MSUKALIGWA LOCAL MUNICIPALITY

(Registration number MP302)

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

General Information

Legal form of entity	Local Municipality
Mayoral committee	
Executive Mayor	Cllr. J.S. Bongwe
Speaker	Cllr. B.M. Buthelezi
Chief Whip	Cllr. N.G. Mashinini
Member of Mayoral Committee - Technical Services and Development and Planning	Cllr. M.P. Nkosi
Member of Mayoral Committee - Finance and Corporate services	Cllr. V.C.N. Madini
Councillors	Cllr. J.D.A. Blignaut Cllr. J.S. Bongwe Cllr. Z. Breydenbach Cllr. B.M. Buthelezi Cllr. Z.C. Dhludhlu Cllr. K.H. Dladla Cllr. G.S. Greyling Cllr. S.L. Jele Cllr. D.J. Litau Cllr. M.C. Lukhele Cllr. F.J. Mabasa Cllr. D. Mabunda Cllr. B.I Mabuza Cllr. V.C.N. Madini Cllr. T.T. Malaza Cllr. P.B. Maseko Cllr. D.T. Masina Cllr. P.E. Mashiane Cllr. N.G. Mashinini Cllr. S.C. Mathebula Cllr. M.J. Mhlanga Cllr. L.P. Mnisi Cllr. V.J. Mokoena Cllr. E.C. Msezane Cllr. S.J. Msibi Cllr. G.T. Msimango Cllr. B.N.N. Ndlovu Cllr. B.R. Ngwenya Cllr. T.C. Ngwenya Cllr. D.S. Nkosi Cllr. P.B. Nkosi (Deceased) Cllr. S.J. Nkosi Cllr. M.P Nkosi Cllr. Z.N. Nkosi Cllr. B.S. Puwani (Deceased) Cllr. J.H. Sibanyoni Cllr. P.T. Sibeko Cllr. B.I. Sibiya Cllr. H.F. Swart Cllr. S.E. Vilakazi
Chief Finance Officer (CFO)	Ms. M.M. Matsheka (Appointed 1 July 2016)
Accounting Officer	Mr. Z.T. Shongwe
Registered office	Civic Centre C/o Kerk and Taute Street Ermelo 2350

General Information

Business address	Civic Centre C/o Kerk and Taute Street Ermelo 2350
Postal address	PO Box 48 Ermelo 2350
Bankers	Standard Bank Limited
Auditors	Auditor-General of South Africa Registered Auditors
Attorneys	Noltes Attorney Gildenhuys Malatji Attorneys TMN Kgomo & Associates Sefalafala Attorneys Mohlala Attorneys
Rounding	All amounts have been rounded to the nearest R1
Website	www.msukaligwa.gov.za
Contact numbers	Tel: 017 8611 Msuka [086 116 7852] Fax: 017 801 3851

Index

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

Index

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 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.

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

The annual financial statements set out on pages 6 to 100, which have been prepared on the going concern basis, were approved by the accounting officer on 31 July 2016 and were signed on its behalf by:

Mr. Z.T. Shongwe
Municipal Manager

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

Net deficit of the municipality was R 157,031,600 (2015: deficit R 129,423,066).

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 157,031,600 and that the municipality's total liabilities exceed its assets by R 1,367,965,343.

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.

The pre-approved bank overdraft is R 6,000,000, for liquidity risk and at year end was fully covered. Refer to Risk Managment note 44.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer does not have any direct or indirect interest's in contracts.

5. Accounting policies

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

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr. Z.T. Shongwe

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Accounting Officer's Report

Executive Mayor and Municipal Manager

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

Standard Bank Limited is used for daily operations as well as investing of grant funding.

9. Auditors

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

10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

The municipality has no PPP agreements.

MSUKALIGWA LOCAL MUNICIPALITY

(Registration number MP302)
Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	7	10,381,919	7,934,341
Receivables from exchange transactions	8	10,464,312	8,990,500
Receivables from non-exchange transactions	9	366,711	9,563,822
VAT receivable	10	23,456,362	16,180,874
Consumer debtors	11	50,176,329	42,687,200
Cash and cash equivalents	12	19,263,551	29,958,706
		114,109,184	**115,315,443**
Non-Current Assets			
Investment property	3	28,957,232	30,273,469
Property, plant and equipment	4	1,803,288,604	1,849,650,993
Heritage assets	5	1,069,126	1,069,126
		1,833,314,962	**1,880,993,588**
Total Assets		**1,947,424,146**	**1,996,309,031**
Liabilities			
Current Liabilities			
Finance lease obligation	13	337,942	1,219,802
Payables from exchange transactions	16	498,106,790	401,831,128
Consumer deposits	17	12,262,283	10,688,167
Employee benefit obligation	6	2,992,703	2,691,608
Unspent conditional grants and receipts	14	1,661,968	1,212,316
Provisions	15	-	558,061
		515,361,686	**418,201,082**
Non-Current Liabilities			
Finance lease obligation	13	233,761	569,236
Employee benefit obligation	6	41,071,094	37,744,025
Provisions	15	40,792,262	32,797,751
		82,097,117	**71,111,012**
Total Liabilities		**597,458,803**	**489,312,094**
Net Assets		**1,349,965,343**	**1,506,996,937**
Accumulated surplus		1,349,965,343	1,506,996,937

* See Note 42

MSUKALIGWA LOCAL MUNICIPALITY

(Registration number MP302)
Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	265,485,484	231,626,914
Rental of facilities and equipment	20	2,072,750	2,101,040
Agency services		10,993,079	10,196,635
Other income	21	17,216,126	11,252,792
Interest received - investment	22	23,884,193	21,320,790
Total revenue from exchange transactions		**319,651,632**	**276,498,171**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	81,095,403	66,148,543
Transfer revenue			
Government grants & subsidies	24	170,273,366	166,595,135
Public contributions and donations	25	3,489,842	-
Fines		7,011,281	5,889,569
Total revenue from non-exchange transactions		**261,869,892**	**238,633,247**
Total revenue	18	**581,521,524**	**515,131,418**
Expenditure			
Employee related costs	26	(152,862,027)	(148,229,919)
Remuneration of councillors	27	(12,290,330)	(11,628,372)
Depreciation	28	(81,642,023)	(80,740,957)
Impairment loss/ Reversal of impairments	29	(12,853,957)	(5,875,651)
Finance costs	30	(58,141,977)	(17,462,862)
Lease rentals on operating lease		(2,004,526)	(1,355,397)
Debt Impairment	31	(60,985,955)	(41,111,695)
Repairs and maintenance		(41,226,829)	(31,313,517)
Bulk purchases	32	(222,406,798)	(216,894,442)
Contracted services	33	(55,484,758)	(63,546,723)
General Expenses	34	(36,657,171)	(31,614,001)
Total expenditure		**(736,556,351)**	**(649,773,536)**
Operating deficit	36	**(155,034,827)**	**(134,642,118)**
Loss on disposal of assets and liabilities		(1,528,508)	-
Actuarial gains/losses	6	(306,951)	4,866,367
Inventories losses/write-downs		(161,314)	352,685
		(1,996,773)	**5,219,052**
Deficit for the year		**(157,031,600)**	**(129,423,066)**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,308,882,771	1,308,882,771
Adjustments		
Prior year adjustments	327,537,232	327,537,232
Balance at 01 July 2014 as restated*	**1,636,420,003**	**1,636,420,003**
Changes in net assets		
Surplus for the year	(129,423,066)	(129,423,066)
Total changes	(129,423,066)	(129,423,066)
Opening balance as previously reported	1,534,963,581	1,534,963,581
Adjustments		
Prior year adjustments	(27,966,638)	(27,966,638)
Restated* Balance at 01 July 2015 as restated*	**1,506,996,943**	**1,506,996,943**
Changes in net assets		
Surplus for the year	(157,031,600)	(157,031,600)
Total changes	(157,031,600)	(157,031,600)
Balance at 30 June 2016	**1,349,965,343**	**1,349,965,343**

Note(s)

The accounting policies on pages 17 to 48 and the notes on pages 49 to 100 form an integral part of the annual financial statements.

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		70,367,520	54,831,768
Sale of goods and services		219,330,299	244,928,826
Grants		190,421,253	141,438,007
Interest income		23,884,193	21,320,790
Other receipts		17,216,126	11,252,792
		521,219,391	473,772,183
Payments			
Employee costs		(161,524,193)	(161,146,655)
Suppliers		(268,372,505)	(242,414,143)
Finance costs		(58,035,907)	(17,226,387)
		(487,932,605)	(420,787,185)
Net cash flows from operating activities	37	**33,286,786**	**52,984,998**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(42,694,855)	(21,031,462)
Proceeds from sale of property, plant and equipment	4	37,537	-
Net cash flows from investing activities		**(42,657,318)**	**(21,031,462)**
Cash flows from financing activities			
Finance lease payments		(1,323,405)	(2,484,446)
Net increase/(decrease) in cash and cash equivalents		**(10,693,937)**	**29,469,090**
Cash and cash equivalents at the beginning of the year		29,958,706	489,616
Cash and cash equivalents at the end of the year	12	**19,264,769**	**29,958,706**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	306,059,835	(7,520,200)	**298,539,635**	265,485,484	**(33,054,151)**	Refer to Narration area
Rental of facilities and equipment	2,391,513	(211,173)	**2,180,340**	2,072,750	**(107,590)**	Refer to Narration area
Agency services	10,000,000	300,000	**10,300,000**	10,993,079	**693,079**	Refer to Narration area
Other income	9,110,095	171,131	**9,281,226**	17,216,126	**7,934,900**	Refer to Narration area
Interest received - investment	21,507,000	1,250,715	**22,757,715**	23,884,193	**1,126,478**	Refer to Narration area
Total revenue from exchange transactions	**349,068,443**	**(6,009,527)**	**343,058,916**	**319,651,632**	**(23,407,284)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	72,524,528	8,346,795	**80,871,323**	81,095,403	**224,080**	Refer to Narration area
Transfer revenue						
Government grants & subsidies	121,032,850	31,124,000	**152,156,850**	170,273,366	**18,116,516**	Refer to Narration area
Public contributions and donations	-	-	**-**	3,489,842	**3,489,842**	Refer to Narration area
Fines, Penalties and Forfeits	1,546,369	4,064,788	**5,611,157**	7,011,281	**1,400,124**	Refer to Narration area
Total revenue from non-exchange transactions	**195,103,747**	**43,535,583**	**238,639,330**	**261,869,892**	**23,230,562**	
Total revenue	**544,172,190**	**37,526,056**	**581,698,246**	**581,521,524**	**(176,722)**	
Expenditure						
Personnel	(156,870,556)	3,703,542	**(153,167,014)**	(152,862,027)	**304,987**	Refer to Narration area
Remuneration of councillors	(12,394,259)	44,783	**(12,349,476)**	(12,290,330)	**59,146**	Refer to Narration area
Depreciation and amortisation	-	-	**-**	(81,642,023)	**(81,642,023)**	Refer to Narration area
Impairment loss/ Reversal of impairments	-	-	**-**	(12,853,957)	**(12,853,957)**	Refer to Narration area
Finance costs	(270,000)	135,000	**(135,000)**	(58,141,977)	**(58,006,977)**	Refer to Narration area
Lease rentals on operating lease	-	-	**-**	(2,004,526)	**(2,004,526)**	Refer to Narration area
Bad debts written off	(31,607,243)	(20,358,210)	**(51,965,453)**	(60,985,955)	**(9,020,502)**	Refer to Narration area
Repairs and maintenance	(68,327,390)	2,215,145	**(66,112,245)**	(41,226,829)	**24,885,416**	Refer to Narration area

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Bulk purchases	(193,003,611)	(19,236,389)	**(212,240,000)**	(222,406,798)	**(10,166,798)**	Refer to Narration area
Contracted Services	(59,671,003)	(3,495,434)	**(63,166,437)**	(55,484,758)	**7,681,679**	Refer to Narration area
General Expenses	(22,028,128)	(534,493)	**(22,562,621)**	(36,657,171)	**(14,094,550)**	Refer to Narration area
Total expenditure	**(544,172,190)**	**(37,526,056)**	**(581,698,246)**	**(736,556,351)**	**(154,858,105)**	
Operating deficit	**-**	**-**	**-**	**(155,034,827)**	**(155,034,827)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,528,508)	**(1,528,508)**	Refer to Narration area
Actuarial gains/losses	-	-	**-**	(306,951)	**(306,951)**	Refer to Narration area
Inventories losses/write-downs	-	-	**-**	(161,314)	**(161,314)**	Refer to Narration area
	-	**-**	**-**	**(1,996,773)**	**(1,996,773)**	
Deficit before taxation	**-**	**-**	**-**	**(157,031,600)**	**(157,031,600)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**-**	**-**	**(157,031,600)**	**(157,031,600)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	3,643,978	4,290,360	**7,934,338**	10,381,919	**2,447,581**	Refer to Narration area
Receivables from exchange transactions	-	-	**-**	10,464,312	**10,464,312**	Refer to Narration area
Receivables from non-exchange transactions	-	-	**-**	366,711	**366,711**	Refer to Narration area
VAT receivable	-	-	**-**	23,456,362	**23,456,362**	Refer to Narration area
Consumer debtors	247,730,288	(176,144,712)	**71,585,576**	50,176,329	**(21,409,247)**	Refer to Narration area
Other debtors	-	48,669,800	**48,669,800**	-	**(48,669,800)**	Refer to Narration area
Cash and cash equivalents	15,032,570	733,968	**15,766,538**	19,263,551	**3,497,013**	Refer to Narration area
	266,406,836	**(122,450,584)**	**143,956,252**	**114,109,184**	**(29,847,068)**	
Non-Current Assets						
Investment property	-	56,097,600	**56,097,600**	28,957,232	**(27,140,368)**	Refer to Narration area
Property, plant and equipment	1,498,437,979	315,937,427	**1,814,375,406**	1,803,288,604	**(11,086,802)**	Refer to Narration area
Intangible assets	25,263	(25,263)	**-**	-	**-**	Refer to Narration area
Heritage assets	-	-	**-**	1,069,126	**1,069,126**	Refer to Narration area
Other asset	1,129,628	(60,526)	**1,069,102**	-	**(1,069,102)**	Refer to Narration area
	1,499,592,870	**371,949,238**	**1,871,542,108**	**1,833,314,962**	**(38,227,146)**	
Total Assets	**1,765,999,706**	**249,498,654**	**2,015,498,360**	**1,947,424,146**	**(68,074,214)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	337,942	**337,942**	Refer to Narration area
Payables from exchange transactions	164,399,423	(51,987,537)	**112,411,886**	498,106,784	**385,694,898**	Refer to Narration area
Consumer deposits	9,374,414	1,313,750	**10,688,164**	12,262,283	**1,574,119**	Refer to Narration area
Employee benefit obligation	-	-	**-**	2,992,703	**2,992,703**	Refer to Narration area
Unspent conditional grants and receipts	-	-	**-**	1,661,968	**1,661,968**	Refer to Narration area
Provisions	-	1,219,802	**1,219,802**	-	**(1,219,802)**	Refer to Narration area
	173,773,837	**(49,453,985)**	**124,319,852**	**515,361,680**	**391,041,828**	
Non-Current Liabilities						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Finance lease obligation	-	-	**-**	233,761	**233,761**	Refer to Narration area
Employee benefit obligation	73,393,991	(2,294,215)	**71,099,776**	41,071,094	**(30,028,682)**	Refer to Narration area
Provisions	-	569,000	**569,000**	40,792,262	**40,223,262**	Refer to Narration area
	73,393,991	**(1,725,215)**	**71,668,776**	**82,097,117**	**10,428,341**	
Total Liabilities	**247,167,828**	**(51,179,200)**	**195,988,628**	**597,458,797**	**401,470,169**	
Net Assets	**1,518,831,878**	**300,677,854**	**1,819,509,732**	**1,349,965,349**	**(469,544,383)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,518,831,878	300,677,854	**1,819,509,732**	1,349,965,349	**(469,544,383)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

The accounting policies on pages 17 to 48 and the notes on pages 49 to 100 form an integral part of the annual financial statements.

Statement of Financial Position

1)Inventories - High value infrastructure assets kept in inventory for emergency works
2)Receivables from exchange transactions - Not budgeted
3)Receivables from non-exchange transactions - Not budgeted
4)VAT Receivable - Not budgeted
5)Consumer debtors - Slow payment rate and inversed revenue
6)Other debtors - Not budgeted
7)Cash and cash equivalents - Liabilities not reduced as at year end.
8)Investment property - Reallocation of property to PPE
9)Property, plant and equipment - Incorrect depreciation calculation on budget system
10)Heritage assets - Not budgeted
11)Intangible assets - Incorrect budget allocation.
12)Finance lease obligation - Not budgeted
13)Payables from exchange transactions - Bulk creditors not budgeted
14)Consumer deposits - Increase in deposits raised
15)Employee benefit obligation - Increase of salaries for future obligations.
16)Unspent conditional grants and receipts - Not budgeted
17)Provisions - Increase in provision due to closure cost estimates.

Revenue from exchange transactions:
1) Service charges: Water meters not installed and tampering on electricity, billing of water and electricity reduced
2) Rental of facilities and equipment: Facilities and equipment is not properly maintained therefore the need for renting it decline.
3)Agency services: Higher volume of sales in the last quarter of the year
4) Other income (roll up):Due to re-classification of other charges
5) Interest received – investment: The increasing debt book attracted increased interest Revenue from non-exchange transactions
6) Property rates: Due to supplementary valuations
7) Government grants: DORA publication include an adjusted figure for the Equitable share, which was budget for, but the publication was in fact for the prior year's amount which was held back. The MIG allocation was reduce, 11 Million was withheld
8) Public contributions and donations: Budget include in-kind contributions from Eskom and Regional Bulk
9) Fines: Increase in fines issued
Expenditure
10) Personnel: Provision for employee cost and high vacancy rate result in higher overtime and standby allowance
11) Remuneration of councillors:
12) Depreciation: Reworking of Final Asset Register
13) Finance cost: Eskom interest charges
14) Lease rentals on operating lease:Not a budgeting vote in MTRF
15) Bad debts written off: Provision of debt impairment increase
16) Repair and Maintenance: Capital projects budgeted in the capital budget were repair and maintenance projects
17) Bulk purchases: The provision in the budget for water purchase was insufficient. The municipality is in a dispute with Department of Water on the correct billing of water.
18) Loss on disposal of assets and liabilities: Not a budgeting vote
19) Actuarial gains/losses: Not a budgeting vote
20) Contracted Service: Reclassification of accounts
21) General Expenses: Reclassification of accounts

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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Fair value estimation

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

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges forproperty, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Accounting Policies

1.4 Investment property (continued)

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

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

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

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	20 - 50 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 - 10 years
Motor vehicles	Straight line	2 - 10 years
Office equipment	Straight line	2 - 10 years
IT equipment	Straight line	2 - 5 years
Computer software	Straight line	1 year
Workshop equipment	Straight line	2 - 5 years
Infrastructure	Straight line	1 - 65 years
Community	Straight line	2 - 50 years
Other property, plant and equipment	Straight line	5 years

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
   - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
   - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Heritage assets

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

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

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

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

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

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

Accounting Policies

1.7 Heritage assets (continued)

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.

Derecognition

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

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

Accounting Policies

1.8 Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Classification

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

Class	Category
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Exchange transactions Financial asset measured at amortised cost	Financial asset measured at amortised cost
Trade receivables from Non - Exchange transactions	
Investments	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT Payable	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Employee benefit provisions	Financial liability measured at amortised cost
Provisions	Financial liability measured at fair value

Class	Category

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

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

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.9 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

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

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

Accounting Policies

1.9 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

Accounting Policies

1.9 Statutory receivables (continued)

The municipality derecognises a statutory receivable, or a part thereof, when:

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.10 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 .

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 - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 Inventories

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

Accounting Policies

1.11 Inventories (continued)

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

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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.

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.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

Accounting Policies

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

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 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.

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Accounting Policies

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

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.

1.14 Employee benefits

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.15 Provisions and contingencies

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

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

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

Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

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

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

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

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

Accounting Policies

1.15 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

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

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

Accounting Policies

1.17 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

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

1.18 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.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

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

1.18 Revenue from non-exchange transactions (continued)

Taxes

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.

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.20 Investment income

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

1.21 Borrowing costs

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

1.22 Comparative figures

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

Accounting Policies

1.23 Unauthorised expenditure

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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

1.26 Budget information

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

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

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

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

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

The 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.

1.27 Related parties

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

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

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

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

Accounting Policies

1.28 Events after reporting date

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. New standards and interpretations

2.1 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	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 20: Related parties	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 108: Statutory Receivables	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 109: Accounting by Principals and Agents	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	39,487,134	(10,529,902)	28,957,232	39,487,134	(9,213,665)	30,273,469
Total	**39,487,134**	**(10,529,902)**	**28,957,232**	**39,487,134**	**(9,213,665)**	**30,273,469**

Reconciliation of investment property - 2016

	Opening balance	**Depreciation**	**Total**
Investment property	30,273,469	(1,316,237)	28,957,232
	30,273,469	**(1,316,237)**	**28,957,232**

Reconciliation of investment property - 2015

	Opening balance	**Depreciation**	**Total**
Investment property	31,589,707	(1,316,238)	30,273,469
	31,589,707	**(1,316,238)**	**30,273,469**

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

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	189,904,660	-	189,904,660	184,646,044	-	184,646,044
Buildings	132,039,434	(35,210,516)	96,828,918	134,015,725	(31,270,336)	102,745,389
Plant and machinery	1,801,791	(1,230,626)	571,165	2,315,689	(1,366,597)	949,092
Furniture and fixtures	7,197,725	(4,618,385)	2,579,340	6,812,780	(3,966,892)	2,845,888
Motor vehicles	15,129,021	(8,919,591)	6,209,430	11,880,012	(6,731,529)	5,148,483
Office equipment	1,140,060	(698,223)	441,837	1,101,299	(626,806)	474,493
IT equipment	2,322,917	(1,279,237)	1,043,680	2,159,359	(1,160,404)	998,955
Work in progress	22,171,094	-	22,171,094	10,831,269	-	10,831,269
Community	82,432,890	(21,521,527)	60,911,363	80,979,292	(18,753,059)	62,226,233
Landfill sites	4,409,731	-	4,409,731	4,409,731	-	4,409,731
Infrastructure - Generation	402,398,998	(126,907,609)	275,491,389	387,221,973	(117,305,515)	269,916,458
Infrastructure - Reticulation	38,036	(19,662)	18,374	49,740	(22,061)	27,679
Infrastructure - Roads, Pavements & Bridges	891,569,286	(403,668,704)	487,900,582	895,420,729	(366,907,633)	528,513,096
Infrastructure - Sewerage	617,023,472	(232,143,280)	384,880,192	623,489,518	(224,256,541)	399,232,977
Infrastructure - Transportation	7,482,550	(4,115,402)	3,367,148	7,482,550	(3,741,275)	3,741,275
Infrastructure - Water purification	373,766,216	(108,713,568)	265,052,648	370,661,103	(101,713,228)	268,947,875
Leased assets	1,619,242	(441,664)	1,177,578	5,341,611	(1,824,804)	3,516,807
Other assets	1,117,839	(788,364)	329,475	1,205,949	(726,700)	479,249
Total	**2,753,564,962**	**(950,276,358)**	**1,803,288,604**	**2,730,024,373**	**(880,373,380)**	**1,849,650,993**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	184,646,044	2,370,175	-	2,888,441	-	-	-	189,904,660
Buildings	102,745,389	-	(1,464,802)	-	(4,451,669)	-	-	96,828,918
Plant and machinery	949,092	-	(1,724)	-	(221,332)	(154,871)	-	571,165
Furniture and fixtures	2,845,888	431,774	(560)	-	(689,575)	(8,187)	-	2,579,340
Motor vehicles	5,148,483	-	(61,674)	1,831,776	(378,530)	(503,826)	173,201	6,209,430
Office equipment	474,493	88,114	(3,766)	-	(105,803)	(11,201)	-	441,837
IT equipment	998,955	249,321	(1,066)	-	(186,921)	(16,609)	-	1,043,680
Work in progress	10,831,269	39,555,471	-	(28,215,646)	-	-	-	22,171,094
Community	62,226,233	-	-	1,444,220	(2,733,302)	(25,788)	-	60,911,363
Landfill sites	4,409,731	-	-	-	-	-	-	4,409,731
Infrastructure - Generation	269,916,458	-	-	16,153,795	(9,985,610)	(593,254)	-	275,491,389
Infrastructure - Reticulation	27,679	-	-	-	(995)	(8,310)	-	18,374
Infrastructure - Roads, Pavements & Bridges	528,513,096	-	(2,207)	3,244,828	(41,978,816)	(1,876,319)	-	487,900,582
Infrastructure - Sewerage	399,232,977	-	-	-	(10,925,035)	(3,427,750)	-	384,880,192
Infrastructure - Transportation	3,741,275	-	-	-	(374,127)	-	-	3,367,148
Infrastructure - Water purification	268,947,875	-	-	4,484,362	(7,667,091)	(712,498)	-	265,052,648
Leased assets	3,516,807	-	-	(1,831,776)	(507,453)	-	-	1,177,578
Other assets	479,249	-	(30,246)	-	(119,528)	-	-	329,475
	1,849,650,993	**42,694,855**	**(1,566,045)**	**-**	**(80,325,787)**	**(7,338,613)**	**173,201**	**1,803,288,604**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Total
Land	184,646,044	-	-	-	184,646,044
Buildings	107,212,580	-	-	(4,467,191)	102,745,389
Plant and machinery	1,162,998	16,879	-	(230,785)	949,092
Furniture and fixtures	3,521,821	5,263	-	(681,196)	2,845,888
Motor vehicles	4,993,764	-	443,845	(289,126)	5,148,483
Office equipment	550,579	33,900	-	(109,986)	474,493
IT equipment	980,386	238,056	-	(219,487)	998,955
Work in progress	35,141,160	20,474,314	(44,784,205)	-	10,831,269
Community	64,959,536	-	-	(2,733,303)	62,226,233
Landfill sites	4,409,731	-	-	-	4,409,731
Infrastructure - Generation	267,838,078	263,050	11,508,383	(9,693,053)	269,916,458
Infrastructure - Reticulation	28,674	-	-	(995)	27,679
Infrastructure - Roads, Pavements & Bridges	567,741,495	-	2,747,847	(41,976,246)	528,513,096
Infrastructure - Sewerage	410,158,012	-	-	(10,925,035)	399,232,977
Infrastructure - Transportation	4,115,403	-	-	(374,128)	3,741,275
Infrastructure - Water purification	245,427,845	-	30,527,975	(7,007,945)	268,947,875
Leased assets	4,553,731	-	(443,845)	(593,079)	3,516,807
Other assets	599,844	-	-	(120,595)	479,249
	1,908,041,681	**21,031,462**	**-**	**(79,422,150)**	**1,849,650,993**

Pledged as security

None of the investment property has been pledged as security.

Depreciation rates

Item	Depreciation method	Average useful life

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Property, plant and equipment (continued)

Land	Indefinite	Indefinite.
Buildings	Straight line	20 - 50 Years
Leasehold property	Straight line	5 Years
Plant and machinery	Straight line	2 - 15 Years
Furniture and fixtures	Straight line	2 - 10 Years
Motor vehicles	Straight line	2 - 10 Years
Office equipment	Straight line	2 - 10 Years
IT equipment	Straight line	2 - 5 Years
Computer software	Straight line	1 Year
Community	Straight line	2 - 50 Years
Workshop equipment	Straight line	5 Years
Other property, plant and equipment	Straight line	5 Years
Infrastructure - Electricity Generation	Straight line	1 - 65 Years
Infrastructure - Electricity Reticulation	Straight line	1 - 65 Years
Infrastructure - Roads, Pavements & Bridges	Straight line	1 - 65 Years
Infrastructure - Sewerage	Straight line	1 - 65 Years
Infrastructure - Transportation	Straight line	1 - 65 Years
Infrastructure - Water purification	Straight line	1 - 65 Years

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	10,831,269	10,831,269
Additions/capital expenditure	39,555,470	39,555,470
Transferred to completed items	(28,215,646)	(28,215,646)
	22,171,093	**22,171,093**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	35,141,160	35,141,160
Additions/capital expenditure	20,474,314	20,474,314
Transferred to completed items	(44,784,205)	(44,784,205)
	10,831,269	**10,831,269**

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. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Art Collections, antiquities and exhibits	1,069,126	-	1,069,126	1,069,126	-	1,069,126
Total	**1,069,126**	**-**	**1,069,126**	**1,069,126**	**-**	**1,069,126**

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Art Collections, antiquities and exhibits	1,069,126	1,069,126
	1,069,126	**1,069,126**

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Art Collections, antiquities and exhibits	1,069,126	1,069,126
	1,069,126	**1,069,126**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

6. Employee benefit obligations (continued)

Introduction
In estimating the unfunded liability for LSA of Msukaligwa Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or deathin-retirement, the surviving dependants may continue membership of the medical scheme.

Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

Contributions-based Liability: This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

Benefits-based Liability: This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

Cross-subsidy Liability: This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

Past-service and future-service liability: Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Accrued Liability: In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

Cross-subsidy Liability: The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical aid schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

Unfunded Accrued Liability: This is the difference between the Accrued (or past-service) Liability and the value of any off balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities. Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

Long service awards

6. Employee benefit obligations (continued)

The Municipality offers employees LSA for every five years of service completed, from ten years of service to 45 years of service, inclusive.

ompleted Service (in years) Long Service Bonuses (% of Annual Salary) Description
5 2% 5/250 x annual salary
10 4% 10 / 250 x annual salary
15 8% 20 / 250 x annual salary
20,25,30,35,40,45 12% 30 / 250 x annual salary

Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used.

Consequently, a discount rate of 8.09% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability weighted index-linked yield is 1.37%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015. The average duration of the total liability is 7.51 years.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions. General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation. The expected inflation assumption of 6.14% was obtained from the differential between market yields on index-linked bonds (1.37%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.09%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.09%-0.50%)/(1+1.37%))-1. Thus, a general salary inflation rate of 7.14% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.89%. It has been assumed that the next salary increase will take place on 1 July 2016.

Demographic Assumptions

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA. Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.14% per annum for all employees.

Pre-retirement Mortality: SA85-90 ultimate table, adjusted down for female lives. Average Retirement Age: The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and illhealth retirement.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(44,063,797)	(40,435,633)
	(44,063,797)	**(40,435,633)**
Non-current liabilities	(41,071,094)	(37,744,025)
Current liabilities	(2,992,703)	(2,691,608)
	(44,063,797)	**(40,435,633)**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	1,281,009	1,443,000
Expected benefit vesting	(2,691,608)	(2,862,000)
Interest cost	3,321,213	3,578,000
Actuarial (gains)/losses	1,717,550	(3,447,367)
	3,628,164	**(1,288,367)**

Calculation of actuarial gains and losses

Actuarial (gains)/losses – Obligation	306,951	(4,866,367)

7. Inventories

Inventories	10,033,040	7,574,479
Water	348,879	359,862
	10,381,919	**7,934,341**

Carrying value of inventories carried at fair value less costs to sell	10,381,919	7,934,341

Inventory pledged as security

None of the inventory has been pledged as security.

8. Receivables from exchange transactions

Trade debtors	7,319,648	6,269,069
Sundry debtors	1,244,765	2,721,431
Payments made in advance	1,899,899	-
	10,464,312	**8,990,500**

Credit quality of trade and other receivables

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

Trade receivables

Counterparties with external credit rating (Moody's)		
Baa2	10,464,312	8,990,500
	10,464,312	**8,990,500**

Fair value of trade and other receivables

Trade and other receivables	10,464,312	8,990,500

9. Receivables from non-exchange transactions

Fines	366,711	456,822
Government grants and subsidies	-	9,107,000
	366,711	**9,563,822**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

9. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions

Counterparties with external credit rating (Moody's)		
Baa2	366,711	9,563,822
	366,711	**9,563,822**

10. VAT receivable

VAT	23,456,362	16,180,874
	23,456,362	**16,180,874**

11. Consumer debtors

Gross balances		
Rates	72,636,948	60,166,816
Electricity	83,172,717	72,360,596
Water	87,865,985	68,948,669
Sewerage	56,239,195	49,175,955
Refuse	61,701,123	52,964,242
Other	32,739,394	22,264,002
	394,355,362	**325,880,280**
Less: Allowance for impairment		
Rates	(61,909,065)	(48,850,041)
Electricity	(64,528,817)	(55,799,568)
Water	(77,573,234)	(61,783,539)
Sewerage	(51,908,925)	(44,881,788)
Refuse	(57,863,520)	(50,032,297)
Other	(30,395,472)	(21,845,847)
	(344,179,033)	**(283,193,080)**
Net balance		
Rates	10,727,883	11,316,775
Electricity	18,643,900	16,561,028
Water	10,292,751	7,165,130
Sewerage	4,330,270	4,294,167
Refuse	3,837,603	2,931,945
Other (specify)	2,343,922	418,155
	50,176,329	**42,687,200**
Included in above is receivables from exchange transactions		
Electricity	18,643,900	16,561,028
Water	10,292,751	7,165,130
Sewerage	4,330,270	4,294,167
Refuse	3,837,603	2,931,945
Other	2,353,317	418,155
	39,457,841	**31,370,425**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Consumer debtors (continued)

Included in above is receivables from non-exchange transactions (taxes and transfers)

Rates	10,727,883	11,316,775
	10,727,883	**11,316,775**

Net balance	**50,185,724**	**42,687,200**

Rates		
Current (0 -30 days)	2,965,439	5,297,359
31 - 60 days	2,317,521	1,973,934
61 - 90 days	2,120,765	1,744,196
91 - 120 days	2,030,049	1,571,613
121 - 365 days	10,759,986	7,871,475
> 365 days	52,443,188	44,408,239
Consumer Impairment	(61,909,065)	(51,550,041)
	10,727,883	**11,316,775**

Electricity		
Current (0 -30 days)	3,741,843	3,590,543
31 - 60 days	1,676,940	1,782,906
61 - 90 days	1,668,720	1,431,705
91 - 120 days	1,522,194	1,336,022
121 - 365 days	8,414,613	7,901,812
> 365 days	66,148,407	56,317,608
Consumer Impairment	(64,528,817)	(55,799,568)
	18,643,900	**16,561,028**

Water		
Current (0 -30 days)	3,202,175	2,163,545
31 - 60 days	2,137,586	1,368,110
61 - 90 days	2,361,857	1,425,727
91 - 120 days	2,609,899	1,435,088
121 - 365 days	10,008,550	7,190,718
> 365 days	67,545,918	55,365,481
Consumer Impairment	(77,573,234)	(61,783,539)
	10,292,751	**7,165,130**

Sewerage		
Current (0 -30 days)	1,261,426	1,146,497
31 - 60 days	1,054,885	969,201
61 - 90 days	995,640	913,825
91 - 120 days	1,049,142	892,631
121 - 365 days	5,350,289	4,963,526
> 365 days	46,527,813	40,290,275
Consumer Impairment	(51,908,925)	(44,881,788)
	4,330,270	**4,294,167**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Consumer debtors (continued)

Refuse		
Current (0 -30 days)	1,315,805	1,117,503
31 - 60 days	997,192	836,688
61 - 90 days	955,827	797,831
91 - 120 days	905,181	776,895
121 - 365 days	5,015,995	4,413,072
> 365 days	52,511,123	45,022,253
Consumer Impairment	(57,863,520)	(50,032,297)
	3,837,603	**2,931,945**

Other		
Current (0 -30 days)	2,515,853	525,689
31 - 60 days	258,918	291,760
61 - 90 days	973,185	499,579
91 - 120 days	972,569	489,284
121 - 365 days	4,529,850	5,076,124
> 365 days	23,498,414	15,381,566
Consumer Impairment	(30,404,867)	(21,845,847)
	2,343,922	**418,155**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(283,193,080)	(266,951,580)
Contributions to allowance	(60,985,953)	(16,241,500)
	(344,179,033)	**(283,193,080)**

Consumer debtors pledged as security

None of the consumer debtors has been pledged as security.

Credit quality of consumer debtors

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

Trade receivables

Counterparties with external credit rating (Moody's)		
Baa2	50,185,724	42,687,200
	50,185,724	**42,687,200**

Reconciliation of allowance for impairment of consumer debtors

Opening balance	283,193,080	266,951,580
Allowance for impairment	60,985,955	16,241,500
	344,179,035	**283,193,080**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

12. Cash and cash equivalents (continued)

Cash on hand	33,420	33,420
Bank balances	10,368,477	1,738,061
Short-term deposits	8,861,654	28,187,225
	19,263,551	**29,958,706**

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

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

Credit rating		
Baa2	19,263,551	29,958,706
	19,263,551	**29,958,706**

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**
Standard Bank - Business - Account Type - Account - 031077110	10,368,477	1,738,061	457,046	10,368,477	1,738,061	457,046
Standard Bank - Market Link - 335515525	7,267,333	27,522,683	-	7,267,333	27,522,683	-
Standard Bank - Market Link - 738887536-017	1,594,321	664,542	-	1,594,321	664,542	-
Total	**19,230,131**	**29,925,286**	**457,046**	**19,230,131**	**29,925,286**	**457,046**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Finance lease obligation

Minimum lease payments due		
- within one year	377,512	1,322,277
- in second to fifth year inclusive	246,279	615,479
	623,791	1,937,756
less: future finance charges	(52,088)	(148,718)
Present value of minimum lease payments	**571,703**	**1,789,038**

Present value of minimum lease payments due		
- within one year	337,942	1,219,802
- in second to fifth year inclusive	233,761	569,236
	571,703	**1,789,038**

Non-current liabilities	233,761	569,236
Current liabilities	337,942	1,219,802
	571,703	**1,789,038**

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 5 years.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	571,703	1,789,038

The fair value of finance lease liabilities approximates their carrying amounts.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal System Improvement Grant	752,350	-
Sport and Recreation Grant - National Lottery	700,000	700,000
Municipal Infrastructure Grant	209,618	512,316
	1,661,968	**1,212,316**

Movement during the year

Balance at the beginning of the year	1,212,316	11,154,049
Additions during the year	171,025,715	145,433,000
Income recognition during the year	(170,576,063)	(166,380,413)
Receivable through non exchange transaction	-	11,005,680
	1,661,968	**1,212,316**

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

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

See note 24 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Unspent conditional grants and receipts (continued)

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

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	33,355,812	7,436,450	40,792,262
	33,355,812	**7,436,450**	**40,792,262**

Reconciliation of provisions - 2015

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	32,806,935	548,877	33,355,812
	32,806,935	**548,877**	**33,355,812**

Non-current liabilities	40,792,262	32,797,751
Current liabilities	-	558,061
	40,792,262	**33,355,812**

Environmental rehabilitation provision

Adjustment of unit costs

The baseline for the unit costs used in the GLCCM was set in 2011. Unit costs are adjusted annually on 1 April.

Figures in Rand	2016	2015

15. Provisions (continued)

For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the Consumer Price Index1 (CPI) was used to adjust the unit cost for each cost element.

The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering (Earthworks) Index2.

In certain cases, a specific amendment to unit costs (different from the above two indices) is made based on newer information, new technology being used or changes in closure requirements. In 2015, such changes were made to the unit costs of:
- License for closure application
- Basic assessment
- End-use plan
- Geosynthetics alternative
- Gas drainage layer
- Additional capping for impact
- Water monitoring

CPI
The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The average of the CPI for April to June 2016 amounted to 4.5993%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used. The rate most consistent with the remaining life of the landfill published on 30 June 2015 was used. For all these landfills the rate associated with the maximum period of 10 years was used, i.e. 1.75% above CPI.

16. Payables from exchange transactions

13th Cheque Accrual	3,599,978	3,365,203
Deposits received	135,096	125,968
Employee related accruals	1,726,292	1,663,584
Leave pay accrual	12,653,785	11,676,145
Other Creditors	11,386,755	7,757,515
Payments received in advanced - contract in process	8,908,579	9,515,126
Retentions and Guarantees held	4,352,920	3,302,939
Third Party Accruals	1,757,576	1,919,478
Trade and other creditors	394,163,270	320,289,036
Trade payables	59,422,539	42,216,134
	498,106,790	**401,831,128**

Fair value of trade and other payables

Trade payables	498,106,790	401,831,128
	498,106,790	**401,831,128**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

16. Payables from exchange transactions (continued)

The carrying amount of loans to and from shareholders are denominated in the following currencies:

Rand	498,106,790	401,831,128

17. Consumer deposits

All consumer debtors deposits	12,262,283	10,688,167
	12,262,283	**10,688,167**

18. Revenue

Agency services	10,993,079	10,196,635
Fines	7,011,281	5,889,569
Government grants & subsidies	170,273,366	166,595,135
Interest received	23,884,193	21,320,790
Other income	17,216,126	11,252,792
Property rates	81,095,403	66,148,543
Public contributions and donations	3,489,842	-
Rental of facilities and equipment	2,072,750	2,101,040
Service charges	265,485,484	231,626,914
	581,521,524	**515,131,418**

The amount included in revenue arising from exchanges of goods or services are as follows:

Agency services	10,993,079	10,196,635
Interest received	23,884,193	21,320,790
Other income	17,216,126	11,252,792
Rental of facilities and equipment	2,072,750	2,101,040
Service charges	265,485,484	231,626,914
	319,651,632	**276,498,171**

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

Taxation revenue		
Property rates	81,095,403	66,148,543
Transfer revenue		
Government grants & subsidies	170,273,366	166,595,135
Public contributions and donations	3,489,842	-
Fines	7,011,281	5,889,569
	261,869,892	**238,633,247**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Revenue (continued)

Basis on which fair value of inflowing resources was measured

Taxes

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

19. Service charges

Refuse removal	18,337,727	15,821,902
Sale of electricity	178,990,461	164,821,163
Sale of water	46,694,729	31,714,827
Sewerage and sanitation charges	21,462,567	19,269,022
	265,485,484	**231,626,914**

20. Rental of facilities and equipment

Premises		
Premises	1,983,875	1,900,982
	1,983,875	**1,900,982**
Facilities and equipment		
Rental of equipment	88,875	200,058
	88,875	**200,058**
	2,072,750	**2,101,040**

21. Other income

Administration fees	303,038	321,096
Advertising	193,639	162,965
Cementary fees	126,580	76,632
Cementary fees	440,557	364,063
Connection and reconnection fees	11,629,597	8,229,522
Fire Brigade services	488,287	1,020,069
Photo copies	547,572	209,082
Special services	25,303	-
Sundry income	3,461,553	869,363
	17,216,126	**11,252,792**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

22. Investment revenue

Interest revenue		
Interest charged on trade and other receivables	22,693,056	20,440,025
Interest on investments	1,191,137	880,765
	23,884,193	**21,320,790**

23. Property rates

Rates received		
Property rates	100,128,440	69,928,206
Less: Income forgone	(19,033,037)	(3,779,663)
	81,095,403	**66,148,543**

Valuations		
Residential	6,605,511,000	8,860,180,770
State	1,236,405,000	943,445,880
Municipal	233,525,000	359,778,510
Schools	-	674,000
Church	166,420,000	21,866,500
Transnet	-	72,750,520
Agriculture	3,281,989,000	-
Business	2,047,583	-
PSI	57,690,000	-
	1,583,587,583	**0,258,696,180**

The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Government grants and subsidies

Operating grants		
Equitable share	114,641,317	114,917,000
Finance Management Grant	1,675,000	1,600,000
Municipal System Improvement Grant	177,650	934,000
Local Government Sector Education and Training Authority Grant	136,018	221,733
Expanded Public Works Programme Incentive Grant	1,238,000	1,144,000
	117,867,985	**118,816,733**
Capital grants		
Municipal Infrastructure Grant	39,767,381	36,237,261
Intergrated National Electrification Programme	12,638,000	11,541,141
	52,405,381	**47,778,402**
	170,273,366	**166,595,135**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	55,146,399	51,534,135
Unconditional grants received	115,879,316	115,061,000
	171,025,715	**166,595,135**

Equitable Share

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

Financial Management Grant

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,675,000)	(1,600,000)
	-	**-**

The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.

Municipal System Improvement Grant

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(177,650)	(934,000)
	752,350	**-**

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

Sport and Recreation Grant - National Lottery

Balance unspent at beginning of year	700,000	700,000
	700,000	**700,000**

Figures in Rand	2016	2015

24. Government grants and subsidies (continued)

The grant has been provided by the National Lottery to fund the refurbishment of the public swimming pool. The grant has not been utilised as the project costs exceed the available grant funds.

Expanded Public Works Programme Incentive Grant

Current-year receipts	1,238,000	1,144,000
Conditions met - transferred to revenue	(1,238,000)	(1,144,000)
	-	**-**

Incentive paid to public bodies to incentivise work creation. The incentive is paid per quantum of employment created for the EPWP target group and can be measured in person-days of work or full time equivalent jobs.

Grant 23

Balance unspent at beginning of year	512,316	7,311,587
Current-year receipts	39,977,000	43,761,000
Conditions met - transferred to revenue	(39,767,381)	(36,244,271)
Other	-	(14,316,000)
Withheld from Equitable share	(512,317)	-
	209,618	**512,316**

Conditions still to be met - remain liabilities (see note 14).

The municipality has outstanding projects relating to Municipal Infrastructure Grant funding which has yet to be completed. The conditions of the project are directly in-line with the DoRA requirements. The Municipality has committed the unspent portion of the Grant to projects.

The Municipal Infrastructure Grant programme is aimed at providing all South Africans with at least a basic level of service by the year 2015 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

Integrated National Electrification Grant

Balance unspent at beginning of year	-	3,142,462
Current-year receipts	12,638,000	10,000,000
Conditions met - transferred to revenue	(12,638,000)	(11,541,141)
Withheld from Equitable share	-	(3,500,000)
Transfer to receivable from non exchange transaction	-	1,898,679
	-	**-**

Conditions still to be met - remain liabilities (see note 14).

The Neighbourhood Development Programme (NDP) Unit was established in 2006 and is responsible for managing the Neighbourhood Development Partnership Grant (NDPG).
The NDPG is driven by the notion that public investment and funding can be used creatively to attract private and community investment to unlock the social and economic potential in targeted underserved neighbourhoods, generally townships. This in turn will not only improve the quality of life of residents but also contribute to South Africa’s economic performance. The purpose of the grant is to therefore fund, support and facilitate the planning and development of neighbourhood evelopment programmes and projects that provide catalytic infrastructure to leverage such third party public and private sector investment for future and more sustainable development.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Public contributions and donations

Gert Sibande District Municipality	3,090,426	-
Mpumalanga Department: Culture, Sports & Recreation	399,416	-
	3,489,842	**-**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

26. Employee related costs

Basic	82,057,855	78,878,058
Bonus	6,990,708	7,298,915
Medical aid - company contributions	9,891,559	9,099,112
UIF	843,781	835,756
SDL	1,313,313	1,216,034
Other payroll levies	47,625	46,972
Leave pay provision charge	2,750,896	2,882,777
Pension fund	16,692,380	16,477,513
Group Insurance	1,379,347	1,355,062
Accommodation, subsistence and other allowances	5,485,008	6,150,178
Overtime payments	14,597,172	14,205,502
Car allowance	5,305,458	5,186,603
	147,355,102	**143,632,482**

Remuneration of municipal manager

Annual Remuneration	1,170,139	946,877
Travel, motor car, accommodation, subsistence and other allowances	38,283	-
Contributions to UIF, Medical and Pension Funds	81,176	10,807
Acting allowance	-	250,940
Backpay	24,636	-
	1,314,234	**1,208,624**

Remuneration of the General manager - Public Safety

Annual Remuneration	898,340	736,253
Travel, motor car, accommodation, subsistence and other allowances	60,000	60,000
Contributions to UIF, Medical and Pension Funds	34,722	69,658
Acting allowance	79,690	-
Backpay	30,513	-
	1,103,265	**865,911**

Remuneration of the General manager - Corporate Services

Annual Remuneration	671,340	482,431
Travel, motor car, accommodation, subsistence and other allowances	148,045	148,045
Contributions to UIF, Medical and Pension Funds	178,287	202,151
Acting allowance	14,632	-
Backpay	25,012	-
	1,037,316	**832,627**

Remuneration of the General manager - Community and Health

Annual Remuneration	684,048	525,740
Travel, motor car, accommodation, subsistence and other allowances	156,000	143,000
Contributions to UIF, Medical and Pension Funds	157,778	173,943
Backpay	25,011	-
	1,022,837	**842,683**

Remuneration of the General manager - Technical Services

Annual Remuneration	670,706	499,917
Travel, motor car, accommodation, subsistence and other allowances	180,000	180,000

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

26. Employee related costs (continued)

Contributions to UIF, Medical and Pension Funds	154,610	167,675
Backpay	23,957	-
	1,029,273	**847,592**

27. Remuneration of councillors

Executive Major	811,529	770,497
Deputy Executive Mayor	1,844,292	1,751,970
Speaker	654,115	621,290
Councillors	8,980,394	8,484,615
	12,290,330	**11,628,372**

28. Depreciation and amortisation

Property, plant and equipment	82,250,031	80,387,311
Investment property	(608,008)	353,646
	81,642,023	**80,740,957**

29. Impairment of assets

Impairments

Property, plant and equipment	7,166,637	3,976,972
Trade and other receivables - Traffic Fine Impairment	5,687,320	-

An amendedment to IGRAP 1, require the Msukaligwa Local Municipality to account for Traffic Fine Income on the accrual basis.
The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.
IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.
Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.
The municipality therefore accounted for each fine issued on the accural basis, however the probabilty was assessed and it was found that the current year cash received from fines related to less than 12% of fines issued. Therefore the receivable created was impaired in full.

Other receivables from non-exchange revenue	-	1,898,679

Conditions not met on Integrated National Electrification Grant, funds were withheld.

	12,853,957	**5,875,651**

30. Finance costs

Finance leases	106,070	236,475
Loss on foreign currency borrowings	7,436,450	548,877
Other interest paid	3,321,213	3,578,000
Trade and other payables	47,278,244	13,099,510
	58,141,977	**17,462,862**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

31. Debt impairment

Contributions to debt impairment provision	60,985,955	16,241,500
Bad debts written off	-	24,870,195
	60,985,955	**41,111,695**

32. Bulk purchases

Electricity	174,991,765	169,284,344
Water	47,415,033	47,610,098
	222,406,798	**216,894,442**

33. Contracted services

Fleet Services	3,025,445	2,979,317
Information Technology Services	9,451,280	8,191,080
Operating Leases	53,857	66,041
Other Contractors	22,745,175	36,608,114
Specialist Services	20,209,001	15,702,171
	55,484,758	**63,546,723**

34. General expenses

Advertising	725,945	206,900
Assets expensed	37,537	-
Auditors remuneration	3,508,537	4,338,422
Bank charges	1,565,712	1,139,701
Chemicals	3,319,256	3,191,395
Cleaning	353,764	181,198
Commission paid	24	21,217
Community development and training	2,287,759	2,158,874
Conferences and seminars	1,221,249	1,089,269
Consumables	265,322	238,461
Discount allowed	897,446	803,755
Electricity	3,321,434	3,450,576
Entertainment	68,043	75,022
Fines and penalties	4,500	21,000
Fuel and oil	1,143,146	468,470
IT expenses	1,970	853
Insurance	2,235,465	1,900,745
Magazines, books and periodicals	39,543	4,272
Medical expenses	2,946	8,724
Motor vehicle expenses	5,714,055	4,964,991
Other expense	3,373,908	1,436,699
Postage and courier	929,441	908,661
Printing and stationery	1,913,863	1,715,496
Project maintenance costs	19,783	7,273
Promotions	68,500	24,640
Refuse	34,979	20,384
Staff welfare	114,605	17,789
Subscriptions and membership fees	1,570,774	1,450,301
Telephone and fax	1,308,598	1,093,490
Title deed search fees	9,043	22,300
Uniforms	481,813	512,575
Water	118,211	140,548
	36,657,171	**31,614,001**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

35. Auditors' remuneration

Fees	3,508,537	4,338,422
	3,508,537	**4,338,422**

36. Operating deficit

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

Operating lease charges		
Equipment		
• Contingent amounts	2,004,526	1,355,397
	2,004,526	**1,355,397**

Loss on sale of property, plant and equipment	(1,528,508)	-
Impairment on property, plant and equipment	7,166,637	3,976,972
Impairment on trade and other receivables	5,687,320	-
Impairment of other receivables from non-exchange transactions	-	1,898,679
Depreciation on property, plant and equipment	82,250,031	80,387,311
Depreciation on investment property	(608,008)	353,646
Employee costs	165,152,357	159,858,291

37. Cash generated from operations

Deficit	(157,031,600)	(129,423,066)
Adjustments for:		
Depreciation and amortisation	81,642,023	80,740,957
Gain on sale of assets and liabilities	1,528,508	-
Finance costs - Finance leases	106,070	236,475
Impairment deficit	12,853,957	5,875,651
Debt impairment	60,985,955	41,111,695
Movements in retirement benefit assets and liabilities	3,628,164	(1,288,367)
Movements in provisions	7,436,450	548,877
Changes in working capital:		
Inventories	(2,447,578)	(4,290,363)
Receivables from exchange transactions	(7,161,132)	2,560,103
Consumer debtors	(68,475,084)	(49,283,977)
Other receivables from non-exchange transactions	9,197,111	(11,462,501)
Payables from exchange transactions	96,275,662	138,471,123
VAT	(7,275,488)	(12,183,629)
Unspent conditional grants and receipts	449,652	(9,941,733)
Consumer deposits	1,574,116	1,313,753
	33,286,786	**52,984,998**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

38. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	10,464,312	10,464,312
Other receivables from non-exchange transactions	-	366,711	366,711
Consumer debtors	-	50,176,329	50,176,329
Cash and cash equivalents	19,263,551	-	19,263,551
	19,263,551	**61,007,352**	**80,270,903**

Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	498,106,789	498,106,789
Consumer Deposits	-	12,262,283	12,262,283
Unspent conditional grants	1,661,968	-	1,661,968
Finance leases	-	569,236	569,236
	1,661,968	**510,938,308**	**512,600,276**

2015

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	8,990,500	8,990,500
Other receivables from non-exchange transactions	-	9,563,822	9,563,822
Consumer debtors	-	42,687,200	42,687,200
Cash and cash equivalents	29,958,706	-	29,958,706
	29,958,706	**61,241,522**	**91,200,228**

Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	401,831,128	401,831,128
Consumer Deposits	-	10,688,167	10,688,167
Unspent conditional grants	1,212,316	-	1,212,316
Finance leases	-	1,789,038	1,789,038
	1,212,316	**414,308,333**	**415,520,649**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

39. Commitments

Authorised capital expenditure

Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	48,468,662	10,563,408
	48,468,662	**10,563,408**

Total capital commitments		
Not yet contracted for and authorised by accounting officer	48,468,662	10,563,408

This committed expenditure relates to plant and equipment 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.

40. Contingencies

Item Number	Citation of parties	Nature of details of case	Attorney dealing with the matter for the Municipality	Citation at court	Potential Liability	Status
1	**NEWCHO vs Msukaligwa local municipality**	This issue involves land that was earmarked for development but was later disposed of or allocated in a manner which was not in line with the development. NEWCHO as the developer is intending to sue the Municipality for damages.	TMN Kgomo and Associates	The New Housing Company Plaintiff v/s Msukaligwa Municipality	**R 6 483 579.20**	The plaintiff has issued summons and the Municipality is defending the matter.
2	**SIDAS vs Msukaligwa local municipality**	This arises from the alleged breach of contract in that the service provider was awarded the contract which was later awarded to another service provider. SIDAS is suing the Municipality for the future loss of income.	No appointment has been made at reporting date	SIDAS Security services v/s Msukaligwa Municiplaity	**R 34 323 686.10**	This matter is still pending in the High Court and it is at the pleading stage.
3	**J.J Meyer vs Msukaligwa Local Municipality**	An Employee of the Municipality was electrocuted while on duty. He is claiming damages alleging that he was injured as a result of the sole negligence of the Municipality.	TMN Kgomo and Associates	J.J Meyer vs Msukaligwa Local Municipality	**R 1 220 500.00**	This matter is at the pleadings stage and is pending in the High Court
4	**MR MLOTSHWA vs Msukaligwa Local Municipality**	A tractor belonging to the Municipality collided with the vehicle. It is alleged that the accident was caused by the sole negligence of the driver of the tractor of the Municipality.	No appointment has been made at reporting date	Mr Mlotshwa v/s Msukaligwa Local Municipality	**R 28 720.13**	In this matter the Municipality only received summons and we engaged our insurance with a view to allow them to deal with the matter.
5	**AFRIFORM vs Msukaligwa Local Municiplaity**	Action was taken by AfriForum to lay criminal charges against the MM for the contravention of the Water Services Act. (Criminal case)	No appointment has been made at reporting date	AfriForum vs MM	**Unknown at reporting stage**	The case is still with the NPA for a decision whether to prosecute or not.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

40. Contingencies (continued)

6	**Enzo Contarctors(Pty)Ltd vs Msukaligwa Local Muniiplaity**	Action was taken by Enzo Contractors (Pty) Ltd against the municipality and two other parties for payment of costs incurred for the registration and licensing of its rough terrain crane. The Municipality have obtained a rescission order dated 2 August 2011 and filed a plea in the main action.	Gildenhuys Malatji Inc	Enzo Contactors vs Msukaligwa Municiplaity	**R 145 109**	The pleadings have closed, however the plaintiff has taken no action to set the matter down for hearing
7	**MTJ Koekemoer vs Msukaligwa Local Municiplaity**	Legal action was taken by MTJ Koekemoer against the municipality for payment of damages incurred due to an unmarked speed bump. The matter has not been set down for a trial date and has entered the plea stage.	Gildenhuys Malatji Inc	MTJ Koekemoer vs Msukaligwa Local Municiplaity	**R 500 000**	The pleadings have closed, and the matter has been set down for hearing on the 16th of March 2016 in the North Gauteng Provincial Division
8	**Limhoto Housing vs Msukaligwa Local Municiplaity**	Legal action was taken by Limphoto Housing against the municipality for the unlawful disconnection of the electricity.	Sefalafala Attorneys	Limhoto Housing vs Msukaligwa Local Municiplaity	**R 350 000**	The matter has not been set down for a trial date.
9	**CM Mango vs Msukaligwa local Municiplaity**	Action was taken by CM Mango against the municipality for the payment of damages incurred due to failure to barricade a hole and heap of soil on a construction site of the municipality.	TMN Kgomo and Associates	CM Mango vs Msukaligwa local Municiplaity	**R 190 000**	The Municipality is defending the claim and have served and filed a plea and a discovery affidavit, the matter has not been set down for a trial date.

Notes to the Annual Financial Statements

Figures in Rand					2016	2015

40. Contingencies (continued)

10	**GW Heinz vs Msukaligwa local Municipality**	Action was taken by GW Heinz against the municipality for the payment of an arbitration award on order of the court amounting to R500 000. The municipality have applied for review of the arbitration award granted in favour of GW Heinz amounting to. The pleading in this matter have been closed and a trial date have been applied for, the matter has	Sefalafala Attorneys	GW Heinz vs Msukaligwa local Municipality	**R 1,500,000.00**	The award was received in favour of the Municipality, however the Employee is appealing the judgment of the Labour Court
11	**SAMWU On behalf of Hlophe vs Msukaligwa Local Municipality**	Action was taken by SAMWU on behalf of Hlophe and others against the municipality for losses due to unlawful variation of the terms of the employment. The municipality is opposing the claims and pleadings are currently still exchanged, the matter has not been set down for a trial date.	Sefalafala Attorneys	SAMWU On behalf of Hlophe vs Msukaligwa Local Municipality	**R 800,000.00**	This matter is still pending in the labour Court. However an information was supplied to our attorneys that we were paying the employees 1.5 prior to 2011 and from 2013. Then further information will be provided on the amount outstanding for that period. A meeting has been held on the 13th of November 2014 with a view to have an amicable solution on this matter. As the Municipality we need to do a calculation. A detailed report will be presented to Council on this matter.

40. Contingencies (continued)

12	**DP Sibeko & PV Dludlu vs Msukaligwa local Municiplaity**	Employees were charged with misconduct. The employees were dismissed, but the employees raised an appeal, which was won by the employees. The employees were supposed to be re-instated in January 2013, but they were never paid from January 2013. DP Sibeko & PV Dludlu	Gildenhuys Malatji Attorneys	DP Sibeko & PV Dludlu vs Msukaligwa local Municiplaity	**R**	**32,352.75**	This matter s still pending in the labour court. However the municipality has decided to withdraw the matter as the legal fees incurred and still be incurred are estimated to be more than the 48435,80. Subsequently an amount of R67.647.25 has already been paid to the plaintiff
13	**Resident of Ermelo vs Msukalidwa local Municipality**	In this matter the shack of one of the residents was demolished by the Red Ants and the Plaintiff is suing the ward Councillor because the ward Councillor allegedly assured her that the eviction will be stopped.	Mohlala Attorneys	Resident of Ermelo vs Msukalidwa local Municipality	**R**	**62,161.41**	This matter is pending in the Ermelo magistrate court however the attorney of the Plaintiff have filed notice of withdrawal and tendered the cost
14	**WARM AUTUM INVESTEMNTS vs Msukaligwa local Municiplaity**	in this matter the Municipality is being sued as a result of the intended development in Reitspruit on the allegations that the sale of the land was not done in a proper way. Furthermore that the township Establishment processes was not done properly because the objections thereof were not attended	TMN Kgomo and Associates	WARM AUTUM INVESTEMNTS vs Msukaligwa local Municiplaity		**Unknown at reporting stage**	This matter is at the pleading stages
15	**ZWANE TRUST vs Msukaligwa Local Municiplaity**	The municipality erected a water tower and water reservoir on the site that was sold to a private person for the establishment of a mall. The development of the mall was stall as a result thereof	None	ZWANE TRUST vs Msukaligwa Local Municiplaity	**R**	**50,400,000.00**	This matter is still pending and there are discussions with the affected parties

Notes to the Annual Financial Statements

Figures in Rand					2016	2015

40. Contingencies (continued)

16	**REGUCOM JV MONASHE vs Msukaligwa Local Municiplaity**	This matter comes from the procurement processes on debt collection wherein the Plaintiff submitted a tender for that service. The Plaintiff realised that they were appointed after seeing their name on the website as part of those who were awarded the tender. They are suing the Municipality for future loss of income.	Julie Mahommed Attorneys	REGUCOM JV MONASHE vs Msukaligwa Local Municiplaity	**R 50 000 000.00**	The notice of intention to defend has already been filed and the matter is pending in the High Court
17	**ALTIMAX vs Msukaligwa local Municiplaity**	This matter is alleged breach of contract by Altimax in that the Municipality is failing or has failed to pay outstanding payment for services rendered.	None	ALTIMAX vs Msukaligwa local Municiplaity	**R 2 739 638.94**	The Municipality has only been served with the notice in terms of section 3 of Act 40 of 2002. Summons is not yet served
18	**A VERMAAK vs Msukaligwa local Municiplaity**	A vehicle belonging to the resident was involved in the accident as a result of the negligence of the Municipality not to mark the area where it was working with the red tape.	TMN Kgomo and Associates	A VERMAAK vs Msukaligwa local Municiplaity	**R 400 000.00**	The notice of intention to defend has already been filed and the matter is pending in the High Court
19	**B VOGES vs Msukaligwa local Municilaity**	A vehicle belonging to the resident was involved in the accident as a result of the negligence of the Municipality not to mark the area where it was working with the red tape.	TMN Kgomo and Associates	B VOGES vs Msukaligwa local Municilaity	**R 162 384.54**	The notice of intention to defend has already been filed and the matter is pending in the High Court

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

40. Contingencies (continued)

20	**ZWANE TRUST vs Msukaligwa Local Municiplaity**	In the matter the Municipality sold a portion of 234 Nooitgedatch 268 IT to a private person approximately 1,73 hectares. However when the transfer was done to the District Municipality the whole 6,66 hectares was registered in the name of the District Municipality	None	ZWANE TRUST vs Msukaligwa Local Municiplaity	**R 3,570,000.00**	The Municipality has been served with a letter requesting the transfer of the portion but if there is a difficulty in finalising the transfer then a solution can be the refund of the purchase price already paid or an alternative land be identified as compensation thereof

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

41. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	Cllr. J.D.A. Blignaut
	Cllr. J.S. Bongwe
	Cllr. Z. Breydenbach
	Cllr. B.M. Buthelezi
	Cllr. Z.C. Dhludhlu
	Cllr. K.H. Dladla
	Cllr. G.S. Greyling
	Cllr. S.L. Jele
	Cllr. D.J. Litau
	Cllr. M.C. Lukhele
	Cllr. F.J. Mabasa
	Cllr. D. Mabunda
	Cllr. B.I Mabuza
	Cllr. V.C.N. Madini
	Cllr. T.T. Malaza
	Cllr. P.B. Maseko
	Cllr. D.T. Masina
	Cllr. P.E. Mashiane
	Cllr. N.G. Mashinini
	Cllr. S.C. Mathebula
	Cllr. M.J. Mhlanga
	Cllr. L.P. Mnisi
	Cllr. V.J. Mokoena
	Cllr. E.C. Msezane
	Cllr. S.J. Msibi
	Cllr. G.T. Msimango
	Cllr. B.N.N. Ndlovu
	Cllr. B.R. Ngwenya
	Cllr. T.C. Ngwenya
	Cllr. D.S. Nkosi
	Cllr. P.B. Nkosi (Deceased)
	Cllr. S.J. Nkosi
	Cllr. M.P Nkosi
	Cllr. Z.N. Nkosi
	Cllr. B.S. Puwani (Deceased)
	Cllr. J.H. Sibanyoni
	Cllr. P.T. Sibeko
	Cllr. B.I. Sibiya
	Cllr. H.F. Swart
	Cllr. S.E. Vilakazi

Key management information

Mayor	Cllr. J.S. Bongwe	1

Remuneration of management

Notes to the Annual Financial Statements

Figures in Rand

41. Related parties (continued)

Councillors/Mayoral committee members

2016

No	Name	Basic salary	Contributions to	Travel Allowanc	Cell phone Allo	Total
1	Executive Mayor - Cllr. J.S. Bongwe	513,301.00	76,995.00	196,765.00	24,468.00	811,529.00
2	Chief Whip - Cllr. N.G. Mashinini	366,860.00	75,862.00	147,574.00	24,468.00	614,764.00
3	MMC - Technical Services and Develpoment and planning - Cllr. M.P. Nkosi	358,461.00	84,261.00	147,574.00	24,468.00	614,764.00
4	MMC - Finance and Corporate services - Cllr. V.C.N. Madini	365,465.00	77,257.00	147,574.00	24,468.00	614,764.00
5	Speaker - Cllr. B.M. Buthelezi	392,602.00	79,633.00	157,412.00	24,468.00	654,115.00
6	Cllr. J.D.A. Blignaut	134,335.00	43,592.00	59,309.00	24,468.00	261,704.00
7	Cllr. Z. Breydenbach	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
8	Cllr. Z.C. Dhludhlu	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
9	Cllr. K.H. Dladla	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
10	Cllr. G.S. Greyling	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
11	Cllr. S.L. Jele	166,883.00	25,032.00	63,972.00	26,507.00	282,394.00
12	Cllr. D.J. Litau	182,623.00	45,718.00	76,113.00	24,468.00	328,922.00
13	Cllr. M.C. Lukhele	138,785.00	39,142.00	59,309.00	24,468.00	261,704.00
14	Cllr. F.J. Mabasa	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
15	Cllr. S.D. Mabunda	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
16	Cllr. B.I Mabuza	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
17	Cllr. T.T. Malaza	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
18	Cllr. P.B. Maseko	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
19	Cllr. D.T. Masina	90,253.00	13,538.00	34,597.00	14,273.00	152,661.00
20	Cllr. P.E. Mashiane	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
21	Cllr. S.C. Mathebula	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
22	Cllr. M.J. Mhlanga	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
23	Cllr. L.P. Mnisi	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
24	Cllr. V.J. Mokoena	39,928.00	5,989.00	15,306.00	6,314.00	67,537.00
25	Cllr. E.C. Msezane	198,557.00	29,784.00	76,113.00	24,468.00	328,922.00
26	Cllr. S.J. Msibi	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
27	Cllr. G.T. Msimango	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
28	Cllr. B.N.N. Ndlovu	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
29	Cllr. B.R. Ngwenya	198,557.00	29,784.00	76,113.00	24,468.00	328,922.00
30	Cllr. T.C. Ngwenya	198,557.00	29,784.00	76,113.00	24,468.00	328,922.00
31	Cllr. D.S. Nkosi	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
32	Cllr. P.B. Nkosi (Deceased)	24,326.00	3,649.00	9,325.00	4,078.00	41,378.00
33	Cllr. S.J. Nkosi	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
34	Cllr. Z.N. Nkosi	154,717.00	23,210.00	59,309.00	24,468.00	261,704.00
35	Cllr. B.S. Puwani (Deceased)	95,603.00	27,720.00	44,400.00	14,273.00	181,996.00
36	Cllr. J.H. Sibanyoni	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
37	Cllr. P.T. Sibeko	198,557.00	29,784.00	76,113.00	24,468.00	328,922.00
38	Cllr. B.I. Sibiya	198,557.00	29,784.00	76,113.00	24,468.00	328,922.00
39	Cllr. H.F. Swart	154,719.00	23,208.00	59,309.00	24,468.00	261,704.00
40	Cllr. S.E. Vilakazi	137,626.00	40,301.00	59,309.00	24,468.00	261,704.00
	Total	**7,248,933.00**	**1,274,979.00**	**2,844,593.00**	**921,825.00**	**12,290,330.00**

2015

41. Related parties (continued)

No	Name	Basic salary	Contributions to	Travel Allowanc	Cell phone Allo	Total
1	Executive Mayor - Cllr. J.S. Bongwe	486,540.00	72,981.00	186,507.00	24,468.00	770,496.00
2	Chief Whip - Cllr. N.G. Mashinini	349,880.00	69,762.00	139,881.00	24,468.00	583,991.00
3	MMC - Technical Services and Develpoment and planning - Cllr. M.P. Nkosi	357,391.00	62,249.00	139,881.00	24,468.00	583,989.00
4	MMC - Finance and Corporate services - Cllr. V.C.N. Madini	349,880.00	69,762.00	139,881.00	24,468.00	583,991.00
5	Speaker - Cllr. B.M. Buthelezi	374,206.00	73,411.00	149,205.00	24,468.00	621,290.00
6	Cllr. J.D.A. Blignaut	130,936.00	36,920.00	55,952.00	24,468.00	248,276.00
7	Cllr. Z. Breydenbach	145,961.00	21,894.00	55,952.00	24,468.00	248,275.00
8	Cllr. Z.C. Dhludhlu	145,961.00	21,894.00	55,952.00	24,468.00	248,275.00
9	Cllr. K.H. Dladla	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
10	Cllr. G.S. Greyling	145,961.00	21,895.00	55,952.00	24,468.00	248,276.00
11	Cllr. S.L. Jele	129,565.00	19,435.00	51,289.00	22,429.00	222,718.00
12	Cllr. D.J. Litau	138,449.00	29,407.00	55,952.00	24,468.00	248,276.00
13	Cllr. M.C. Lukhele	131,606.00	36,250.00	55,952.00	24,468.00	248,276.00
14	Cllr. F.J. Mabasa	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
15	Cllr. S.D. Mabunda	145,962.00	21,895.00	55,952.00	24,468.00	248,277.00
16	Cllr. B.I Mabuza	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
17	Cllr. T.T. Malaza	145,962.00	21,895.00	55,952.00	24,468.00	248,277.00
18	Cllr. P.B. Maseko	145,961.00	21,894.00	55,952.00	24,468.00	248,275.00
19	Cllr. P.E. Mashiane	145,962.00	21,895.00	55,952.00	24,468.00	248,277.00
20	Cllr. S.C. Mathebula	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
21	Cllr. M.J. Mhlanga	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
22	Cllr. L.P. Mnisi	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
23	Cllr. E.C. Msezane	187,318.00	28,098.00	71,805.00	24,468.00	311,689.00
24	Cllr. S.J. Msibi	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
25	Cllr. G.T. Msimango	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
26	Cllr. B.N.N. Ndlovu	130,936.00	36,920.00	55,952.00	24,468.00	248,276.00
27	Cllr. B.R. Ngwenya	178,553.00	36,863.00	71,805.00	24,468.00	311,689.00
28	Cllr. T.C. Ngwenya	187,318.00	28,098.00	71,805.00	24,468.00	311,689.00
29	Cllr. D.S. Nkosi	145,961.00	21,895.00	55,952.00	24,468.00	248,276.00
30	Cllr. P.B. Nkosi	145,961.00	21,895.00	55,952.00	24,468.00	248,276.00
31	Cllr. S.J. Nkosi	145,961.00	21,895.00	55,952.00	24,468.00	248,276.00
32	Cllr. Z.N. Nkosi	145,961.00	21,894.00	55,952.00	24,468.00	248,275.00
33	Cllr. B.S. Puwani	130,936.00	36,920.00	55,952.00	24,468.00	248,276.00
34	Cllr. J.H. Sibanyoni	145,961.00	21,894.00	55,952.00	24,468.00	248,275.00
35	Cllr. P.T. Sibeko	187,318.00	28,098.00	71,806.00	24,468.00	311,690.00
36	Cllr. B.I. Sibiya	187,318.00	28,098.00	71,806.00	24,468.00	311,690.00
37	Cllr. H.F. Swart	145,962.00	21,894.00	55,952.00	24,468.00	248,276.00
38	Cllr. S.E. Vilakazi	130,936.00	36,920.00	55,952.00	24,468.00	248,276.00
	TOTAL	**6,834,279.00**	**1,189,973.00**	**2,676,375.00**	**927,745.00**	**11,628,372.00**

42. Prior period errors

Statement of Financial Position	2016 Restated	2015 Audited	Difference	Reason
Assets				
Current Assets				
Cash and cash equivalents	29,958,706.00	29,958,706.00	-	
Consumer debtors	42,687,200.00	42,687,200.00	-	
Inventories	7,934,341.00	7,934,341.00	-	
Receivables from exchange transactions	8,990,500.00	10,605,214.00	(1,614,714.00)	Error
Receivables from non-exchange transactions	9,563,822.00	9,563,822.00	-	
VAT receivable/(Payable)	16,180,874.00	25,264,630.00	9,083,756.00	
Total current assets	**115,315,443.00**	**126,013,913.00**	**7,469,042.00**	
Non-Current Assets				
Heritage assets	1,069,126.00	1,069,102.00	(24.00)	Error
Investment property	30,273,469.00	56,097,589.00	25,824,120.00	Error
Property, plant and equipment	1,849,650,993.00	1,769,319,793.00	(80,331,200.00)	Error
Total Non-current assets	**1,880,993,588.00**	**1,826,486,484.00**	**(54,507,104.00)**	
Total Assets	**1,996,309,031.00**	**1,952,500,397.00**	**(47,038,062.00)**	
Liabilities				
Current Liabilities				
Consumer deposits	10,688,167.00	10,688,167.00	-	
Provisions	558,061.00	558,061.00	-	
Finance lease obligation	1,219,802.00	1,219,802.00	-	
Employee benefit obligation	2,691,608.00	2,691,608.00	-	
Payables from exchange transactions	401,831,128.00	476,754,443.00	74,923,315.00	Error
Unspent conditional grants and receipts	1,212,316.00	1,212,316.00	-	
Total Current liabilities	**418,201,082.00**	**493,124,397.00**	**74,923,315.00**	
Non-Current Liabilities				
Finance lease obligation	569,236.00	569,236.00	-	
Employee benefit obligation	37,744,025.00	37,744,025.00	-	
Provisions	32,797,751.00	32,797,751.00	-	
Total Non-Current Liabilities	**71,111,012.00**	**71,111,012.00**	**-**	
Total Liabilities	**489,312,094.00**	**564,235,409.00**	**74,923,315.00**	
Net Assets				
Accumulated surplus	1,506,996,937.00	1,388,264,988.00	(27,885,253.00)	Error
Total Net Assets	**1,506,996,937.00**	**1,388,264,988.00**	**(27,885,253.00)**	

Statement of Financial Performance	2016 Restated	2015 Audited	Difference	Reason
Revenue				
Revenue from exchange transactions				
Service charges	231,626,914.00	231,626,914.00	-	
Income from agency services	10,196,635.00	10,196,635.00	-	
Rental of facilities and equipment	2,101,040.00	2,101,040.00	-	

42. Prior period errors (continued)

Other income	11,252,791.00	11,252,791.00	-	
Interest received	21,320,790.00	21,320,790.00	-	
Total revenue from exchange transactions	**276,498,170.00**	**276,498,170.00**	**-**	
Revenue from non-exchange transactions				
Taxation revenue				
Property rates	66,148,543.00	66,148,543.00	-	
Transfer revenue				
Government grants & subsidies	166,595,135.00	166,595,135.00	-	
Fines	5,889,569.00	5,868,569.00	(21,000.00)	Reclassify
Total revenue from non-exchange transactior	**238,633,247.00**	**238,612,247.00**	**(21,000.00)**	
Total revenue	**515,131,417.00**	**515,110,417.00**	**(21,000.00)**	

Expenditure	**2016 Restated**	**2015 Audited**	**Difference**	**Reason**
Employee related costs	(148,229,918.00)	(148,229,918.00)	-	
Remuneration of councillors	(11,628,372.00)	(11,628,372.00)	-	
Contracted services	(63,546,723.00)	(47,844,552.00)	15,702,171.00	Reclassify
Depreciation	(80,740,957.00)	(80,658,663.00)	82,294.00	
Impairment loss	(5,875,651.00)	(5,875,651.00)	-	
Finance costs	(17,462,862.00)	(17,462,862.00)	-	
Lease rentals on operating lease	(1,355,397.00)	(1,988,767.00)	(633,370.00)	Reclassify
Debt impairment	(41,111,695.00)	(41,111,695.00)	-	
Repairs and maintenance	(31,313,517.00)	(30,321,419.00)	992,098.00	Error
Bulk purchases	(216,894,442.00)	(216,894,442.00)	-	
General Expenses	(31,614,001.00)	(47,295,172.00)	(15,681,171.00)	Reclassify
Total expenditure	**(649,773,535.00)**	**(649,311,513.00)**	**462,022.00**	
Operating deficit	(134,642,118.00)	(134,201,096.00)	441,022.00	
(Gain)/Loss on disposal of assets	-	1,286,751.00	1,286,751.00	Error
Actuarial (Gain)/losses	4,866,367.00	4,866,367.00	-	
Inventory (Gain)/losses	352,685.00	352,685.00	-	
Deficit for the year	**(129,423,064.00)**	**(127,695,293.00)**	**1,727,773.00**	
	Attributable to:			
Owners of the controlling entity	**(129,423,064.00)**	**(127,695,293.00)**	**1,727,773.00**	

Cash Flow Statement	**2016 Restated**	**2015 Audited**	**Difference**	**Reason**
Cash flows from operating activities				
Receipts				
Property rates taxation	63,830,597.00	63,830,597.00	-	
Sale of goods and services	232,503,532.00	232,503,532.00	-	
Grants	152,958,149.00	152,958,149.00	-	

42. Prior period errors (continued)

Interest income	21,320,790.00	21,320,790.00	-
Total Receipts	**470,613,068.00**	**470,613,068.00**	**-**
Payments			
Employee costs	(161,146,657.00)	(161,146,657.00)	-
Suppliers	(240,183,058.00)	(240,183,058.00)	-
Finance costs	(17,226,387.00)	(17,226,387.00)	-
Total Payments	**(418,556,102.00)**	**(418,556,102.00)**	**-**
Net cash flows from operating activities	**52,056,966.00**	**52,056,966.00**	**-**
Cash flows from investing activities			
Additions to property, plant and equipment	(21,390,190.00)	(21,390,190.00)	-
Disposals of property, plant and equipment	1,286,751.00	1,286,751.00	-
Net cash flows from investing activities	**(20,103,439.00)**	**(20,103,439.00)**	**-**
Cash flows from financing activities			
Finance lease payments	(2,484,446.00)	(2,484,446.00)	-
Net cash flows from financing activities	**(2,484,446.00)**	**(2,484,446.00)**	**-**
Net increase/(decrease) in cash and cash equ	**29,469,081.00**	**29,469,081.00**	**-**
Cash and cash equivalents at the beginning of th	489,616.00	489,616.00	-
Net cash flows from financing activities	**29,958,697.00**	**29,958,697.00**	**-**

The following errors have been identified during the financial year:

Statement of Financial Position:
1. Receivables from exchange transactions - Clearing of suspense accounts
2. Payables from exchange transactions - Clearing of suspense accounts and correcting opening balances of suppliers
3. Property, Plant and equipment - Reclassification of Investment property and acquiring new property through the valuation rol
4. Investment Property - Reclassification of Investment property to Property, Plant and equipment.

Statement of Financial Performance:
1. Fines received - Reclassification of accounts
2. Repairs and maintenance - Reclassification of accounts, derecognition of assets incorrectly capitalised
3. Lease rentals on operating lease - Reclassification of accounts
4. General expenses - Reclassification of accounts

Cash Flow Statement:

Cash flow statement was not restated

43. Risk management

Financial risk management

Capital risk management
The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consists of cash and cash equivalents and equity as disclosed in the statement of financial position. Consistent with others in the industry, the municipality monitors capital on the basis of the debt: equity ratio. This ration is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position. There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Gearing ratio:
The gearing ratios at 2015 and 2014 respectively were as follows:

Less: Cash and cash equivalents	-19,263,551	-29,958,706
Net debt	-637,612,638	-563,279,826
Total equity	1,265,429,706	1,387,605,857
Total capital	627,817,068	824,326,031
Gearing ratio	49.61%	59.41%

The gearing ratio of the municipality decreased due to DWARF and ESKOM liabilities respectively increasing. Management has entered into a settlement agreement with ESKOM to repay its debt, and are in continuous communication with DWARF regarding the outstanding debt.

Financial risk management
The municipality’s is expose to a variety of financial risks: market risk , fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality’s management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.
The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

43. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

As at 30 June 2016	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
Payables from exchange transactions	539,012,975	-	-	-
Finance lease obligation	337,942	-	-	-
At 30 June 2015	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5years**
Payables from exchange transactions	475,798,860	-	-	-
Finance lease obligation	-	-	233,761	-

Interest rate risk
As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in market interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in market interest changes. To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking						
Tiered institutions	10,368,477.00	-	-	-	-	-
Call investment deposits	46.00%					
	8,861,654.00	-	-	-	-	-
Other financial assets	0.00%					
	-	-	-	-	-	-

43. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly. Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

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

Financial instrument	**2016**	**2015**
Receivables from non-exchange transactions	366,436	9,563,822
Receivables from exchange transactions	10,843,397	8,990,500
Bank balances and cash	19,263,551	29,958,706

The maximum credit and interest risk exposure in respect of the relevant financial instruments amounts to as indicated above.

Market risk

Definition

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk. There has been no change to the municipality's exposure to market risk on the manner in which manages.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments. Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

44. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had deficits of R 157,031,600 and that the municipality's current liabilities exceed its current assets by R 401,252,502.

The municipality is experience some financial difficulties but has the following plans in place:

- Revenue enhancement plan
- Smart meter project
- Cost saving expenditure plan
- Strong adherence to Circular 82
- Debt collection incentive plan

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.

45. Unauthorised expenditure

Unauthorised expenditure	346,484,700	179,591,024
Overspending of expenditure	71,440,311	166,893,676
	417,925,011	**346,484,700**

46. Fruitless and wasteful expenditure

Opeing balance	20,152,744	6,978,001
Interest on arrear account - Eskom	14,483,856	13,099,510
Interest and penalties: SARS	-	75,233
Interest and penalties: DWA	32,737,234	-
	67,373,834	**20,152,744**

47. Irregular expenditure

Opening balance	164,425,599	72,301,038
Add: Irregular Expenditure - Current year	94,844,541	76,766,906
Add: Irregular Expenditure - Prior year	48,900,709	15,357,655
	308,170,849	**164,425,599**

Analysis of expenditure awaiting condonation per age classification

Current year	143,745,250	92,124,561
Prior years	164,425,599	72,301,038
	308,170,849	**164,425,599**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non-compliance of SCM regulation	All matters where deviation in the SCM was followed	94,844,541
		94,844,541

Details of irregular expenditure discovered in the current year relating to prior year`s

	Disciplinary steps taken/criminal proceedings	
Non-compliance of SCM regulation	All matters where deviation in the SCM was followed	48,900,709
		48,900,709

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1,712,810	1,487,865
Amount paid - current year	(1,712,810)	(1,487,865)
	-	-

Material losses through criminal conduct

Electricity losses for the current year amounted to 10.00% i.e R24,611,732.02 (2015: 37.29% i.e. R43,920,533.69). These losses comprise of technical and nontechnical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% .Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reducethese non-technical losses.
Non revenue water i.e. non billed water amounted to 42.57% i.e. R20.195561.79 (2015: 65.12% i.e. R31,565,788.61). 10% Of these losses can be accounted for it terms of the National Guidelines for non-revenue water. 4% Of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

Audit fees

Current year subscription / fee	3,508,537	4,851,073
Amount paid - current year	(3,508,537)	(4,851,073)
	-	-

PAYE and UIF

Current year subscription / fee	34,471,921	18,750,341
Amount paid - current year	(34,471,921)	(18,750,341)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	41,136,090	38,353,114
Amount paid - current year	(41,136,090)	(38,353,114)
	-	-

VAT

VAT receivable	23,456,362	16,180,874
	23,456,362	**16,180,874**

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

49. 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.

Service-Description	Service-Providers	Contract Price	Procurement Date	Justifiable Reasons For Deviations	Service-Description
Legislative Forms	Government Print	53,272	20150702	Sole Supplier	Legislative Forms
Repair Pump And Generator For Cherry Picker Reg Dws 373 Mp	Mega Hydraulics	18,521	20150723	Sole Supplier	Repair Pump And Generator For Cherry Picker Reg Dws 373 Mp
Mearuring Of Cables	Gilbert Mining And Industrial	3,990	20150723	Sole Supplier	Mearuring Of Cables
Replacement Of Lamp Driver Module And Blown Lamp Driver	Traffic Signal	15,852	20150804	Sole Supplier	Replacement Of Lamp Driver Module And Blown Lamp Driver
Removal Of Knockdown Controller Traffic Officer	Traffic Signal	66,291	20150804	Sole Supplier	Removal Of Knockdown Controller Traffic Officer
Replacement Of Aluminium Bay Doors	Auto Door	36,309	20150801	Sole Supplier	Replacement Of Aluminium Bay Doors
Repair Control Arms For Kia Bakkie Reg	Kia Motors	6,354	20150805	Sole Supllier	Repair Control Arms For Kia Bakkie Reg
Badge For Traffic Fficers	The Badge	6,612	20150813	Sole Supplier	Badge For Traffic Fficers
Repair Controller And Reprogramme Robot	Traffic Signal	16,251	20150813	Emergency	Repair Controller And Reprogramme Robot
Construction And Replacement Of Manhole Cover At Ermelo Joubert Str	Apple Mining	10,100	20150813	Emergency	Construction And Replacement Of Manhole Cover At Ermelo Joubert Str
Power Failure	Bigboy Charles	43,000	20150818	Emergency	Power Failure
Delivery Of Transfomers In Davel	Nomdric Electrical	188,000	20150818	Emergency	Delivery Of Transfomers In Davel
Delivery Of Transformers	Bigboy Charles	192,000	20150818	Emergency	Delivery Of Transformers
8 Phase Traffic Controller ,Mounting Pole And S11-2 Pedestrain Traffic Light	Traffic Signals	61,098	20150824	Emergency	8 Phase Traffic Controller ,Mounting Pole And S11-2 Pedestrain Traffic Light
Caliberation	Trans –Atlantic	4,326	20150918	Sole Supplier	Caliberation
Caliberation	Truvelo Manufacturing	3,240	20150918	Sole Supplier	Caliberation
Safe Key Replacement	Ermelo Doorcenter	2,455	20150929	Emergency	Safe Key Replacement

49. Deviation from supply chain management regulations (continued)

Ignition Switch Repair	Twenty Four Motors	3,607	20151015	Sole Supplier	Ignition Switch Repair
Blank Cheques	Bmg Security	9,736	20151104	Sole Supplier	Blank Cheques
Face Value Documents	Department Of Roads	32,835	20151104	Emergency	Face Value Documents
Repair Of Traffi Signals At Naude Str	Traffic Signals	14,906	20151112	Emergency	Repair Of Traffi Signals At Naude Str
Gearbox Repair	Ermelo Truck And Tractor	65,146	20151113	Emergency	Gearbox Repair
Chemicals To Be Used In Sewer Treatment	Afrirent Trading	91,000	20151126	Emergency	Chemicals To Be Used In Sewer Treatment
Repair Ctd 599Mp	Fire Raiders	24,010	20151202	Emergency	Repair Ctd 599Mp
Repair Gearbox Bys 501Mp	Fire Raiders	129,144	20151202	Emergency	Repair Gearbox Bys 501Mp
Repair Engine Bld 591Mp	Fire Raiders	174,673	20151202	Emergency	Repair Engine Bld 591Mp
Repair Bkp 679Mp	Fire Raiders	16,714	20151202	Emergency	Repair Bkp 679Mp
Repair Fire Truck	Fire Raiders	20,503	20151202	Emergency	Repair Fire Truck
Repair Cps 760Mp	Fire Raiders	118,052	20151202	Emergency	Repair Cps 760Mp
Repair Traffic Signal At Church And Nuade Str	Traffic Signals	139,509	20151209	Emergency	Repair Traffic Signal At Church And Nuade Str
Repair Traffic Controller	Traffic Signals	61,098	20151209	Emergency	Repair Traffic Controller
Repair Mayor And Mm Entersystem Switch 800 Series 24 Pot	Dynadeals Thirteen Pty Ltd	10,420	20151228	Emergency	Repair Mayor And Mm Entersystem Switch 800 Series 24 Pot
Repair Screwpumps At Ermelo Sewer Treatment Plant	Ihlubi Trading	166,696	20160114	Emergency	Repair Screwpumps At Ermelo Sewer Treatment Plant
Installation Of Traffic Signals For 3 Intersection In Ermelo	Traffic Signal	161,690	20160115	Emergency	Installation Of Traffic Signals For 3 Intersection In Ermelo
Hire Tipper Truck For 5 Days,20 Ton Excavator For 5 Days And Water Tanker	Ironore Trading	119,700	20160121	Emergency	Hire Tipper Truck For 5 Days,20 Ton Excavator For 5 Days And Water Tanker
Repairs	Rothman Mootors	22,574	20160218	Strip And Quote-Repairs And Maintenance	Repairs
Repais Dwd 134Mp	Van Wattens	4,503	20160215	Emergency	Repais Dwd 134Mp
New Engine	Twenty Four Motors	21,193	20160215	Sole Supplier	New Engine
Repairs For Dmg 791Mp	Rdg Marketing	47,025	20160303	Strip And Quote	Repairs For Dmg 791Mp
Repairs For 141Mp	Rdg Marketing	43,890	20160303	Trip And Quote	Repairs For 141Mp
Repairs For Bkr 119Mp	Barloworld Equipment	20,465	20160308	Sole Supplier	Repairs For Bkr 119Mp
Legislative Forms	Government Printing Works	16,498	20160309	Sole Supplier	Legislative Forms
Repair Gearbox	Rothman Motors	11,833	20160308	Sole Supplier	Repair Gearbox
Emergency Repairs	Ermelo Electro Motors	3,412	20160317	Emergency	Emergency Repairs

49. Deviation from supply chain management regulations (continued)

Repair Intersecton Traffic Light And Replacing New Traffic Controller Cables	Traffic Signals	66,183	20160315	Emergency	Repair Intersecton Traffic Light And Replacing New Traffic Controller Cables
Caliberation Of Pro-Laser For Machine	Truvelo Manufacturing	3,564	20160322	Sole Supplier	Caliberation Of Pro-Laser For Machine
Caliberation Of Pro-Speed Machine	Trans Atlantic	4,326	20160309	Sole Supplier	Caliberation Of Pro-Speed Machine
Library Materials	Jackline Enterprises	13,645	20160329	Historical Objects Wher Specifications Are Difficult To Compile	Library Materials
Shatterproof Glasses Tinted Black	Glasfit Ermelo	6,734	20160329	Emergency	Shatterproof Glasses Tinted Black
Uniform For Traffic Officers	Nu-Psyc Marketing	48,483	20160418	Emergency	Uniform For Traffic Officers
Truck Has To Undergo Services	Rothman Motor	7,469	20160509	Sole Supplier	Truck Has To Undergo Services
Calibration Vts Machine	Workshop Electronics	12,044	20160509	Emergency	Calibration Vts Machine
Aluminuim Barcode For Assets	Combine Systems	10,745	20160530	Sole Supplier	Aluminuim Barcode For Assets
Repairs	Traffic Signals	14,222	20160531	Emergency	Repairs
27 Core Swavcable Swa	Traffic Signal	32,462	20160531	Emergency	27 Core Swavcable Swa
Lunar Traffic Controllers For Five Intersections	Traffic Signal	332,880	20160601	Emergency	Lunar Traffic Controllers For Five Intersections
Refurbishment Of Pump And Motor	Ihlubi Trading	131,068	20160608	Emergency	Refurbishment Of Pump And Motor
Refurbishment Of Torbanite Dam At Breyten Raw Water Pump	Ihlubi Trading	96,411	20160608	Emergency	Refurbishment Of Torbanite Dam At Breyten Raw Water Pump
28 Loads Of Water Supply At Sheepmoor	Bathabile Bo Mahlatsi	128,000	20160608	Emergency	28 Loads Of Water Supply At Sheepmoor

Unaudited - Appendix E(1)

June 2016

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Service charges	265,485,485	276,868,993	(11,383,508)	(4.1)	
Rental of facilities and equipment	2,072,750	2,180,340	(107,590)	(4.9)	
Agency services	10,993,079	10,300,000	693,079	6.7	
Other income - (rollup)	17,171,758	14,820,740	2,351,018	15.9	
Interest received - investment	23,884,193	22,757,715	1,126,478	4.9	
	319,607,265	326,927,788	(7,320,523)	(2.2)	
Expenses					
Personnel	(152,862,027)	(152,772,437)	(89,590)	0.1	
Remuneration of councillors	(12,290,330)	(12,349,476)	59,146	(0.5)	
Depreciation	(81,539,791)	(81,237,820)	(301,971)	0.4	
Impairments	(12,186,908)	-	(12,186,908)	-	
Finance costs	(25,347,589)	(135,000)	(25,212,589)	,676.0	
Bad debts written off	(60,985,955)	(56,280,427)	(4,705,528)	8.4	
Repairs and maintenance - General	(41,113,306)	(66,112,245)	24,998,939	(37.8)	
Bulk purchases	(221,571,669)	(209,740,000)	(11,831,669)	5.6	
Contracted Services	(56,226,688)	(38,039,915)	(18,186,773)	47.8	
General Expenses	(38,294,724)	(46,920,581)	8,625,857	(18.4)	
	(702,418,987)	(663,587,901)	(38,831,086)	5.9	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	(1,526,301)	4,072,700	(5,599,001)	(137.5)	
	(1,526,301)	4,072,700	(5,599,001)	(137.5)	
Net surplus/ (deficit) for the year	(384,338,023)	(332,587,413)	(51,750,610)	15.6	

Unaudited - Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jul	Sep	Dec	Mar	Jun	Jul	Sep	Dec	Mar	Jun	Jul	Sep	Dec	Mar	Jun		Yes/ No	
Municipal Infrastructure Grant		71,000	-	6,000	-	-	32,619	69,462	35,924	29,375	-	-	-	-	-	-		No	
Municipal Systems Improvement Grant		30,000	-	-	-	-	-	-	-	30,000	-	-	-	-	-	-			
Local Government		75,000	-	-	-	-	41,261	93,203	56,626	83,909	-	-	-	-	-	-			
Financial Management Grant		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
Public Works Programme		95,000	72,000	71,000	-	-	79,000	38,000	24,000	-	-	-	-	-	-	-			
Integrated Grant for Municipalities																			
		271,000	72,000	77,000	-	-	52,880	200,665	16,550	43,284	-	-	-	-	-	-			

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