Phokwane Municipality
(Registration number NC094)
Annual financial statements
for the year ended 30 June 2016

# General Information

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|---|---|
| **Nature of business and principal activities** | Phokwane Municipality is a local municipality performing the functions as set out in the Constitution (Act 108 of 1996). |
| **Legal form of entity** | South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) |
| **Jurisdiction** | The Phokwane Municipality includes the following areas:<br>Hartswater, Jan Kempdorp, Pampierstad, Ganspan |
| **Members of Council** | |
| Mayor | TSR Tsikwe |
| Executive Councillor | HM Modiakgotla |
| Executive Councillor | FO Pitso |
| Executive Councillor | S Lewis |
| 1 | GK Mokale |
| 2 | MF Mojapele |
| 3 | FFO Pitso |
| 4 | AS Mokoena |
| 5 | D Meza |
| 6 | PJ Nel |
| 7 | CJS Adams |
| 8 | HM Modiakgotla |
| 9 | M Chakane |
| PR | S Lewis |
| PR | KD Mashorie |
| PR | D Meyer |
| PR | SJ Rudman |
| PR | P Mona |
| PR | AO Moramong |
| PR | GM Motebe |
| PR | S Nkomo |
| PR | KM Kalman |
| **Accounting Officer** | Mr Z Nikani (Acting Municipal Manager) |
| **Chief Finance Officer (CFO)** | Mrs H Basson |
| **Registered office** | 24 Hertzog Street<br>Hartswater<br>8570 |
| **Postal address** | Private Bag X3<br>Hartswater<br>8570 |
| **Bankers** | The Standard Bank of South Africa<br>ABSA Bank Limited |
| **Auditors** | Office of the Auditor-General (Northern Cape)<br>Registered Auditors |

# General Information

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|---|---|
| **Jurisdiction** | Hartswater<br>Jan Kempdorp<br>Pampierstad<br>Ganspan |
| **Relevant legislation** | Constitution of the Republic of South Africa (Act no 108 of 1996)<br>Municipal Finance Management Act (Act no 56 of 2003)<br>Division of Revenue Act<br>The Income Tax Act (Act no 58 of 1962)<br>Value Added Tax Act (Act no 89 of 1991)<br>Municipal Structures Act (Act no 117 of 1998)<br>Municipal Systems Act (Act no 32 of 2000)<br>Water Services Act (Act no 108 of 1997)<br>Housing Act (Act no 107 of 1997)<br>Municipal Property Rates Act (Act no 6 of 2004)<br>Electricity Act (Act no 41 of 1987)<br>Skills Development Levies Act (Act no 9 of 1999)<br>Employment Equity Act (Act no 55 of 1998)<br>Unemployment Insurance Act (Act no 30 of 1966)<br>Basic Conditions of Employment Act (Act no 75 of 1997)<br>Municipal Systems Amendment Act (Act no 7 of 2011)<br>Municipal Planning and Performance Management Regulations<br>Municipal Supply Chain Management Regulations<br>Municipal Collective Agreements<br>Municipal Budget and Reporting Regulations<br>MFMA Circulars and Regulations |

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**Abbreviations**

| | |
|---|---|
| CRR | Capital Replacement Reserve |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act (Act no 56 of 2003) |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| DORA | Division of Revenue Act |
| VAT | Value Added Tax Act |
| MSA | Municipal Structures Act (Act no 117 of 1998) |

# 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 will be given unrestricted access to all financial records and related data.

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

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

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

The accounting officer certifies that the remuneration of Councillors and in-kind benefits, as disclosed in the notes to these financial statements, 29 are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act, except for the remuneration above are two (2) Section 79 Chairpersons who have been paid during the 2012/13 year in excess of the Upper Limits of the Remuneration of Public Officer Bearers Act. This excess remuneration is in line with SALGA Circular 40/2012 paragraph 1(g), which allows previously paid salary levels to be maintained until such time as the amount received is less than the upper limits amount.

**Mr Z Nikani**
**Accounting Officer**

# Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2015.

### 1. Audit and Risk Management Committee Members and Attendance

The audit and risk management committee attended to their work during the 2014-15 financial year by sitting for seven (7) meetings. The committee consists of the following members:

| Name of Member | Number of meetings attended | Notes |
|---|---|---|
| 1. Mr WMS Calitz | 7 of 7 | 3 year term appointed as Chairperson |
| 2. Mr A Bhayt | 7 of 7 | 3 year term appointed as member |
| 3. Mr T Khumisi | 7 of 7 | 3 year term appointed as member. |

Meetings include special, nornal and risk committee meetings.

### 2. Audit Committee Responsibility

The audit and risk committee reports that it has performed its functions in all material respects in terms of section 166 of the MFMA and the adopted Audit Committee Charter as detailed below:

The committee has performed the following key responsibilities:
- Adopted the audit and risk management charter and proposed approval to council;
- Reconfirm the appropriateness of the internal audit charter and methodology;
- Recommended the risk management strategy and policy to council, due to the slow implementation thereof alternative mechanisms were followed by the internal audit manager and a risk register was considered and recommended for approval to council;
- Approved the internal audit plan for the financial year and monitored to the implementation of the plan;
- Evaluated the findings raised by internal and external audit and made recommendations on addressing those matters;
- Performed a review of financial information submitted to the committee and commented specifically on concerns raised based on year-to-date information and accuracy of projections;
- Requested management to report on pending litigation, possible contingent liabilities and significant risks;
- Requested management to address the perceived lack of discipline and called specific officials to account for the progress on the audit action plan;
- Liaised with the Auditor-General on matters relating to communication with those charged with governance;

### 3. The Effectiveness of Internal Control

The system of controls should be designed to provide cost-effective assurance that assets are safeguarded, liabilities and working capital are efficiently managed and compliance with appropriate laws and regulations achieved.

The committee accepted a combined assurance model where the internal and external auditors provide the committee with an indication of the level of assurance that can be derived from a system of internal controls that are appropriate and effective. Recommendations that the a combined assurance is achieved by means of a risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes were made by the committee.

From the various reports of the internal and external auditors it was noted that material matters were reported indicating material deficiencies in the system of internal control and non-compliance with laws and regulations. Accordingly, we can report that the system of internal control for the period under review was not efficient and effective. The committee is however of the view that progress have been made since the previous report, but much needs to be done to improve the system design, implementation and monitoring thereof. The lack of vacancies at departmental head level is a major concern to the committee and the accounting officer and council is urged to ensure that these positions are filled by persons meeting the employment criteria set out for those positions.

### 4. The Quality of In-Year Management and Monthly/Quarterly Reports Submitted in terms of the MFMA

The committee is not satisfied with the content and quality of the monthly and quarterly reports prepared and submitted to those charged with governance for the year under review.

# Audit Committee Report

**5. Evaluation of Financial Statements**

The committee was afforded an opportunity to review the financial statements before 31 August 2014 and could make a contribution on the appropriateness of these financial statements submitted to the Auditor-General.

The committee has established a working relationship with the Auditor-General of South Africa to perform the functions listed below during an official meeting of the audit and risk management committee:

- Review the Auditor-General's management report and management's response thereto;
- Review changes in accounting policies and practices;
- Review the council's compliance with legal and regulatory provisions;
- Review significant adjustments resulting from the audit.

The role and relationship between the Audit Committee and the Auditor-General still needs attention. Although the Auditor-General liaised at district level with all municipalities where the engagement letters and audit strategy documents were tabled and discussed, the audit committee of Phokwane municipality were not in attendance.

**6. Internal Audit**

The internal audit function is performed by municipal officials and the committee is not satisfied that all the responsibilities as defined in the MFMA was executed by the internal audit unit.

Chairperson of the Audit Committee

# Statement of Financial Position as at 30 June 2016

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 7 | 61 355 040 | 61 344 486 |
| Receivables from exchange transactions | 4 | 135 425 | 1 791 406 |
| Receivables from non-exchange transactions | 5 | 18 905 | 167 231 |
| VAT receivable | 8 | 14 018 052 | 14 367 729 |
| Consumer receivables | 6 | 18 896 431 | 17 750 430 |
| Cash and cash equivalents | 3 | 2 472 999 | 4 063 398 |
| | | **96 896 852** | **99 484 680** |
| **Non-Current Assets** | | | |
| Investment property | 9 | 68 745 548 | 68 745 548 |
| Property, plant and equipment | 10 | 514 655 725 | 600 515 077 |
| Intangible assets | 11 | 445 869 | 197 485 |
| Heritage assets | 12 | 17 728 | 17 728 |
| Long term Receivables | 13 | - | 1 374 |
| | | **583 864 870** | **669 477 212** |
| **Total Assets** | | **680 761 722** | **768 961 892** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 15 | - | 52 222 |
| Payables from exchange transactions | 14 | 59 909 975 | 44 575 669 |
| Consumer deposits | 17 | 2 709 122 | 2 644 182 |
| Employee benefit obligation | 18 | 371 964 | 1 416 000 |
| Unspent conditional grants and receipts | 16 | 3 791 466 | 2 507 119 |
| Provisions | 19 | 5 224 715 | 3 958 259 |
| Long-service awards | 20 | 96 994 | 1 415 000 |
| Bank overdraft | 3 | 331 694 | - |
| | | **72 435 930** | **56 568 451** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 18 | 15 415 673 | 10 684 000 |
| Provisions | 19 | 33 872 924 | 14 655 607 |
| Long-service awards | 20 | 3 049 227 | 1 610 000 |
| | | **52 337 824** | **26 949 607** |
| **Total Liabilities** | | **124 773 754** | **83 518 058** |
| **Net Assets** | | **555 987 968** | **685 443 834** |
| Accumulated surplus | | 555 987 968 | 685 443 834 |

* See Note 42

# Statement of Financial Performance

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 22 | 120 375 459 | 105 610 375 |
| Rental of facilities and equipment | | 427 373 | 581 538 |
| Interest received (trading) | | 16 842 135 | 11 970 912 |
| Rendering of services | | 10 629 848 | 5 003 439 |
| Interest received - investment | 24 | 886 174 | 1 331 217 |
| **Total revenue from exchange transactions** | | **149 160 989** | **124 497 481** |
| **Revenue from non-exchange transactions** | | | |
| **Taxation revenue** | | | |
| Property rates | 25 | 17 309 071 | 16 959 323 |
| **Transfer revenue** | | | |
| Government grants & subsidies | 26 | 130 942 603 | 129 086 954 |
| Fines, Penalties and Forfeits | | 221 050 | 372 930 |
| **Total revenue from non-exchange transactions** | | **148 472 724** | **146 419 207** |
| **Total revenue** | 23 | **297 633 713** | **270 916 688** |
| **Expenditure** | | | |
| Employee related costs | 28 | 66 838 373 | 58 437 060 |
| Remuneration of councillors | 29 | 5 677 729 | 5 468 310 |
| Depreciation and amortisation | 30 | 160 161 683 | 128 989 722 |
| Impairment loss/ Reversal of impairments | | 110 525 | 98 570 |
| Finance costs | 31 | 745 339 | 488 011 |
| Lease rentals on operating lease | | 82 838 | 61 512 |
| Debt Impairment | 32 | 48 445 827 | 40 720 048 |
| Repairs and maintenance | | 8 687 155 | 7 594 275 |
| Bulk purchases | 33 | 80 883 858 | 60 139 240 |
| Contracted services | 34 | 16 143 294 | 27 046 760 |
| Transfers and Subsidies | 35 | 11 357 497 | 37 574 764 |
| General Expenses | 36 | 27 917 472 | 23 914 518 |
| **Total expenditure** | | **427 051 590** | **390 532 790** |
| **Operating deficit** | | **(129 417 877)** | **(119 616 102)** |
| (Loss) gain on disposal of assets and liabilities | | (37 989) | 195 321 |
| Fair value adjustments | | - | (188 110) |
| | | **(37 989)** | **7 211** |
| **Deficit for the year** | | **(129 455 866)** | **(119 608 891)** |

* See Note 42

# Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| **Balance at 01 July 2014** | **805 391 075** | **805 391 075** |
| Correction of Error | (3 370 172) | (3 370 172) |
| Loss for the year | (116 577 069) | (116 577 069) |
| **Restated* Balance at 01 July 2015** | **685 443 834** | **685 443 834** |
| Surplus for the year | (129 455 866) | (129 455 866) |
| **Balance at 30 June 2016** | **555 987 968** | **555 987 968** |

Note(s)

* See Note 42

# Cash Flow Statement

| Figures in Rand | Note(s) | 2016 | 2015 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 104 934 837 | 99 070 644 |
| Government grants and subsidies - Operational | | 106 739 950 | 89 605 729 |
| Interest income | | 886 174 | 1 331 217 |
| Other receipts | | 12 788 799 | - |
| | | 225 349 760 | 190 007 590 |
| **Payments** | | | |
| Employee costs | | (68 263 507) | (62 915 197) |
| Suppliers | | (109 174 022) | (127 776 969) |
| Finance costs | | (745 339) | (488 012) |
| | | (178 182 868) | (191 180 178) |
| **Net cash flows from operating activities** | 37 | **47 166 892** | **(1 172 588)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 10 | (74 031 969) | (28 153 809) |
| Proceeds from sale of property, plant and equipment | 10 | - | 211 000 |
| Purchase of other intangible assets | 11 | (556 734) | - |
| Government grants and subsidies - Capital | | 25 487 000 | - |
| **Net cash flows from investing activities** | | **(49 101 703)** | **(27 942 809)** |
| **Cash flows from financing activities** | | | |
| Consumer Deposits | | 64 940 | 101 882 |
| Repayment of loans | | (52 222) | - |
| **Net cash flows from financing activities** | | **12 718** | **101 882** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1 922 093)** | **(29 013 515)** |
| Cash and cash equivalents at the beginning of the year | | 4 063 398 | 33 076 913 |
| **Cash and cash equivalents at the end of the year** | 3 | **2 141 305** | **4 063 398** |

* See Note 42

# Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 18 503 150 | - | 18 503 150 | - | | 18 503 150 | 17 309 071 | | (1 194 079) | 94 % | 94 % |
| Service charges | 123 104 048 | 127 447 | 123 231 495 | - | | 123 231 495 | 120 375 459 | | (2 856 036) | 98 % | 98 % |
| Interest received | 15 002 811 | (24 646) | 14 978 165 | - | | 14 978 165 | 17 728 309 | | 2 750 144 | 118 % | 118 % |
| Transfers recognised - operational | 82 585 000 | 16 220 000 | 98 805 000 | - | | 98 805 000 | 105 455 603 | | 6 650 603 | 107 % | 128 % |
| Other revenue | 3 721 562 | 665 201 | 4 386 763 | - | | 4 386 763 | 11 278 271 | | 6 891 508 | 257 % | 303 % |
| **Total revenue (excluding capital transfers and contributions)** | **242 916 571** | **16 988 002** | **259 904 573** | **-** | | **259 904 573** | **272 146 713** | | **12 242 140** | **105 %** | **112 %** |
| Employee costs | (58 191 531) | (6 542 812) | (64 734 343) | - | - | (64 734 343) | (66 838 373) | (2 104 030) | (2 104 030) | 103 % | 115 % |
| Remuneration of councillors | (4 649 723) | (892 471) | (5 542 194) | - | - | (5 542 194) | (5 677 729) | (135 535) | (135 535) | 102 % | 122 % |
| Debt impairment | (10 485 898) | - | (10 485 898) | | | (10 485 898) | (48 556 352) | (38 070 454) | (38 070 454) | 463 % | 463 % |
| Depreciation and asset impairment | (12 293 106) | - | (12 293 106) | | | (12 293 106) | (160 161 683) | (147 868 577) | (147 868 577) | 1 303 % | 1 303 % |
| Finance charges | - | - | - | - | - | - | (745 339) | (745 339) | (745 339) | - % | - % |
| Materials and bulk purchases | (86 556 985) | (11 458) | (86 568 443) | - | - | (86 568 443) | (80 883 858) | - | 5 684 585 | 93 % | 93 % |
| Transfers and grants | - | - | - | - | - | - | (11 357 497) | (11 357 497) | (11 357 497) | - % | - % |
| Other expenditure | (67 244 322) | (31 555 731) | (98 800 053) | - | - | (98 800 053) | (52 868 748) | - | 45 931 305 | 54 % | 79 % |
| **Total expenditure** | **(239 421 565)** | **(39 002 472)** | **(278 424 037)** | **-** | **-** | **(278 424 037)** | **(427 089 579)** | **(200 281 432)** | **(148 665 542)** | **153 %** | **178 %** |
| **Surplus/(Deficit)** | **3 495 006** | **(22 014 470)** | **(18 519 464)** | **-** | | **(18 519 464)** | **(154 942 866)** | | **(136 423 402)** | **837 %** | **(4 433)%** |

## Appropriation Statement

| Figures in Rand | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Contributions recognised - capital and contributed assets | 55 282 005 | 11 718 142 | 67 000 147 | - | | 67 000 147 | 25 487 000 | | (41 513 147) | 38 % | 46 % |
| **Surplus (Deficit) after capital transfers and contributions** | **58 777 011** | **(10 296 328)** | **48 480 683** | **-** | | **48 480 683** | **(129 455 866)** | | **(177 936 549)** | **(267)%** | **(220)%** |
| **Surplus/(Deficit) for the year** | **58 777 011** | **(10 296 328)** | **48 480 683** | **-** | | **48 480 683** | **(129 455 866)** | | **(177 936 549)** | **(267)%** | **(220)%** |

# 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 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure.

### 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.

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

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

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

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

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

**Fair value**

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

Subsequent to initial recognition, items of investment property is measured at fair value. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

# Accounting Policies

### 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.

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 except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

# Accounting Policies

### 1.5 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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 | |
| • Landfill sites | | 6 years |
| Infrastructure | Straight line | 15 - 60 years |
| Community | Straight line | 2 - 10 years |
| Other property, plant and equipment | Straight line | 3 - 20 years |
| Finance leased assets | Straight line | 3 years |

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

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

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

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

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

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

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

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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

An intangible asset is recognised when:

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

# Accounting Policies

### 1.6 Intangible assets (continued)

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Useful life |
|---|---|
| Computer software, other | 5 years |

### 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.

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.

# Accounting Policies

### 1.7 Heritage assets (continued)

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).

### 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.

# Accounting Policies

### 1.8 Financial instruments (continued)

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.

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.

# Accounting Policies

### 1.8 Financial instruments (continued)

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 |
|---|---|
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Investments | Financial asset measured at fair value |
| Receivables | Financial asset measured at amortised cost |

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

| Class | Category |
|---|---|
| Payables | Financial liability measured at amortised cost |

### 1.9 Leases

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

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

**Finance leases - lessee**

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

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

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

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

**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.

### 1.10 Inventories

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

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

# Accounting Policies

### 1.10 Inventories (continued)

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

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

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

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

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

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

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

### 1.11 Impairment of cash-generating assets

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

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

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

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

### 1.11 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.

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Accounting Policies

### 1.11 Impairment of cash-generating assets (continued)

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 1.11 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

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

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

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

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

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

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

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

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

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

### 1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

# Accounting Policies

### 1.12 Impairment of non-cash-generating assets (continued)

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: [Specify criteria]

**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.

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Accounting Policies

### 1.12 Impairment of non-cash-generating assets (continued)

**Reversal of an impairment loss**

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

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

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

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

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

### 1.13 Employee benefits

**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.

**Defined contribution plans**

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

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

# Accounting Policies

### 1.13 Employee benefits (continued)

**Defined benefit plans**

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

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

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

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

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

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

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

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

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

**Other post retirement obligations**

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

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

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

# Accounting Policies

### 1.14 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating 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;
- 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

# Accounting Policies

**1.14 Provisions and contingencies (continued)**

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

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

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

**1.15 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.

**1.16 Revenue from exchange transactions**

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

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

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

**Measurement**

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

**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.

# Accounting Policies

### 1.16 Revenue from exchange transactions (continued)

**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.

### 1.17 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.

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.

**Measurement**

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

**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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

# Accounting Policies

### 1.17 Revenue from non-exchange transactions (continued)

**Government grants**

Government grants are recognised as revenue when:

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality:
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

**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.

**Rates, including collection charges and penalties interest**

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

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

### 1.18 Investment income

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

### 1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

### 1.20 Accounting by principals and agents

**Identification**

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

# Accounting Policies

### 1.20 Accounting by principals and agents (continued)

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

**Identifying whether an entity is a principal or an agent**

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

**Recognition**

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.21 Comparative figures

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

### 1.22 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.

### 1.23 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.

### 1.24 Irregular expenditure

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

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

# Accounting Policies

### 1.24 Irregular expenditure (continued)

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

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

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

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

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

### 1.25 Use of estimates

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

### 1.26 Unspent conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

# Accounting Policies

### 1.27 Unpaid conditional grants and receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grant is receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

### 1.28 Budget information

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

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

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

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

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

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

Comparative information is not required.

### 1.29 Related parties

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

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed in accordance with IPSAS 20.

### 1.30 Events after reporting date

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

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

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

# Accounting Policies

### 1.30 Events after reporting date (continued)

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.

### 1.31 Capital commitments

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### 1.32 Value Added Tax

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

### 1.33 Short and Long term receivables

Short and Long term Receivables are classified as financial assets at amortised cost, and are subsequently measured amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

## 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:

**GRAP 18: Segment Reporting**

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

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

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

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

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

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

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

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

**GRAP 20: Related parties**

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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

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

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

**GRAP 32: Service Concession Arrangements: Grantor**

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

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

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

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

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

**GRAP 108: Statutory Receivables**

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

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

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

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

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

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

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

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

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

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

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

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

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

**GRAP 16 (as amended 2015): Investment Property**

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

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

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

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

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

**GRAP 109: Accounting by Principals and Agents**

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

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

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

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

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

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

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

Summary of changes:

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

General definitions:

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

Cash generating assets and non-cash-generating assets:

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

Identifying an asset that may be impaired:

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

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

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

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

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

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

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

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

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

General definitions:

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

Cash generating assets and non-cash-generating assets:

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

Disclosures:

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

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

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

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

# Notes to the Annual Financial Statements

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

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 1 395 | 1 395 |
| Bank balances | - | 1 710 150 |
| Short-term deposits | 2 471 604 | 2 351 853 |
| Bank overdraft | (331 694) | - |
| | **2 141 305** | **4 063 398** |
| | | |
| Current assets | 2 472 999 | 4 063 398 |
| Current liabilities | (331 694) | - |
| | **2 141 305** | **4 063 398** |

**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 |
| ABSA Bank - 1930000309 | 96 232 | 1 529 339 | 872 771 | 96 232 | 1 529 339 | 872 771 |
| Standard Bank - 042608643000 (Primary Bank Account) | 806 365 | 570 569 | 27 223 955 | (331 694) | 180 811 | 26 973 813 |
| ABSA Bank - General Call Account - Projects - 911851699 | 2 471 603 | 2 351 853 | 5 228 934 | 2 471 603 | 2 351 853 | 5 228 934 |
| Petty cash float | - | - | - | 1 395 | 1 395 | 1 395 |
| **Total** | **3 374 200** | **4 451 761** | **33 325 660** | **2 237 536** | **4 063 398** | **33 076 913** |

### 4. Receivables from exchange transactions

| | | |
|---|---|---|
| Accrued interest | 5 412 | 5 412 |
| Sundry debtors | 130 013 | 1 785 994 |
| | **135 425** | **1 791 406** |

Input VAT receivables relates to Input VAT on creditors invoices not paid at year-end, that cannot be claimed from SARS until they are paid, as the Municipality is a VAT vendor registered on cash basis.

### 5. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Government grants and subsidies | - | 30 051 |
| Property rates (Impairment) | 18 905 | 137 180 |
| | **18 905** | **167 231** |

### 6. Consumer receivables

| | | |
|---|---|---|
| **Gross balances** | | |
| Rates | 38 041 242 | 29 813 850 |
| Electricity | 12 675 056 | 7 179 975 |
| Water | 69 218 234 | 58 548 688 |
| Sewerage | 51 092 540 | 44 298 300 |
| Refuse | 33 188 024 | 28 626 626 |
| Sundry | 102 268 990 | 80 742 778 |
| | **306 484 086** | **249 210 217** |

# Notes to the Annual Financial Statements

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

**6. Consumer receivables (continued)**

| | | |
|---|---|---|
| **Less: Allowance for impairment** | | |
| Rates | (35 682 072) | (25 902 596) |
| Electricity | (11 861 836) | (4 344 408) |
| Water | (64 903 692) | (55 539 955) |
| Sewerage | (47 923 980) | (43 604 492) |
| Refuse | (31 129 831) | (28 341 220) |
| Sundry | (96 086 244) | (73 727 116) |
| | **(287 587 655)** | **(231 459 787)** |
| **Net balance** | | |
| Rates | 2 359 170 | 3 911 254 |
| Electricity | 813 220 | 2 835 567 |
| Water | 4 314 542 | 3 008 733 |
| Sewerage | 3 168 560 | 693 808 |
| Refuse | 2 058 193 | 285 406 |
| Sundry | 6 182 746 | 7 015 662 |
| | **18 896 431** | **17 750 430** |
| **Included in above is receivables from exchange transactions** | | |
| Electricity | 813 220 | 4 009 927 |
| Water | 4 314 544 | 4 053 377 |
| Sewerage | 3 168 561 | 693 808 |
| Refuse | 2 058 193 | 285 405 |
| Sundry | 6 293 267 | 7 837 633 |
| | **16 647 785** | **16 880 150** |
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| Rates | 2 359 170 | 3 911 254 |
| **Net balance** | **19 006 955** | **20 791 404** |
| **Rates** | | |
| Current (0 -30 days) | 1 466 593 | 1 345 527 |
| 31 - 60 days | 1 343 371 | 955 951 |
| 61 - 90 days | 1 884 388 | 862 440 |
| > 90 Days | 33 346 890 | 26 649 932 |
| Less: Allowance for impairment | (35 682 072) | (25 902 596) |
| | **2 359 170** | **3 911 254** |
| **Electricity** | | |
| Current (0 -30 days) | 4 119 206 | 2 947 287 |
| 31 - 60 days | 1 588 914 | 592 692 |
| 61 - 90 days | 578 998 | 365 602 |
| > 90 Days | 6 387 938 | 3 274 394 |
| Less: Allowance for impairment | (11 861 836) | (4 344 408) |
| | **813 220** | **2 835 567** |

# Notes to the Annual Financial Statements

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

**6. Consumer receivables (continued)**

| | | |
|---|---|---|
| **Water** | | |
| Current (0 -30 days) | 2 060 489 | 3 149 066 |
| 31 - 60 days | 1 546 513 | 2 743 647 |
| 61 - 90 days | 1 888 942 | 3 809 589 |
| > 90 Days | 63 722 290 | 48 846 386 |
| Less: Allowance for impairment | (64 903 692) | (55 539 955) |
| | **4 314 542** | **3 008 733** |
| **Sewerage** | | |
| Current (0 -30 days) | 812 053 | 793 130 |
| 31 - 60 days | 788 401 | 706 000 |
| 61 - 90 days | 701 953 | 686 257 |
| > 90 Days | 48 790 132 | 42 112 913 |
| Less: Allowance for impairment | (47 923 979) | (43 604 492) |
| | **3 168 560** | **693 808** |
| **Refuse** | | |
| Current (0 -30 days) | 525 439 | 512 357 |
| 31 - 60 days | 528 237 | 454 821 |
| 61 - 90 days | 453 680 | 441 064 |
| > 90 Days | 31 680 668 | 27 218 384 |
| Less: Allowance for impairment | (31 129 831) | (28 341 220) |
| | **2 058 193** | **285 406** |
| **Other (specify)** | | |
| Current (0 -30 days) | 2 618 019 | 3 221 647 |
| 31 - 60 days | 2 167 106 | 1 812 052 |
| 61 - 90 days | 2 003 231 | 1 865 747 |
| > 90 Days | 95 480 634 | 73 843 332 |
| Less: Allowance for impairment | (96 086 244) | (73 727 116) |
| | **6 182 746** | **7 015 662** |

# Notes to the Annual Financial Statements

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

**6. Consumer receivables (continued)**

**Summary of debtors by customer classification**

| | | |
|---|---|---|
| **Consumers** | | |
| Current (0 -30 days) | 6 169 731 | 6 716 829 |
| 31 - 60 days | 5 240 261 | 6 051 097 |
| 61 - 90 days | 5 827 981 | 6 922 697 |
| > 90 Days | 249 344 798 | 203 155 270 |
| | 266 582 771 | 222 845 893 |
| Less: Allowance for impairment | (258 729 418) | (217 784 930) |
| | **7 853 353** | **5 060 963** |
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 4 684 166 | 1 587 585 |
| 31 - 60 days | 2 219 363 | 792 084 |
| 61 - 90 days | 1 090 616 | 844 597 |
| > 90 Days | 20 961 349 | 15 027 363 |
| | 28 955 494 | 18 251 629 |
| Less: Allowance for impairment | (28 747 713) | (13 674 857) |
| | **207 781** | **4 576 772** |
| **National and provincial government** | | |
| Current (0 -30 days) | 758 394 | 463 271 |
| 31 - 60 days | 502 919 | 421 981 |
| 61 - 90 days | 592 594 | 263 404 |
| > 90 Days | 9 884 077 | 10 005 013 |
| | **11 737 984** | **11 153 669** |
| **Total** | | |
| Current (0 -30 days) | 11 601 800 | 8 767 685 |
| 31 - 60 days | 7 962 543 | 7 265 162 |
| 61 - 90 days | 7 511 191 | 8 030 698 |
| 91 - 120 days | 279 408 552 | 225 146 672 |
| | 306 484 086 | 249 210 217 |
| Less: Allowance for impairment | (287 587 655) | (231 459 787) |
| | **18 896 431** | **17 750 430** |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (231 459 787) | (188 631 714) |
| Contributions to allowance | (56 127 868) | (42 828 073) |
| | **(287 587 655)** | **(231 459 787)** |

# Notes to the Annual Financial Statements

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

## 7. Inventories

| | | |
|---|---|---|
| Consumable stores | 1 490 672 | 1 432 596 |
| Water – at cost | 381 368 | 428 890 |
| RDP Land | 59 483 000 | 59 483 000 |
| | **61 355 040** | **61 344 486** |

No inventory assets were pledged as security for liabilities.

Although the value of the land amounts to R59 483 000, there is no future economic benefit to flow to the municipality when this land is transferred.

## 8. VAT receivable

| | | |
|---|---|---|
| VAT | 14 018 052 | 14 367 729 |

The Municipality is registered for VAT on the cash basis.
VAT is paid over to SARS only once paymet is received from debtors.
The carrying value amount of VAT receivable approximates fair value due to its short-term nature.

## 9. Investment property

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Investment property | 68 745 548 | - | 68 745 548 | 68 745 548 | - | 68 745 548 |

**Reconciliation of investment property - 2016**

| | **Opening balance** | **Total** |
|---|---|---|
| Investment property | 68 745 548 | 68 745 548 |

**Reconciliation of investment property - 2015**

| | **Opening balance** | **Total** |
|---|---|---|
| Investment property | 68 745 548 | 68 745 548 |

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.

**Details of valuation**

The effective date of the revaluations was 01 July 2013. Revaluations were performed by an independent valuer, Mr D Mokhine (registered with the South African Council for the Property Valuers as a Candidate Valuer, registration number 4869/3), of Tsola-Tshedi Property are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

# Notes to the Annual Financial Statements

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

## 10. Property, plant and equipment

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation and accumulated impairment | Carrying value | Cost | Accumulated depreciation and accumulated impairment | Carrying value |
| Land and Buildings | 97 011 746 | (53 006 356) | 44 005 390 | 97 011 746 | (50 797 758) | 46 213 988 |
| Community | 61 956 760 | (44 976 369) | 16 980 391 | 61 956 760 | (42 418 348) | 19 538 412 |
| Infrastructure | 1 565 112 840 | (1 197 203 733) | 367 909 107 | 1 538 805 109 | (1 073 792 115) | 465 012 994 |
| Leased office equipment | 185 455 | (185 455) | - | 185 455 | (139 050) | 46 405 |
| Landfill sites | 30 668 694 | (28 828 453) | 1 840 241 | 5 031 531 | - | 5 031 531 |
| Other property, plant and equipment | 36 700 961 | (23 017 818) | 13 683 143 | 35 754 648 | (20 477 258) | 15 277 390 |
| Work in progress | 70 237 453 | - | 70 237 453 | 49 394 357 | - | 49 394 357 |
| **Total** | **1 861 873 909** | **(1 347 218 184)** | **514 655 725** | **1 788 139 606** | **(1 187 624 529)** | **600 515 077** |

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

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land and Buildings | 46 213 988 | - | - | - | (2 208 598) | 44 005 390 |
| Community | 19 538 412 | - | - | - | (2 558 021) | 16 980 391 |
| Infrastructure | 465 012 994 | - | - | 26 307 730 | (123 411 617) | 367 909 107 |
| Leased office equipment | 46 405 | - | - | - | (46 405) | - |
| Landfill sites | 5 031 531 | 25 637 163 | - | - | (28 828 453) | 1 840 241 |
| Other property, plant and equipment | 15 277 390 | 1 243 980 | (37 989) | - | (2 800 238) | 13 683 143 |
| Work in Progress | 49 394 357 | 47 150 826 | - | (26 307 730) | - | 70 237 453 |
| | **600 515 077** | **74 031 969** | **(37 989)** | **-** | **(159 853 332)** | **514 655 725** |

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

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|---|---|---|---|---|---|---|
| Land and Buildings | 48 438 265 | - | (15 679) | - | (2 208 598) | 46 213 988 |
| Community | 22 096 433 | - | - | - | (2 558 021) | 19 538 412 |
| Infrastructure | 541 988 213 | - | - | 43 891 223 | (120 866 442) | 465 012 994 |
| Leased office equipment | 108 224 | - | - | - | (61 819) | 46 405 |
| Landfill sites | 5 031 531 | - | - | - | - | 5 031 531 |
| Other property, plant and equipment | 12 045 616 | 6 396 943 | - | - | (3 165 169) | 15 277 390 |
| Work in Progress | 42 109 813 | 51 175 767 | - | (43 891 223) | - | 49 394 357 |
| | **671 818 095** | **57 572 710** | **(15 679)** | **-** | **(128 860 049)** | **600 515 077** |

**Assets subject to finance lease (Net carrying amount)**

| | | |
|---|---|---|
| Leased Office Equipments | - | 46 405 |

# Notes to the Annual Financial Statements

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

### 10. Property, plant and equipment (continued)

**Reconciliation of Work-in-Progress 2016**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 49 394 357 | 49 394 357 |
| Additions/capital expenditure | 47 150 826 | 47 150 826 |
| Transferred to completed items | (26 307 730) | (26 307 730) |
| | **70 237 453** | **70 237 453** |

**Reconciliation of Work-in-Progress 2015**

| | Included within Infrastructure | Total |
|---|---|---|
| Opening balance | 42 109 813 | 42 109 813 |
| Additions/capital expenditure | 51 175 767 | 51 175 767 |
| Transferred to completed items | (43 891 223) | (43 891 223) |
| | **49 394 357** | **49 394 357** |

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.

### 11. Intangible assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation and accumulated impairment** | **Carrying value** |
| Computer software and licenses | 706 129 | (260 260) | 445 869 | 468 728 | (271 243) | 197 485 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software and licenses | 197 485 | 556 734 | (308 350) | 445 869 |

**Reconciliation of intangible assets - 2015**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software and licenses | 327 158 | (129 673) | 197 485 |

# Notes to the Annual Financial Statements

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

## 12. Heritage assets

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Art collections, exhibits and antiques | 17 728 | - | 17 728 | 17 728 | - | 17 728 |

**Reconciliation of heritage assets 2016**

| | **Opening balance** | **Total** |
|---|---|---|
| Art collections, exhibits and antiques | 17 728 | 17 728 |

**Reconciliation of heritage assets 2015**

| | **Opening balance** | **Total** |
|---|---|---|
| Art collections, exhibits and antiques | 17 728 | 17 728 |

## 13. Long term Receivables

| | | |
|---|---|---|
| Consumer debtors - Cost | - | 2 220 712 |
| Consumer debtors - Impaired | - | (2 219 337) |
| | **-** | **1 375** |

Receivables (consumer debtors) with arrangements are classified as long term receivables as the period to repay the outstanding balance exceeds 12 months.

These debtor accounts were also impaired because even though they have arrangements, the consumer still does not keep to the set arrangement.

## 14. Payables from exchange transactions

| | | |
|---|---|---|
| Accrued expense | - | 1 |
| Salary Control | 1 878 650 | 534 815 |
| Staff bonus acrrual | 1 538 764 | 1 365 317 |
| Staff leave accrual | 5 564 855 | 5 588 344 |
| Sundry creditors | 348 | 348 |
| Payments received in advance | 3 767 142 | 3 398 404 |
| Trade payables | 47 160 216 | 33 688 440 |
| | **59 909 975** | **44 575 669** |

Payables from exchange transactions increased significantly from 2015 to 2016. This is mainly due to the amounts owed to Eskom, Sedibeng Water and Vaalharts Water. Considering the current cash flow position of the municipality, serious doubt arises whether the municipality will be able to meet its commitments towards these creditors.

# Notes to the Annual Financial Statements

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

### 15. Finance lease obligation

The following assets were subject to finance leases at year end, at amortised cost:

| | | |
|---|---|---|
| Konica Minolta - Bizhub B751 - 41003745 | 56 136 | 83 701 |
| Konica Minolta - Bizhub C454 - J04100290 | 48 941 | 72 973 |
| Konica Minolta - Bizhub B36 - X041100091 | 10 426 | 15 546 |
| | **115 503** | **172 220** |
| Transferred to current liabilities | (63 281) | (56 718) |
| Non-current liability | 52 222 | 115 502 |

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | - | 57 137 |
| | - | 57 137 |
| less: future finance charges | - | (4 915) |
| **Present value of minimum lease payments** | **-** | **52 222** |

| | | |
|---|---|---|
| **Present value of minimum lease payments due** | | |
| - within one year | - | 52 222 |

Interest rates are fixed at the contract date. All leases have fixed repayments.

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

**Market risk**

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

| | | |
|---|---|---|
| Rand | - | 52 222 |

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note 43.

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

### 16. Unspent conditional grants and receipts

Unspent grants as at year end are not cash-backed. Conditional grants can only be utilised for the purpose it was allocated for. If the conditions of any grant have not been met the unspent portion must still be available in cash as the grant has been received. If the unspent portion is not cash-backed it means that that portion has been used for other purposes than for the conditional purpose of the grant. In terms of Section 33(d) of the Division of Revenue Act 2016, any expenditure incurred in contravention of the act must be regarded as irregular expenditure.

The unspent portion of conditional grants as at 30 June 2016 amounts to R3,791,466 and the available cash as at 30 June 2016 amounts to R2,472,999. This means that an amount of at least R1,318,467 has been utilised for other purposes than the conditions of the grant.

The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

# Notes to the Annual Financial Statements

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

### 16. Unspent conditional grants and receipts (continued)

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

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| MSIG | 263 012 | 240 282 |
| COGHSTA | 42 778 | 42 778 |
| FMG | 243 982 | 224 319 |
| Water Service Operating Grant (WSOG) | 454 636 | - |
| Northern Cape Roads | 1 364 572 | 1 364 572 |
| Library Grant | 1 110 111 | 322 793 |
| Northern Cape Public Works | 312 375 | 312 375 |
| | **3 791 466** | **2 507 119** |

**Movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 2 507 119 | 3 113 000 |
| Additions during the year | 5 739 636 | 10 687 078 |
| Income recognition during the year | (4 455 289) | (11 292 959) |
| | **3 791 466** | **2 507 119** |

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

See note 26 for reconciliation of grants from National/Provincial Government.

### 17. Consumer deposits

| | | |
|---|---|---|
| Electricity and Water | 2 704 829 | 2 641 242 |
| Town Hall | 4 293 | 2 940 |
| | **2 709 122** | **2 644 182** |

Consumer deposits are partial security for a future payment of an account. Deposits are considered a liability as the deposit is utilised on the account once the service is terminated. Therefore the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Any portion of consumer deposits that is not cash-backed should therefore be regarded as unauthorised expenditure.

### 18. Retirement benefit obligations

**Defined benefit plan**

The plan is a post employment medical benefit plan.

**Post retirement medical aid plan**

The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of serveral medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement,an employee may conitnue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

The most recent actuarial valuations of pla assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Arch (Pty) Ltd. The present value of the defined benefit obigation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

# Notes to the Annual Financial Statements

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

**18. Retirement benefit obligations (continued)**

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

| | | |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | 15 787 637 | 12 100 000 |
| | | |
| Non-current liabilities | 15 415 673 | 10 684 000 |
| Current liabilities | 371 964 | 1 416 000 |
| | **15 787 637** | **12 100 000** |

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

| | | |
|---|---|---|
| Opening balance | 13 193 204 | 12 100 102 |
| Benefits paid | (389 000) | (371 970) |
| Net expense recognised in the statement of financial performance | 4 076 637 | 1 465 072 |
| | **16 880 841** | **13 193 204** |

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

| | | |
|---|---|---|
| Current service cost | 683 000 | 428 000 |
| Interest cost | 1 122 000 | 986 000 |
| Actuarial (gains) losses | 2 271 637 | 51 072 |
| | **4 076 637** | **1 465 072** |

**Calculation of actuarial gains and losses**

| | | |
|---|---|---|
| Actuarial (gains) losses – Obligation | 2 271 637 | 51 072 |

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Discount rate | 9,56 % | 8,94 % |
| Medical cost trend rates | 8,58 % | 8,05 % |
| Net discount rate - healthcare cost inflation | 0,90 % | 0,89 % |
| Maximum subsidy inflation rate | 6,06 % | 7,05 % |
| Net discount rate - maximum subsidy inflation | 3,30 % | - % |

GRAP 25 defines the determination of the discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximately by reference to markert yields at the reporting date on government bonds. Where there is no deep markert in government bonds with sufficiently long matuarity to match the estimated matuarity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer matuarities by extrapolating current markert rates along the yield curve.

**Other assumptions**

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

| | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| | **R** | **R** | **R** | **R** | **R** |
| Defined benefit obligation | 15 787 637 | 12 100 000 | 11 007 000 | 11 566 000 | 13 322 000 |

# Notes to the Annual Financial Statements

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

**18. Retirement benefit obligations (continued)**

**Defined contribution plan**

**Cape Joint Retirement Fund**

Council contributes to the Cape Joint Retirement Fund which is a defined contribution fund. This fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service cost.

The municipality is under no obligation to cover any unfunded benefits.

| | | |
|---|---|---|
| The amount recognised as an expense for defined contribution plans is | 4 076 637 | 1 576 368 |

**19. Provisions**

**Reconciliation of provisions - 2016**

| | Opening Balance | Change in discount factor | Total |
|---|---|---|---|
| Environmental rehabilitation | 18 613 866 | 20 483 773 | 39 097 639 |

**Reconciliation of provisions - 2015**

| | Opening Balance | Change in discount factor | Total |
|---|---|---|---|
| Environmental rehabilitation | 17 614 010 | 999 856 | 18 613 866 |

| | | |
|---|---|---|
| Non-current liabilities | 33 872 924 | 14 655 607 |
| Current liabilities | 5 224 715 | 3 958 259 |
| | **39 097 639** | **18 613 866** |

# Notes to the Annual Financial Statements

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

**19. Provisions (continued)**

**Environmental rehabilitation provision**

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

| **Area of the rehabilitation sites** | Jan Kempdorp | Hartswater (Old) | Hartswater (New) | Ganspan | Pampierstad |
|---|---|---|---|---|---|
| Area (ha) | 2,9 | 2,3 | 4,8 | 4,6 | 1,9 |

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

The municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Enviromental Conservation Act.

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Enviroment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the lanfill permits issued under section 50 of the National Enviromental Management: Waste Act, Act 59 of 2008.

The following key assumptions are used:

GRAP 19 defines the determination of the investment returnassumption to be usedas th rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

As such a discount rate of 5.92% p.a has been used. It was derived from the yield curve, without a tax adjustment, obtained from Bond Exchange of South Africa after the markert closed on 30 June 2016.

| **Municipal site** | Year | 2016 Provision | 2015 Provision | 2014 Provision |
|---|---|---|---|---|
| Old Hartswater | 2016 | 26 012 737 | 2 744 373 | 2 508 300 |
| New Hartswater | 2018 | 5 224 715 | 4 040 462 | 8 988 023 |
| Jan Kempdorp | 2015 | - | 3 303 173 | 3 063 478 |
| Ganspan | 2016 | 2 814 413 | 5 577 986 | 5 321 123 |
| Pampierstad | 2016 | 5 045 772 | 2 947 872 | 2 708 984 |
| | | **39 097 637** | **18 613 866** | **22 589 908** |

# Notes to the Annual Financial Statements

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

## 20. Long service awards

| | | |
|---|---|---|
| Non-current liabilities | 3 049 557 | 2 780 000 |
| Current liabilities | 96 664 | 245 000 |
| | **3 146 221** | **3 025 000** |

The municipality operates as unfunded deficit plan for all its employees. Under the plan, a long Service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

The long service awards plan is a defined benefit plan. At year end 307 (2015 - 306) employees were elegible for long service leave awards.

The current service cost for the ensuing year is estimated to be R408,482 (2015 - R378,000) whereas the interest cost for the next year is estimated to be R265,464 (2015 - R282,000).

As at the valuation date, the long service award liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

**The key assumptions utilised by management in determining the long service leave award liability are listed below:**

| | | |
|---|---|---|
| Discount rate | Yield curve | 8.57% |
| Salary increase | Difference between norminal and real yield curve | 6.22% |
| Normal retirement age | 65 | 65 |
| Normal salary increase rate | Equal to CPI+1% | 7.22% |
| Net Effective discount rate | Yield Curve Based | 1.25% |

**Present value of unfunded obligation:**

| | | |
|---|---|---|
| | 3 146 221 | 3 025 000 |

**Reconciliation of present value of fund obligation**

| | | |
|---|---|---|
| Present value of fund obligation at the beginning of the year | (3 025 000) | (2 721 000) |
| Current service cost | (378 000) | (342 000) |
| Interest cost | (282 000) | (217 000) |
| Benefits paid | 245 000 | 117 962 |
| Actuarial gain / (losses) | 293 779 | 137 038 |
| | **(3 146 221)** | **(3 025 000)** |

# Notes to the Annual Financial Statements

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

## 20. Long service awards (continued)

**Sensitivity Analysis**

In order to illustrate the sensitivity of the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates.
- 1% increse/decrease in the Normal Salary cost inflation

**Withdrawal Rate**

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost of the municipality in the form of benefits will reduce and visa versa.

We will illustrate the effect of higher and lowe withdrawal rates by inrceasing and decreasing the withdrawal rates by 20%. The effect is as follows:

| | -20% Withdrawal rate | Valuation assumption | +20% Withdrawal rate |
|---|---|---|---|
| Total Accrued Liability | 3 125 000 | 3 146 221 | 2 859 000 |
| Current Service Cost | 419 000 | 408 482 | 343 000 |
| Intereat Cost | 302 000 | 265 454 | 265 000 |
| | - | - | - |

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

| | -1% Normal salary inflation | Valuation Assumption | +1% Normal salary inflation |
|---|---|---|---|
| Total Accrued Liability | 2 820 000 | 3 025 000 | 3 252 000 |
| Current Service Cost | 345 000 | 378 000 | 416 000 |
| Interest Cost | 262 000 | 282 000 | 305 000 |
| | - | - | - |

## 21. Financial instruments disclosure

**Categories of financial instruments**

**2016**

**Financial assets**

| | **At amortised cost** | **Total** |
|---|---|---|
| Consumer Receivables | 18 896 431 | 18 896 431 |
| Receivables from Exchange transactions | 8 958 710 | 8 958 710 |
| Receivables from non-exchange transactions | 18 905 | 18 905 |
| Cash and cash equivalents | 2 472 999 | 2 472 999 |
| | **30 347 045** | **30 347 045** |

# Notes to the Annual Financial Statements

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

**. Financial instruments disclosure (continued)**

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 59 906 864 | 59 906 864 |
| Bank overdraft | 331 694 | 331 694 |
| Consumer deposits | 2 709 122 | 2 709 122 |
| Unspent grants and receipts | 3 791 466 | 3 791 466 |
| | **66 739 146** | **66 739 146** |

**2015**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Consumer debtors | 17 750 430 | 17 750 430 |
| Receivables from Exchange transactions | 9 168 107 | 9 168 107 |
| Receivables from non-exchange transactions | 167 231 | 167 231 |
| Cash and cash equivalents | 4 063 398 | 4 063 398 |
| | **31 149 166** | **31 149 166** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 42 824 723 | 42 824 723 |
| Consumer deposits | 2 644 697 | 2 644 697 |
| Unspent grants and receipts | 2 507 119 | 2 507 119 |
| Finance lease obligation | 52 222 | 52 222 |
| | **48 028 761** | **48 028 761** |

## 22. Service charges

| | | |
|---|---|---|
| Refuse removal | 8 308 629 | 7 470 774 |
| Sale of electricity | 72 441 816 | 61 005 883 |
| Sale of water | 26 830 088 | 25 612 679 |
| Sewerage and sanitation charges | 12 794 926 | 11 521 039 |
| | **120 375 459** | **105 610 375** |

## 23. Revenue

| | | |
|---|---|---|
| Fines, Penalties and Forfeits | 221 050 | 372 930 |
| Government grants & subsidies | 130 942 603 | 129 086 954 |
| Interest received (debtors) | 16 842 135 | 11 970 912 |
| Property rates | 17 309 071 | 16 959 323 |
| Rental of facilities and equipment | 427 373 | 581 538 |
| Service charges | 120 375 459 | 105 610 375 |
| | **286 117 691** | **264 582 032** |

# Notes to the Annual Financial Statements

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

## 23. Revenue (continued)

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

| | | |
|---|---|---|
| Interest received (debtors) | 16 842 135 | 11 970 912 |
| Interest received - investment | 886 174 | 1 331 217 |
| Rental of facilities and equipment | 427 373 | 581 538 |
| Service charges | 120 375 459 | 105 610 375 |
| | **138 531 141** | **119 494 042** |

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

| | | |
|---|---|---|
| **Taxation revenue** | | |
| Property rates | 17 309 071 | 16 959 323 |
| **Transfer revenue** | | |
| Government grants & subsidies | 130 942 603 | 129 086 954 |
| Fines, Penalties and Forfeits | 221 050 | 372 930 |
| | **148 472 724** | **146 419 207** |

## 24. Investment revenue

| | | |
|---|---|---|
| **Interest revenue** | | |
| Banks | 886 174 | 1 331 217 |

## 25. Property rates

**Rates received**

| | | |
|---|---|---|
| Property rates | 17 309 071 | 16 959 323 |

## 26. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 75 484 000 | 71 353 000 |
| MSIG | 907 270 | 693 718 |
| WSOG | 25 515 313 | - |
| FMG | 1 655 338 | 1 599 700 |
| EPWP | 1 170 000 | 1 215 000 |
| Library grant | 723 682 | 2 132 836 |
| | 105 455 603 | 76 994 254 |
| **Capital grants** | | |
| NC Roads | - | 2 964 000 |
| Municipal Infrastructure Grant (MIG) | 25 487 000 | 24 836 000 |
| WSOG | - | 20 484 687 |
| NC Public Works | - | 2 687 703 |
| FBDM Sewer Infrastructure | - | 1 120 310 |
| | 25 487 000 | 52 092 700 |
| | **130 942 603** | **129 086 954** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | |
|---|---|---|
| Conditional grants received | 25 487 000 | 126 876 078 |
| Unconditional grants received | 105 455 603 | 71 353 000 |

# Notes to the Annual Financial Statements

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

**26. Government grants and subsidies (continued)**

| | | |
|---|---|---|
| | **130 942 603** | **198 229 078** |

**Equitable Share**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 75 484 000 | 71 353 000 |
| Conditions met - transferred to revenue | (75 484 000) | (71 353 000) |
| | - | - |
| **Closing Balance** | **-** | **-** |

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

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

**MSIG**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 240 282 | - |
| Current-year receipts | 930 000 | 934 000 |
| Conditions met - transferred to revenue | (907 270) | (693 718) |
| | **263 012** | **240 282** |

Conditions still to be met - remain liabilities (see note 16).

**COGHSTA**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 42 778 | 42 778 |

Conditions still to be met - remain liabilities (see note 16).

**Municipal Infrastructure Grant (MIG)**

| | | |
|---|---|---|
| Current-year receipts | 25 487 000 | 25 032 000 |
| Conditions met - transferred to revenue | (25 487 000) | (25 032 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 16).

**FMG**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 224 319 | 224 019 |
| Current-year receipts | 1 675 000 | 1 600 000 |
| Conditions met - transferred to revenue | (1 655 338) | (1 599 700) |
| | **243 981** | **224 319** |

Conditions still to be met - remain liabilities (see note 16).

# Notes to the Annual Financial Statements

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

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

**EPWP**

| | | |
|---|---|---|
| Current-year receipts | 1 170 000 | 1 215 000 |
| Conditions met - transferred to revenue | (1 170 000) | (1 215 000) |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 16).

**NC Dept of Roads and Public Works**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 364 572 | 1 364 572 |
| Current-year receipts | - | 2 964 000 |
| Conditions met - transferred to revenue | - | (2 964 000) |
| | **1 364 572** | **1 364 572** |

Conditions still to be met - remain liabilities (see note 16).

**Library Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 322 793 | 1 481 630 |
| Current-year receipts | 1 510 000 | 974 000 |
| Conditions met - transferred to revenue | (722 682) | (2 132 837) |
| | **1 110 111** | **322 793** |

Conditions still to be met - remain liabilities (see note 16).

**NC Public Works**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 312 375 | - |
| Current-year receipts | - | 3 000 078 |
| Conditions met - transferred to revenue | - | (2 687 703) |
| | **312 375** | **312 375** |

Conditions still to be met - remain liabilities (see note 16).

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

### 27. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 3 705 011 | 2 097 563 |

# Notes to the Annual Financial Statements

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

### 28. Employee related costs

| | | |
|---|---|---|
| Acting allowances | 393 161 | 499 256 |
| Basic | 43 362 849 | 38 293 228 |
| Bonus | 3 536 838 | 3 177 716 |
| Employee Related Costs - Contributions for Pensions and Medical Aids | 9 544 738 | 8 726 984 |
| Housing benefits and allowances | 164 610 | 166 076 |
| Leave pay provision charge | 401 705 | 1 868 878 |
| Long-service awards | 250 956 | 284 925 |
| Other payment- Bargaining Council | 26 977 | 26 171 |
| Overtime payments | 2 961 785 | 2 142 607 |
| Defined contribution plans | 4 037 817 | 1 414 000 |
| SDL | 496 037 | 446 709 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 257 710 | 1 020 098 |
| UIF | 403 190 | 370 412 |
| | **66 838 373** | **58 437 060** |

**Remuneration of Municipal Manager - Z Nikani**

| | | |
|---|---|---|
| Annual remuneration | 440 438 | 369 664 |
| Travel allowance | 75 503 | 68 058 |
| Cellphone allowance | 5 724 | 5 194 |
| Annual bonus | 43 500 | 35 206 |
| Contributions to UIF, medical and pension funds | 72 083 | 88 675 |
| Other allowances | - | 32 902 |
| | **637 248** | **599 699** |

**Remuneration of Chief Finance Officer - H Basson**

| | | |
|---|---|---|
| Annual remuneration | 527 655 | 490 043 |
| Travel allowance | 95 068 | 97 002 |
| Cellphone allowance | 3 200 | 61 539 |
| Annual bonus | 48 914 | 40 836 |
| Contributions to UIF, medical and pension funds | 1 487 | 134 386 |
| Housing allowance | 38 000 | - |
| | **714 324** | **823 806** |

**Remuneration of Chief Finance Officer - TP Sediti**

| | | |
|---|---|---|
| Annual remuneration | 131 316 | - |
| Travel allowance | 29 858 | - |
| Cellphone allowance | 1 950 | - |
| Annual bonus | 18 238 | - |
| Contributions to UIF, medical and pension funds | 10 470 | - |
| Leave pay | 78 159 | - |
| Housing allowance | 19 776 | - |
| | **289 767** | **-** |

The Chief Financial Officer position has been vacant for the 2015-16 financial year, several persons was acting as municipal manager as disclosed above.

# Notes to the Annual Financial Statements

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

### 28. Employee related costs (continued)

**Remuneration of Planning and Operations Director**

| | | |
|---|---|---|
| Annual Remuneration | 522 000 | 522 000 |
| Car Allowance | 100 671 | 100 677 |
| Cellphone allowance | 7 632 | 7 632 |
| Contributions to UIF, Medical and Pension Funds | 43 500 | 43 500 |
| Other | 103 073 | 102 728 |
| | **776 876** | **776 537** |

**Remuneration of Infrastruture and Human Settlement Officer**

| | | |
|---|---|---|
| Annual Remuneration | 462 000 | 462 000 |
| Car Allowance | 97 627 | 98 648 |
| Cellphone allowance | 7 632 | 7 632 |
| Annual bonus | 38 500 | 38 500 |
| Housing allowance | 42 212 | 43 202 |
| Contributions to UIF, Medical and Pension Funds | 128 314 | 124 944 |
| | **776 285** | **774 926** |

**Remuneration of Acting Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | - | 66 855 |
| Car Allowance | - | 2 950 |
| Contributions to UIF, Medical and Pension Funds | - | 1 265 |
| | **-** | **71 070** |

The Acting Municipal Manager was appointed to act on 01 March 2015.

### 29. Remuneration of councillors

| | | |
|---|---|---|
| Former Mayor | - | 431 295 |
| Current Mayor | 675 163 | 218 705 |
| Speaker | 458 555 | 524 408 |
| Mayoral Committee Members | 855 963 | 1 508 821 |
| Councillors | 3 005 202 | 2 167 427 |
| Councillors' pension contribution | 581 152 | 610 306 |
| Councillors' medical aid | 101 694 | 56 160 |
| | **5 677 729** | **5 517 122** |

**In-kind benefits**

The Mayor and Speaker are full-time. Each is provided with an office and shared secretarial support at the cost of the Council.

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

### 30. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 159 853 333 | 128 860 049 |
| Intangible assets | 308 350 | 129 673 |
| | **160 161 683** | **128 989 722** |

# Notes to the Annual Financial Statements

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

### 31. Finance costs

| | | |
|---|---|---|
| Finance leases | - | 8 713 |
| Post retirement benefit obligation | - | 865 |
| Trade and other payables | 745 339 | 478 433 |
| | **745 339** | **488 011** |

### 32. Debt impairment

| | | |
|---|---|---|
| Debt impairment | 48 445 827 | 40 720 048 |

### 33. Bulk purchases

| | | |
|---|---|---|
| Electricity | 52 942 653 | 47 293 788 |
| Water | 27 941 205 | 12 845 452 |
| | **80 883 858** | **60 139 240** |

### 34. Contracted services

| | | |
|---|---|---|
| Operating Leases | 253 413 | 209 554 |
| Specialist Services | 15 889 881 | 13 119 059 |
| Other Contractors | - | 13 718 147 |
| | **16 143 294** | **27 046 760** |

### 35. Grants and subsidies paid

| | | |
|---|---|---|
| **Other subsidies** | | |
| Free Services and Indigents - Electricity | 4 877 607 | 2 037 862 |
| Free Services and Indigents - Refuse | 1 957 408 | 1 172 265 |
| Free Services and Indigents - Sewerage | 3 037 699 | 2 823 676 |
| Free Services and Indigents - Water | 1 384 944 | 576 763 |
| Free Services and Indigents - Burials | 99 839 | - |
| Rebates - Electricity | - | 30 964 198 |
| **Total Grants and Subsidies** | **11 357 497** | **37 574 764** |

# Notes to the Annual Financial Statements

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

### 36. General expenses

| | | |
|---|---|---|
| Advertising | 320 498 | 265 846 |
| Auditors remuneration | 3 705 011 | 2 097 563 |
| Bank charges | 275 763 | 308 420 |
| Cleaning | 68 574 | 50 449 |
| Consulting and professional fees | 436 073 | 2 716 805 |
| Entertainment | 479 876 | 289 562 |
| Insurance | 515 676 | 443 781 |
| Conferences and seminars | 1 720 | 36 374 |
| Magazines, books and periodicals | 920 | 26 128 |
| Motor vehicle expenses | 391 296 | 298 374 |
| Fuel and oil | 1 558 288 | 1 448 887 |
| Postage and courier | 488 040 | 223 149 |
| Printing and stationery | 778 934 | 694 338 |
| Protective clothing | 501 144 | 388 544 |
| Security (Guarding of municipal property) | 1 665 399 | 1 482 632 |
| Subscriptions and membership fees | 92 961 | 532 919 |
| Telephone and fax | 1 522 033 | 1 437 024 |
| Training | 625 594 | 374 495 |
| Subsistance and Travelling | 2 768 523 | 3 334 720 |
| Refuse bags | 10 135 | 40 258 |
| Medicals | 22 309 | 1 315 |
| Other expenses | 10 259 926 | 5 818 703 |
| Chemicals | 1 428 779 | 1 604 232 |
| | **27 917 472** | **23 914 518** |

### 37. Cash generated from (used in) operations

| | | |
|---|---|---|
| Deficit | (129 455 866) | (119 608 891) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 160 161 683 | 90 303 347 |
| Gain on sale of assets and liabilities | 37 989 | 112 191 |
| Finance cost - Finance leases | - | 488 011 |
| Impairment deficit | 110 525 | - |
| Debt impairment | 56 127 868 | 40 720 048 |
| Movements in provisions (Current) | 3 808 290 | 2 169 034 |
| Movements in provisions (Non-current) | 20 483 773 | (754 898) |
| Government Grants and Subsidies received | 106 779 950 | 10 687 078 |
| Government Grants and Subsidies recognised as revenue | (130 942 603) | - |
| Other non-cash items - Landfill provision | - | 982 824 |
| **Changes in working capital:** | | |
| Inventories | (10 554) | 41 217 |
| Receivables from exchange transactions | 1 655 981 | - |
| Consumer debtors | (57 273 869) | (42 392 802) |
| Receivables from exchange transactions | 148 326 | 15 313 |
| Payables from exchange transactions | 15 185 722 | 19 150 459 |
| VAT | 349 677 | (2 401 250) |
| Unspent conditional grants and receipts | - | (786 151) |
| Consumer deposits | - | 101 882 |
| | **47 166 892** | **(1 172 588)** |

# Notes to the Annual Financial Statements

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

### 38. Commitments

**Authorised expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 49 430 476 | 35 975 381 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 49 430 476 | 35 975 381 |

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

### 39. Operating lease income

The municipality has properties under operating leases.

No investment properties have been disposed of since the statement of financial performance date.

No contingent rents were recognised as revenue in the period.

Phokwane Local Municipality rents buildings and sportfields situated in Jan Kempdorp and Hartswater to the public.
The expired date of the leases is as follows:

| | |
|---|---|
| 2014/2015 financial year | one contract |
| 2015/2016 financial year | two contracts |
| 2016/2017 finanical year | two contracts |
| 2017/2018 financial year | one contract |
| indifinte period | seven contracts |

Only two lease rental contracts are escalating annually.

At the Statement of Financial Position date, where the municipality acts as a lessor under non-cancellable operating leases, it will receive operating lease income as follows:

| | **2016** | **2015** |
|---|---|---|
| - within one year | 163 459 | 164 466 |
| - in two to five years | 313 730 | 150 272 |
| | **477 189** | **314 738** |

# Notes to the Annual Financial Statements

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

### 40. Contingencies

The following litigations have been raised against the municipality:

| **2016 Matters** | Legal Represantative | Status | Value of Litigation |
|---|---|---|---|
| Afriforum vs Phokwane LM | Towell & Groenewaldt | In Progress | 1. Value not determined |
| Christoffel Johannes Jacobus Victor vs Phokwane LM | Towell & Groenewaldt | In Progress | 1. Value not determined |
| JM Maretela | Zebediela | In Progress | 1. Value not determined, matter referred to bargaining council. |
| T. Choane vs Phokwane Municipality | Zebediela Attorneys | In Progress | 1. Settled into SALGBC |
| Phokwane Municipality vs Melvin Davids – Pothole Kolong Street Pampierstad third party | Marsh Africa/Commercial Practice – Claims Services | In Progress | 1. Court order payment |
| GWK vs Phokwane Municipality | Faluchas Trading and Projects | In Progress | 1. Payments attached. |
| OS & KW Setlhogo obo P Setlhogo vs Phokwane Municipality | Ntsoane Inc Attorneys | In Progress | 1. No information provided. |
| Babereki Consulting Engineers vs Phokwane Municipality | BG Bojosinyane & Associates | In Progress | 19,037,583 |

| **2015 Matters** | Legal Represantative | Status | Value of Litigation |
|---|---|---|---|
| Afriforum vs Phokwane LM | Towell & Groenewaldt | In Progress | 1. Value not determined |
| Christoffel Johannes Jacobus Victor vs Phokwane LM | Towell & Groenewaldt | In Progress | 1,430,000.00 |
| Yvonne Visser / David Visser vs Phokwane LM / Municipal Manager / Johannes M. Maretela | Mjila & Partners | In Progress | 1. Value not determined |
| T. Choane vs Phokwane Municipality | Zebediela Attorneys | In Progress | 1. Value not determined, mattered referred to Bargaining Council. |
| Phokwane Municipality vs Melvin Davids – Pothole Kolong Street Pampierstad third party | Marsh Africa / Commercial Practice - Claims Services | In Progress | 2 210 |
| GWK vs Phokwane Municipality | Faluchas Trading and Projects | In Progress | 818 040 |
| OS & KW Setlhogo obo P Setlhogo vs Phokwane Municipality | Ntsoane Inc. Attorneys | In Progress | 7 000 000 |

# Notes to the Annual Financial Statements

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

**40. Contingencies (continued)**

| | | | |
|---|---|---|---|
| M Ndwanya vs Phowkwane Municipality | Madisha Attorneys | In Progress | 1. Compensation based on the applicant's last salary scale with annual increments adjustments plus 24 month compensation. |
| Komanisi vs Phokwane Municipality | Towell & Groenewaldt | In Progress | 1 900 000 |
| Bidco Investment / Morula Project vs Phokwane Municipality | Towell & Groenewaldt | In Progress | 1. Value not determined |
| Department of Environmental Affairs vs Phokwane Local Municipality | N/A | The municipality is operating an unlicenced landfill site, therefore a possible litigation might arise whereby the Department will impose a fine for contravention of the National Environmental Management Waste Act No 59 of 2008. | 10 000 000 |
| Babereki Consulting Engineers vs Phokwane Municipality. | BG Bojosinyane & Associates | In Progress | 19 037 583 |

**Contingent assets**

The municipality had has issued a litigation against the following third party:

| **2016 Matter** | Legal Represantative | Status | Value of Litigation |
|---|---|---|---|
| Tripple Seven Holdings / Karel Erasmus Albertse vs Phokwane LM | Office of the State Attorney | In Progress | 1Value undetermined |

| **2015 Matter** | Legal Represantative | Status | Value of Litigation |
|---|---|---|---|
| Tripple Seven Holdings / Karel Erasmus Albertse vs Phokwane LM | Office of the State Attorney | In Progress | 1Value undetermined |

# Notes to the Annual Financial Statements

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

## 41. Related parties

Related party disclosure is considered in terms of the related party accounting policy as disclosed in the annual financial statements as GRAP 20 is not yet effective for municipalities. In terms of this policy management have considered the principles of control and joint control and have not identified any party irrespective if any transactions were entered into, in the records and operations of the municipality. Management have furthermore considered the internal controls, based on the economic utilisation of resources and have opted to use the existing internal controls of interest declarations by key staff, the declarations if any during bid committee processes and declarations from service providers who submit competative bids in terms of the SCM regulations. Although other controls such as expensive third party confirmations are available to identify possible related parties, the municipality have accepted the current riskof disclosure.

| | |
|---|---|
| Accounting Officer | Refer to accounting officer's report note 28 |
| Close family member of key management | Name |
| Joint venture of key management | Name (Proprietary) Limited of [Mr key management] |

Key Management and receive and pay for services on the same terms and conditions as other ratepayers / residents.

**Related party transactions and balances**

| | | |
|---|---|---|
| **Councillors** | | |
| P Mona | 30 701 | 23 264 |
| GM Motebe | 180 083 | 37 133 |
| MA Moremongwe | 327 | 255 |
| S Nkomo | 94 903 | 95 076 |
| KB Sibanda | 327 | 255 |
| DM Morweng | 5 021 | 10 355 |
| J Adams | 10 287 | 4 925 |
| M Mashori | 4 848 | 24 463 |
| S Lewis | 573 | 497 |
| TTSR Tsikwe | 1 955 | 56 595 |
| MJ Moeketsi | - | 313 |
| FO Pitso | - | 155 |
| AS Mokoena | - | 1 194 |
| M Motho | - | 20 720 |
| MK Mojapele | - | 9 107 |
| **Municipal Manager and Section 57 employees** | | |
| R Sengani | 40 180 | 1 124 |
| TP Sediti (Resigned and no longer a member of senior management as at 30 June 2016) | - | 8 750 |
| Ditchaba MP (Resigned and no longer a member of senior management as at 30 June 2016) | - | 4 186 |
| Z Nikani | 24 893 | 425 |
| Basson H (Name of account in name of Spouse and Acting CFO) | 1 917 | - |

The rates, service charges and other charges charged to related parties are in accordance with approved tariffs that were advertised to the public. No bad debts expenses have been recognised in respect of amounts owed by related parties.

**Compensation of key management personnel**

The compensation of key management personnel is set out in note xx to the Annual Financial Statements

“The Chairperson of the Audit, Risk and Performance Committee for the 2015-16 financial year, resigned and Council accepted the resignation on 29 June 2016. Subsequent to year-end Mubesko Africa allocated Mr WMS Calitz to the Phokwane Local Municipal consulting team to assist with the gathering of information for the compilation of the annual financial statements. Mr Calitz is the technical manager of Mubesko Africa, and have declared in writing his conflict of interest as the previous Chairperson of the ARPC. Mr Calitz is not considered a related party in terms of our accounting policy, but in view of transparency this disclosure is added to related parties.”

### 42. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors

#### 42.1 Prior period error - Clearing of Stale cheques

During the period under review Stale cheque accounts was cleared and corrected to expense votes as expenses were previously overstated . The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Decrease in payables from exchange transactions | 2 297 706 |
| Increase in VAT receivable | 72 604 |
| **Statement of Financial performance**: | |
| Decrease in general expenditure | (2 370 310) |

#### 42.2 Prior period error - Sundry income overstated

During the period under review it was noted that Sundry income was overstated due to receipts from debtors being recognised as income and not the individual debtors account. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position**: | |
| Decrease in receivables from exchange transactions | (20 925) |
| **Statement of Financial performance**: | |
| Decrease in revenue from the rendering of services | 20 925 |

#### 42.3 Prior period error - Understatement of VAT Receivable

During the period under review it was noted that VAT Receivable at 30 June 2015 was understated due to erroneous posting. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Increase in VAT Receivable | 348 865 |
| **Statement of Financial performance:** | |
| Decrease in general expenditure | (341 585) |
| Increase in sundry income | (7 280) |

**42. Prior period errors (continued)**

**42.4 Prior period error - Correction of Medical expense**

During the period under review it was noted that a Medical expense transaction, relating to prior year, was posted erroneously. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Decrease in Receivables | (20 857) |
| **Statement of Financial performance:** | |
| Increase in Employee related cost | 20 857 |

**42.5 Prior period error - Understatement of Payables from exchange transactions**

During the period under review it was noted that Payables from exchange transactions was overstated at 30 June 2015. The comparative statements for 2013/14 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Increase in Payables from exchange transactions | (3 155 471) |
| **Statement of Financial performance:** | |
| Increase in general expenses | 3 155 471 |

**42.6 Prior period error - Overstatement of Revenue and Receivables from exchange transactions**

During the period under review it was noted that Revenue and Receivables from exchange transactions was overstated. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Decrease in Receivables from exchange transactions | (3 039 557) |
| Decrease in VAT Payable | 128 290 |
| **Statement of Financial performance:** | |
| Decrease in Service charges - Water & Electricity | 2 093 352 |
| Decrease in Interest receivable | 817 915 |

**42.7 Prior period error - Overstatement of expenses**

During the period under review it was noted that entries relating to Leases were erroneously posted to suspense account. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of Financial position:** | |
| Increase in Sundry receivables | 19 440 |
| **Statement of financial performance:** | |
| Decrease in Lease expense | (19 440) |

### 42. Prior period errors (continued)

#### 42.8 Prior period error - Recognition and Impairment of Traffic Fines Debtors

During the period under review it was noted that Traffic fines receivable relating to the2014/15 financial year was not posted correctly. The comparative statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of financial position**: | |
| Increase in Receivables from non-exchange transactions | 137 180 |
| | |
| **Statement of financial performance**: | |
| Increase in Bad debts | 98 570 |
| Increase in Revenue - Traffic fines | (235 750) |

#### 42.9 Prior period error - Misstatements of Property, Plant and Equipment and Investment Property

During the period under review it was noted that the Investment Property and Property, plant and equipment have been misstated. Comparitive statements for 2014/15 financial year have been restated. The effect of the correction of the error(s) is summarised below:

| | |
|---|---|
| **Statement of financial position**: | |
| Decrease in Property, plant and equipment | (32 691 253) |
| Increase in Investment Property | 66 479 536 |
| | |
| **Statement of financial performance:** | |
| Increase in Sundry income | (33 788 283) |

| | | |
|---|---|---|
| **Statement of financial position** | | |
| Decrease in Payables from exchange transactions | - | (857 765) |
| Increase in VAT receivable | - | 421 469 |
| Decrease in receivables from exchange transactions | - | (3 061 899) |
| Increase in Receivables from non-exchange transactions | - | 137 180 |
| Decrease in Property, plant and equipment | - | (32 691 253) |
| Increase in Investment Property | - | 66 479 536 |
| Decrease in VAT Payable | - | 128 290 |
| | | |
| **Statement of Financial Performance** | | |
| Decrease in general expenditure | - | 443 576 |
| Decrease in revenue from the rendering of services | - | 20 925 |
| Increase in sundry income | - | (33 795 563) |
| Increase in Employee related cost | - | 20 857 |
| Decrease in Service charges | - | 2 093 352 |
| Decrease in Interest receivable | - | 817 915 |
| Decrease in Lease expense | - | (19 440) |
| Increase in Bad debts | - | 98 570 |
| Increase in Revenue - Traffic fines | - | (235 750) |

### 43. Risk management

#### Financial risk management

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

### 43. Risk management (continued)

**Liquidity risk**

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

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| **2016** | Less than 1 year<br>R | Over 10 Years |
|---|---|---|
| Payables from exchange transactions | 59 906 864 | - |
| Unspent conditional Grants and receipts | 3 791 466 | - |
| Non-Current Provision - Landfill Sites | - | 39 097 639 |
| | **63 698 330** | **39 097 639** |

| **2015** | Less than 1 year<br>R | Over 10 Years |
|---|---|---|
| Payables from exchange transactions | 42 824 723 | - |
| Unspent conditional Grants and receipts | 2 507 119 | - |
| Non-Current Provision - Landfill Sites | - | 18 613 866 |
| | **45 331 842** | **18 613 866** |

### 43. Risk management (continued)

**Credit risk**

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, trade and other receivables, long term receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Credit risk pertaining to consumer debtors is considered to be high due to the provision for impairment on these debtors being calculated at 93.80% (86.88% in 2015) for rates and 93.84% (93.69% in 2015) for trade debtors. In the case of trade debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. The increase in gross debtors balances (27.60% for rates and 22.36% for trade debtors) raises doubt if the net balances, after the provision for impairment for bad debts has been subtracted, will be collected.

The entity only deposits cash with major banks with high quality credit standing. The banks utilised by the municipality are all listed on the JSE. The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposures are disclosed below.

The risk pertaining to receivables from National, Provincial and Local Government are considered to be very low and there are no expectations of counter party default.

Receivables are individually evaluated annually at Balance Sheet date for impairment.

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

| **Financial instrument** | **2016** | **2015** |
|---|---|---|
| Receivables from exchange transactions | 268 442 844 | 219 396 367 |
| Receivables from non-exchange transactions | 38 041 242 | 29 813 850 |
| Gross balance | 306 484 086 | 249 210 217 |
| Less: Provision for impairment | (287 587 655) | (231 459 787) |
| Net balance | 18 896 431 | 17 750 430 |
| Cash and cash equivalents | 2 472 999 | 4 063 398 |
| | **21 369 430** | **21 813 828** |

### 43. Risk management (continued)

**Market risk**

**Interest rate risk**

The municipality has no interest bearing liabilities and is therefore only exposed to interest rate risk in regard to income and operating cash flows on changes in market interest rates.

The municipality did not hedge against any interest rate risks during the current year.

Due to the fact that the South African economy is in an upward interest rate cycle, there are no expectation for a decrease in interest rates on 30 June 2016.

**Foreign exchange risk**

The municipality does not engage in foreign currency transactions.

**Price risk**

The municipality is not exposed to price risk.

### 44. Going concern

The definition of a going concern is that there is no reason to believe that an institution will have to close down or be liquidated within 12 months after the reporting date. The financial statements for this municipality has been prepared, as indicated in the accounting policy, on a going concern assumption.

The financial results however may indicate that the going concern assumption of this municipality may be in serious doubt. The deficits realised during the two years under review in this set of financial statements may well raise doubt about the future financial sustainability of this municipality and may cause serious risks regarding service delivery to the communities within the jurisdiction of the municipality.

### 45. Events after the reporting date

The Municipality has no events after reporting date for the financial year ended 30 June 2016.

### 46. Unauthorised expenditure

**Reconciliation of unauthorised expenditure**

| | | |
|---|---|---|
| Opening balance | 293 311 772 | 158 351 932 |
| Unauthorised expenditure current year - Operating | 200 281 432 | 134 959 840 |
| Unauthorised expenditure current year - Consumer deposits utilised for operating expenditure | 2 709 122 | - |
| | **496 302 326** | **293 311 772** |

### 47. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Fruitless and wasteful expenditure in prior years | 1 022 210 | 656 584 |
| Interest paid | 745 339 | 365 626 |
| | **1 767 549** | **1 022 210** |

### 47. Fruitless and wasteful expenditure (continued)

| Incident | Disciplinary steps/criminal proceedings | 2016 | 2015 |
|---|---|---|---|
| Fruitless and wasteful expenditure in prior years | None | 1 022 210 | 656 584 |
| Interest paid | None | 745 339 | 365 626 |
| | | **1 767 549** | **1 022 210** |

### 48. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 97 466 079 | 92 442 320 |
| Irregular Expenditure - current year | 56 034 | 5 023 759 |
| Irregular expenditure current year - Conditional grants utilised for operating expenditure | 1 318 467 | - |
| Less: Amounts not recoverable (not condoned) | - | - |
| **Irregular expenditure awaiting condonement** | **98 840 580** | **97 466 079** |

**Details of irregular expenditure – current year**

| | Disciplinary steps taken/criminal proceedings | |
|---|---|---|
| Deviation approved after services were rendered. However the service that were rendered is regulated under the OHS Act. | Management is in the process of determining the completeness of irregular expenditure | 56 034 |

**Details of irregular expenditure - prior year**

| | | |
|---|---|---|
| Opening balance of the prior year. | Management is in the process of determining the completeness of irregular expenditure | 63 320 965 |
| Three quotations not obtained | Management is in the process of determining the completeness of irregular expenditure. | 4 282 |
| Suppliers appointed without obtaining a valid tax clearance certificate or MBD forms not completed. | Management is in the process of determining the completeness of irregular expenditure | 29 117 073 |
| | | **92 442 320** |

**Deviations**

| | |
|---|---|
| Strip and quote | 342 421 |
| Sole supplier | 27 000 |
| Emergency | 798 212 |
| | **1 167 633** |

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

#### 49.1 Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA

| | | |
|---|---|---|
| Opening balance | - | 383 591 |
| Current year subscription / fee | 87 713 | 30 000 |
| Amount paid - current year | (87 713) | (413 591) |
| | **-** | **-** |

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

#### 49.2 Material losses

| **Electricity distribution losses (KWh)** | **2016** | **2015** |
|---|---|---|
| KWh purchased | 55 692 739 | 55 315 052 |
| less: kWh sold | (47 085 550) | (41 040 751) |
| KWh losses | 8 607 189 | 14 274 301 |
| % losses | 15 | 26 |
| Average cost per kWh unit | 0,628 | 0,500 |
| Loss in Rand value | 5 401 662 | 7 061 733 |
| | - | - |

| **Electricity distribution losses (kVA)** | **2016** | **2015** |
|---|---|---|
| KVA purchased | 212 254 | 307 585 |
| less: kVA sold | (59 807) | (47 857) |
| KVA losses | 152 447 | 259 728 |
| % losses | 72 | 84 |
| Average cost per kVA unit | 81,780 | 75,690 |
| Loss in Rand value | 12 467 300 | 19 660 085 |
| | - | - |

| **Water distribution losses (Mega litres)** | **2016** | **2015** |
|---|---|---|
| Mega litres purified | 4 692 980 | 4 193 675 |
| less: mega litres sold | (1 869 914) | (1 960 421) |
| Mega litre losses | 2 823 066 | 2 233 254 |
| % losses | 60 | 53 |
| Average cost per unit | 3,180 | 3,270 |
| Loss in Rand value | 8 975 211 | 7 299 649 |
| | - | - |

#### 49.3 Audit fees

| | | |
|---|---|---|
| Current year subscription / fee | 3 684 177 | 2 097 563 |
| Amount paid - current year | (3 682 563) | (2 097 563) |
| | **1 614** | **-** |

#### 49.4 PAYE, SDL and UIF

| | | |
|---|---|---|
| Opening balance | 531 470 | - |
| Current year contribution | 7 630 168 | 6 550 684 |
| Amount paid - current year | (8 161 638) | (6 019 214) |
| | **-** | **531 470** |

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

#### 49.5 Pension and Medical Aid Deductions

| | | |
|---|---|---|
| Opening balance | - | - |
| Current year contribution | 5 314 333 | 4 821 630 |
| Amount paid - current year | (5 314 333) | (4 821 630) |
| | **-** | **-** |

#### 49.6 VAT

| | | |
|---|---|---|
| VAT receivable | 14 018 052 | 14 367 729 |

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

#### 49.7 Councillors' arrear consumer accounts

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

| **30 June 2016** | **Outstanding less than 90 days R** | **Outstanding more than 90 days R** | **Total R** |
|---|---|---|---|
| S Nkomo | 2 469 | 96 495 | 98 964 |
| HM Modiakgotla | 2 218 | 7 276 | 9 494 |
| FO Pitso | 570 | 1 730 | 2 300 |
| MF Mojapele | 780 | 12 612 | 13 392 |
| AS Mokoena | 866 | 6 594 | 7 460 |
| CJS Adams | 4 370 | 6 296 | 10 666 |
| KD Mashorie | 1 152 | 5 055 | 6 207 |
| P Mona | 2 880 | 31 796 | 34 676 |
| GM Motebe | 12 878 | 22 001 | 34 879 |

### 50. 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 accounting officer and includes a note to the annual financial statements.

For the period underreview there were instances wheregoods and services were procured via a deviation from thenormal Supply Chain Management Regulations.

| **Deviations** | 2016 | Number of deviations |
|---|---|---|
| Deviation approved before acquiring services / goods | 1 147 562 | 16 |
| Unavoidable | 15 697 | 1 |
| Regulated by legislation | 56 034 | 1 |
| | **1 219 293** | **18** |

### 51. Budget differences

**Material differences between budget and actual amounts**

Property Rates: Consumers moved from residential and business premises and less property rates income was recieved as anticipated.
Service charges: Rebates were given to consumers due to a tariff error in 2010/11. The budget was adjusted to accomodate the rebates. However more services charges were levied than anticipated.
Rental of facilities: Previous unrecognised rent was recognised.
Investment revenue: Interest rates increased during the year.
Transfer recognised-operational: Projects not budgeted for but granted by Provincial Government lead to increase in income recognition.
Other own revenue: Consumer made use of other services offered by the municipality.

Employee cost: The appoinment of 2 directors increased the expenditure for the year.
Remuneration of councillors: No significant variance.
Debt impairment: Debt impairment was not properly budgeted as the prior year expense was questioned byt the auditors.
Depreciation: Due to the lack of an updated fiaxed asset register during the compilation of th adjustment budget, incorrect budgeting was performed.
Materials and bulk purchases: Increase in electricity bought from Eskom and more services consumed.
Other expenditure: No significant variance.

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

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages  to  in the annual report