 1 December 2014.

**Remuneration of executive directors**

| **2016** | Infrastructure Development | Corporate Services | Community Services | Economic Development & Planning | Total |
|---|---|---|---|---|---|
| Annual remuneration | 1,014,588 | 1,023,351 | 1,067,880 | 1,138,433 | 4,244,252 |
| Travel, motor car, accommodation, subsistence and other allowances | 180,949 | 169,154 | 138,109 | 57,389 | 545,601 |
| Performance & other bonuses | 112,632 | 114,008 | 145,586 | 276,060 | 648,286 |
| Contributions to UIF, Medical and Pension Funds | 345,326 | 348,358 | 334,874 | 345,042 | 1,373,600 |
| | **1,653,495** | **1,654,871** | **1,686,449** | **1,816,924** | **6,811,739** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 31. Employee related costs (continued)

| 2015 | Infrastructure Development | Corporate Services | Community Services | Economic Development & Planning | Total |
|---|---|---|---|---|---|
| Annual remuneration | 1,066,869 | 1,069,350 | 1,025,947 | 1,067,196 | 4,229,362 |
| Travel, motor car, accommodation, subsistence and other allowances | 195,545 | 180,036 | 137,750 | 77,480 | 590,811 |
| Performance & other bonuses | - | - | - | 236,794 | 236,794 |
| Contributions to UIF, Medical and Pension Funds | 185,134 | 199,477 | 283,852 | 302,872 | 971,335 |
| | **1,447,548** | **1,448,863** | **1,447,549** | **1,684,342** | **6,028,302** |

Refer to Related Party note for related party relationships (see note 43).

## 32. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 811,529 | 770,497 |
| Executive Committee Members | 7,337,815 | 6,676,962 |
| Speaker | 654,115 | 596,822 |
| Councillors | 10,991,570 | 10,717,584 |
| | **19,795,029** | **18,761,865** |

There are 10 (2015:10 ) Executive Committee Members and 44 (2015:44) Other Councillors.

**In-kind benefits**

The Executive Mayor, Speaker, Chief Whip and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.

The Executive Mayor has four full-time VIP Security personnel.

The Executive Mayor has two full-time bodyguards.

## 33. Debt impairment

| | | |
|---|---|---|
| Debt impairment | 227,205,755 | 250,725,986 |

## 34. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Bank and investments | 5,602,314 | 8,194,090 |

## 35. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 104,822,954 | 104,412,574 |
| Intangible assets | 960,078 | 1,557,859 |
| | **105,783,032** | **105,970,433** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

### 36. Finance costs

| | | |
|---|---|---|
| External loans | 4,839,078 | 2,514,014 |
| Finance leases | 111,030 | 407,446 |
| Interest: Rehabilitation of landfill sites | 468,655 | 501,717 |
| Interest: Arrear accounts | 4,550,651 | 395,560 |
| | **9,969,414** | **3,818,737** |

### 37. Contracted services

| | | |
|---|---|---|
| Fleet Services | 36,819,077 | 50,518,959 |
| Operating Leases | 1,296,311 | 1,364,966 |
| Specialist Services | 33,290,373 | 67,994,216 |
| Other Contractors | 10,545,914 | 10,661,769 |
| | **81,951,675** | **130,539,910** |

### 38. Grants and subsidies paid

| | | |
|---|---|---|
| **Other subsidies** | | |
| Grant/subsidy to indigent consumers | 26,548,130 | 103,538,593 |
| | **26,548,130** | **103,538,593** |

### 39. Bulk purchases

| | | |
|---|---|---|
| Electricity | 199,640,567 | 167,162,325 |
| Water | 182,673,425 | 174,436,909 |
| | **382,313,992** | **341,599,234** |

### 40. Cash generated from operations

| | | |
|---|---|---|
| Deficit | (14,087,111) | (106,339,105) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 106,082,035 | 105,970,433 |
| Finance costs - Finance leases | 242,412 | 395,560 |
| Impairment deficit | 15,271,219 | 21,495,787 |
| Debt impairment | 227,205,755 | 250,725,986 |
| Movements in retirement benefit assets and liabilities | (4,504,356) | 15,503,483 |
| Movements in provisions | 2,069,491 | 7,657,295 |
| Other non-cash items | 12,362,167 | (3,285,291) |
| **Changes in working capital:** | | |
| Inventories | (7,068,184) | (1,143,658) |
| Receivables from exchange transactions | 60,163,410 | (18,220,416) |
| Consumer debtors | (298,079,421) | (219,804,103) |
| Payables from exchange transactions | 37,422,538 | 86,442,998 |
| VAT | (8,277,288) | 22,105,599 |
| Unspent conditional grants and receipts | (2,712,627) | (91,627,583) |
| Consumer deposits | 201,555 | 1,156,071 |
| | **126,291,595** | **71,033,056** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 41. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment - Infrastructure | 81,915,266 | 121,855,214 |
| • Property, plant and equipment - Community | 10,534,730 | 17,766,142 |
| | **92,449,996** | **139,621,356** |

| | | |
|---|---|---|
| **This expenditure will be financed from:** | | |
| Government grants | 82,013,266 | 107,647,740 |
| Own resources | 10,436,730 | 31,973,616 |
| | **92,449,996** | **139,621,356** |

| | | |
|---|---|---|
| **Total capital commitments** | | |
| Already contracted for but not provided for | 92,449,996 | 139,621,356 |

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

**Operating leases - as lessee (expense)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 17,541,196 | 20,474,983 |
| - in second to fifth year inclusive | 1,864,952 | 31,495,392 |
| | **19,406,148** | **51,970,375** |

Operating lease payments represent rentals payable by the municipality for fleet services and office equipment. The lease was negotiated for a period of 36 months. There are no contingent rents on these agreements.

Other operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|---|---|---|

## 42. Contingencies

**Contingent liabilities**

| | | |
|---|---|---|
| Claim for payment of "outstanding" construction fees for work done at new Kokosi waste water treatment plant(wwtp) - Claimant: MSD Engineering & Mining Supplies | - | 1,193,789 |
| Claim to set aside appointment of new Municipal Manager - Claimant: SAMWU | - | 1,000,000 |
| Claim for damages: motor vehicle accident: warrant of execution against property - Claimant: Tsepo Joel Molapo | - | 121,305 |
| Review application for the award of the traffic law enforcement tender - Claimant: Traffic Management Technologies | - | 1,000,000 |
| Appeals court application for the provision of water to the mines- Claimant: Anglogold Ashanti | 2,000,000 | 2,000,000 |
| Combined summons: unlawful termination of meter reading contract: Re Tshepeng General Construction 30 CC & Madi Ke Ao Trading Enterprise CC | 1,500,000 | 2,000,000 |
| Appeals against valuations mining properties claimants: Anglogold Ashanti, Harmony gold, Goldfields | 320,403,799 | 320,403,799 |
| Rescission of Arbitration Award at SALGBC - Claimant: Ms F. Yona | 200,000 | 800,000 |
| Unprocedural Termination of Employment Contract - Claimants: SAMWU obo DR.N.E.Mokgethi-Blaai | 2,000,000 | 3,000,000 |
| Review Application of Bargaining Council Award: Condonation Application - Claimants: SAMWU obo Abram Toons | 500,000 | 500,000 |
| Motion application: High Court: Pule Molefe and Blyvoor residents: Municipality, Rand Water and others | 1,000,000 | - |
| Combines summons: High Court Melsibongakonke, Face of Earth, DPM Trading (grass cutting contract) | 4,280,753 | - |
| Notice of Motion: Labour Court: Application to make bargaining council award an order of court | 1,500,000 | - |
| | **333,384,552** | **332,018,893** |

## 43. Related parties

**Relationships**

| | |
|---|---|
| Acting Municipal Manager (Key management) | Thibini Langa, Reginald |
| Chief Financial Officer (Key management) | Ngwenya Antoinette, Rinky |
| Chief Operating Officer (Key management) | Thibini Langa, Reginald |
| Executive Director (Key management) | Nieuwoudt, Casper, Wilhelmus, Albertus |
| Executive Director (Key management) | Conjwa Zoleka,Gloria |
| Executive Director (Key management) | Hobe Daniel, Mtwakaziwa |
| Executive Director (Key management) | Maja Lekgau, Mack |

Refer to Employee Related Costs note for remuneration of Key Management Personnel (see note 31).

A contract amounting to R191,800 was awarded to close family members of a Councillor of the municipality, M.B. Lephuting, during the year.

## 44. Prior period errors

**2016**
The municipality discovered errors in the work in progress. Merafong municipality, during the merging of all municipal projects under the project management unit, found projects that should have expensed during 2014/15 financial year, which was corrected accordingly.

**2015**
The municipality adjusted depreciation relating to PPE, as well as raised additional fines.

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

### 44. Prior period errors (continued)

| | 2015 | 2014 |
|---|---|---|
| **Statement of Financial Position** | | |
| Property, plant and equipment | 3,311,486 | 17,323,720 |
| Consumer debtors | - | 13,871,929 |
| Opening Accumulated Surplus or Deficit | (172,605) | - |
| | | |
| **Statement of Financial Performance** | | |
| Repairs and maintenance | 4,383,107 | - |
| Fines | - | (13,871,929) |
| Public contributions and donations | (12,686,889) | - |
| Depreciation | 191,769 | (17,323,720) |
| Grants and subsidies paid | 4,973,132 | - |

### 45. Comparative figures

Certain comparative figures have been reclassified and/or renamed in order for the item/transactions to be more in-line with the benchmark presentation and disclosure according to the GRAP Reporting Framework.

### 46. Risk management

**Liquidity risk**

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

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| At 30 June 2016 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Gross lease obligation | 576,804 | 294,096 | 51,505 | - |
| Long term liabilities | 4,887,531 | 5,256,107 | 5,657,158 | 57,619,108 |
| Trade and other payables | 359,680,168 | - | - | - |

| At 30 June 2015 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Gross lease obligation | 889,260 | 576,804 | 345,600 | - |
| Long term liabilities | 10,755,496 | 2,934,176 | 8,802,528 | 35,390,388 |
| Trade and other payables | 330,534,918 | - | - | - |

**Interest rate risk**

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

Call deposits
Notice deposits
Development Bank of South Africa loan

### 46. Risk management (continued)

**Credit risk**

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

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

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

| **Financial instrument** | **2016** | **2015** |
|---|---|---|
| Nedbank | 84,789,166 | 85,947,955 |
| Standard Bank | 4,171,083 | 11,271,568 |
| Trade and other receivables | 264,323,150 | 245,970,899 |

### 47. 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.

### 48. Events after the reporting date

**Non adjusting event**
A sinkhole occurred after year end which affected the supply of water to in a number of areas in Carltonville. A temporary solution has been done. Further investigations need to be performed in order to determine the full extent of the financial implications.

### 49. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | - | 65,689,507 |
| Less: Amounts approved by council | - | (65,689,507) |
| | **-** | **-** |

### 50. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Fruitless and wasteful expenditure - Interest on arrear accounts | 4,550,652 | 395,560 |
| Less: Amounts written by council | (4,550,652) | (395,560) |
| | **-** | **-** |

### 51. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | - | 308,622,906 |
| Add: Expenditure - current year | 13,204,717 | - |
| Less: Amounts approved by council | - | (308,622,906) |
| | **13,204,717** | **-** |

# Notes to the Annual Financial Statements

Figures in Rand

## 52. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

| | | |
|---|---|---|
| Current year subscription | 3,658,670 | (3,633,398) |
| Amount paid - current year | (3,658,670) | 3,633,398 |
| | - | - |

### Audit fees

| | | |
|---|---|---|
| Current year audit fee | 5,122,732 | 4,390,244 |
| Amount paid - current year | (5,122,732) | (4,390,244) |
| | - | - |

### PAYE and UIF

| | | |
|---|---|---|
| Current year payroll deductions | 44,252,558 | 41,151,015 |
| Amount paid - current year | (39,219,795) | (41,151,015) |
| | **5,032,763** | - |

### Pension and Medical Aid Deductions

| | | |
|---|---|---|
| Current year payroll deductions and council contributions | 83,520,516 | 80,836,833 |
| Amount paid - current year | (83,520,516) | (80,836,833) |
| | - | - |

### VAT

| | | |
|---|---|---|
| VAT payable | 50,997,537 | 59,274,825 |

VAT output payables and VAT input receivables are shown in note 21.

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

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

**Councillors' arrear consumer accounts**

One councillor had arrear accounts outstanding for more than 90 days at 30 June 2016.

| 30 June 2016 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| MP Twala | 1,359 | 1,348 | 2,707 |

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| N Madikzela | 1,604 | 4,933 | 6,537 |

During the year no Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2016 | Highest outstanding amount | Aging (in days) |
|---|---|---|
| MP Twala | 10,290 | 90+ |

### 53. Utilisation of Long-term liabilities reconciliation

| | | |
|---|---|---|
| Used to finance property, plant and equipment | 73,419,904 | 14,747,633 |
| | 73,419,904 | 14,747,633 |
| Cash set aside for the repayment of long-term liabilities | (4,171,083) | (11,271,568) |

| | | |
|---|---|---|
| **Long-term liabilities** | | |
| Used to finance property, plant and equipment | 73,419,904 | 14,747,633 |
| Cash set aside and invested for the repayment of long-term liabilities | 4,171,083 | 11,271,568 |

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 54. Deviation from supply chain management regulations

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

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

| | | |
|---|---|---|
| **The expenses incurred, as listed hereunder, have been approved/condoned** | | |
| Emergencies | 4,863,684 | 5,661,173 |
| Sole supplier | 75,623 | 289,801 |
| Impractical and impossible | 3,825,317 | 17,587,839 |
| | **8,764,624** | **23,538,813** |

## 55. Budget differences

**Material differences**

Please refer to explanations below.

**Differences between budget and actual amounts basis of preparation and presentation**

**Investment Revenue** 100%
Provincial Treasury allocated the Human Settlements grant in the latter part of the financial year. The Bridge over rail project had to be stopped pending the transfer of the grant. This had resulted in that the expenditure was slower than anticipated and the grant funding was invested.

**Other Own Revenue** -24%
During the preparation of the budget the expenditure from Licences and permits was not offsetted against the revenue. Revenue was reduced by R25 796 663 as a result of the offsetting

**Debt Impairment** -24%
Council had written off consumer debtors outstanding as at 30 June 2012 with a value of R106,849,965 during June 2016.

**Depreciation and Asset Impairment** 14%
Council had to impair three Reservoirs during 2015-2016 as a result of sinkholes.

**Finance Charges** 38%
The difference is as a result of interest paid on late payments to service providers. Council had to pay Eskom, Rand Water and Telkom interest as a result of late payment for the 2015-2016 financial year.

**Other Expenditure** -19%
During the preparation of the budget the expenditure from Licences and permits was not offsetted against the revenue. Revenue was reduced by R25 796 663 as a result of the offsetting. Council adopted a turn-around strategy. One of the components was a cost cutting exercise. This had resulted in that the departments could only spend if it was an emergency.

**Capital Expenditure and Funds Resources**

**Capital Expenditure** -14%
Provincial Treasury only allocated the Human Settlements grant in the latter part of the financial year. Council could not implement certain human settlement projects as the transfer did not materialised. . the Bridge over rail project had to be stopped pending the transfer of the grant. Provincial Treasury had withdrawn the funds during June 2016.

**Changes from the approved budget to the final budget**

**Property Rates** 40%
The increase is as a result of that Council had to perform supplementary valuations on the mines in line with the outcome of the Valuation Appeals Board.

**Transfers recognised- operational** 8%
Council received an additional grant from the department of Water and Sanitation to curb water losses.

**Employee Costs** 5%
Due to councils financial situation staff cannot purchase leave days due and can also not take leave as required. Council had to provide for the un-used leave days. An additional provision had to be provided for Post-Retirement Benefit due to the slowdown in the economy.

**Debt Impairment** 203%
The Valuation Appeal Board had resolved that a supplementary valuation roll must be done for the mines. The mines once again are appealing the outcome of the supplementary roll, although it was done in line with the Valuation Appeal Boards. They are not paying the assessment rates as ruled by the Board. Blyvooruitzicht mine has been liquidated in 2012 and do not pay for the water supply. The community has obtained a court order to force the municipality to ensure it continues provision of water.

# Notes to the Annual Financial Statements

Figures in Rand

### 56. Distribution losses

During the year under consideration Merafong City Local Municipality had unaccounted water of 47.69% (2015: 46.23%) respectively. The total Rand value of these losses were R46,738,845 (2015: R44,574,184). These losses are represented by 6,866,084 Kl (2015: 6,516,900 Kl). The total technical losses of water amounted to R36 669 347 (2014-15: R35 659 347). Non-technical losses amounted to R10 069 498 (2014-15: R8 914 836) and are mainly due to deterioration of water reticulation system, burst pipes and unauthorised consumption.

During the year under consideration Merafong City Local Municipality had unaccounted Electricity of 29.44% (2015: 22.68%) respectively. The total Rand value of these losses were R58,765,650 (2015: R44,268,749). These losses are represented by 69,052,994Kw (2015: 49,632,036 Kw). . The total technical losses of electricity amounted to R 49 728 426 (2014-15: R37 628 436). Non-technical losses amounted to R9 037 224 (2014-15: R6 640 312) and are due to unauthorised consumption, tampering and faulty meters.