Ditsobotla Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Category B municipality in terms of Section 1 of Local Government's Municipal Structures Act, 1998 (Act 117 of 1998) read with Section 15 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	The primary function of the municipality is to provide basic services i.e. water, electricity, sewerage, water and sanitation to the Lichtenburg jurisdiction.
Mayoral committee	
Executive Mayor	Honorable L.E Holele
Councillors	Cllr T.E Bogatsu Cllr V.S Dila Cllr D.O Dipholo Cllr H.K Ditlhareng Cllr R Engelbrech Cllr J.P.G Fourie Cllr G.F Khambula Cllr G.A Koloko Cllr I.E Lethoko Cllr P.J Maitshotlo Cllr B.B Maretlwa Cllr W Masekoa Cllr M.L Mathipe Cllr N.G Matlaba Cllr R. B Matholoa Cllr T.K Melamu Cllr Q.E Mgqamqo Cllr M.V Mquba Cllr M.A Mmota Cllr M.E Mmota Cllr S.E Moeketsane Cllr I.M Mogonediwa Cllr B.J Moheta Cllr D.G Moilwa Cllr T.V Thamaga Cllr M.W Morutse Cllr M.S Moseki Cllr L.H Mothibedi Cllr M.K Montsho Cllr D.S Mpame Cllr F. Naweta Cllr A.W Ngesman Cllr K.S Njakanjaka Cllr K. Motlhako Cllr A.R Schnepel Cllr A.M Senokwane Cllr K.M Seribe Cllr R.E Thabane Cllr P.A Herens Cllr W.G Van Der Linde
Grading of local authority	Grade B
Accounting Officer	Mr. M. Juta
Chief Finance Officer (CFO)	Mr I.R.T Tsie

General Information

Registered office	Civic Centre Cnr Nelson Mandela and Trasvaal Street Lichtenburg North West 2740
Postal address	P.O. Box 7 Lichtenburg 2740
Auditors	Auditor General of South Africa
Attorneys	Utilise attorneys in Municipal area (Detail list available at municipal offices)

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Abbreviations

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the on 31 August 2016 and were signed on its behalf by:

Accounting Officer

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Ditsobotla Local Municipal is a low capacity local municipality and delivers basic services such as water, electricity and refuse removal services to the Lichtenburg region. The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

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

3. Subsequent events

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

4. Accounting policies

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

5. Bankers

The Municipality banks primarily with ABSA Bank.

6. Auditors

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

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	8	1,907,763	1,991,095
Receivables from exchange transactions	9	1,026	1,026
Receivables from non-exchange transactions	10	5,323,747	4,819,332
VAT receivable	11	9,098,318	6,223,043
Consumer debtors	12	42,941,453	92,464,173
Cash and cash equivalents	13	64,032,349	72,710,957
		123,304,656	**178,209,626**
Non-Current Assets			
Investment property	3	111,717,524	101,409,243
Property, plant and equipment	4	874,830,330	897,689,103
Intangible assets	5	819,870	735,374
Heritage assets	6	506,794	506,794
		987,874,518	**1,000,340,514**
Total Assets		**1,111,179,174**	**1,178,550,140**
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	327,478,506	238,619,622
Consumer deposits	17	3,596,105	3,655,756
Unspent conditional grants and receipts	14	303,721	1,615,402
Provisions	15	20,060,946	19,272,926
		351,439,278	**263,163,706**
Non-Current Liabilities			
Employee benefit obligation	7	21,047,000	20,690,000
Provisions	15	8,573,000	8,215,000
		29,620,000	**28,905,000**
Total Liabilities		**381,059,278**	**292,068,706**
Net Assets		**730,119,896**	**886,481,434**
Accumulated surplus		730,119,896	886,481,434

* See Note 35

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	140,344,739	140,439,139
Rental of facilities and equipment	19	3,504,637	3,484,167
Interest received		18,697,375	4,352,676
Agency services		38,271,336	33,660,107
Licences and permits		5,950,155	7,599,556
Other income	20	2,747,885	11,354,957
Total revenue from exchange transactions		**209,516,127**	**200,890,602**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	37,295,453	37,403,705
Transfer revenue			
Government grants & subsidies	22	122,798,276	96,476,344
Fines, penalties and forfeits		208,363	184,608
Total revenue from non-exchange transactions		**160,302,092**	**134,064,657**
Total revenue		**369,818,219**	**334,955,259**
Expenditure			
Employee related costs	23	(151,384,869)	(140,008,991)
Remuneration of councillors	24	(13,214,753)	(10,871,699)
Depreciation and amortisation	25	(64,224,886)	(66,497,540)
Finance costs	26	(5,696,886)	(7,114,673)
Repairs and maintenance		(3,870,588)	(3,767,562)
Bulk purchases	27	(125,220,265)	(71,987,952)
Contracted services	28	(2,065,640)	(2,235,470)
General Expenses	29	(166,586,426)	(44,924,402)
Total expenditure		**(532,264,313)**	**(347,408,289)**
Operating deficit		**(162,446,094)**	**(12,453,030)**
Fair value adjustments	30	6,084,555	9,219,022
Deficit for the year		**(156,361,539)**	**(3,234,008)**

* See Note 35

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**889,715,442**	**889,715,442**
Changes in net assets		
Surplus for the year	(3,234,008)	(3,234,008)
Total changes	(3,234,008)	(3,234,008)
Restated* Balance at 01 July 2015	**886,481,435**	**886,481,435**
Changes in net assets		
Surplus for the year	(156,361,539)	(156,361,539)
Total changes	(156,361,539)	(156,361,539)
Balance at 30 June 2016	**730,119,896**	**730,119,896**

Note(s)

* See Note 35

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		140,344,739	140,439,139
Grants		122,798,276	96,476,344
Interest received		18,697,375	4,352,676
Other receipts		87,977,829	93,687,100
		369,818,219	334,955,259
Payments			
Employee costs		(164,599,622)	(150,880,690)
Suppliers		(155,265,501)	(36,661,786)
Finance costs		(5,696,886)	(7,114,673)
		(325,562,009)	(194,657,149)
Net cash flows from operating activities	31	**44,256,210**	**140,298,110**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(33,758,172)	(20,243,240)
Purchase of other intangible assets	5	(479,271)	-
Net cash flows from investing activities		**(52,934,818)**	**(24,595,916)**
Net increase/(decrease) in cash and cash equivalents		**(8,678,608)**	**115,702,194**
Cash and cash equivalents at the beginning of the year		72,710,957	(42,991,237)
Cash and cash equivalents at the end of the year	13	**64,032,349**	**72,710,957**

* See Note 35

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	212,680,000	-	**212,680,000**	140,344,739	**(72,335,261)**	45 (V.1)
Rental of facilities and equipment	3,092,000	-	**3,092,000**	3,504,637	**412,637**	45 (V.2)
Interest received	7,436,000	-	**7,436,000**	18,697,375	**11,261,375**	45 (V.3)
Agency services	4,581,000	-	**4,581,000**	38,271,336	**33,690,336**	45 (V.4)
Licences and permits	2,522,000	-	**2,522,000**	5,950,155	**3,428,155**	45 (V.5)
Other income	1,383,000	-	**1,383,000**	2,747,885	**1,364,885**	45 (V.6)
Total revenue from exchange transactions	**231,694,000**	**-**	**231,694,000**	**209,516,127**	**(22,177,873)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	48,306,000	-	**48,306,000**	37,295,453	**(11,010,547)**	45 (V.7)
Transfer revenue						
Government grants & subsidies	95,419,000	-	**95,419,000**	122,798,276	**27,379,276**	45 (V.8)
Fines, Penalties and Forfeits	326,000	-	**326,000**	208,363	**(117,637)**	45 (V.9)
Total revenue from non-exchange transactions	**144,051,000**	**-**	**144,051,000**	**160,302,092**	**16,251,092**	
Total revenue	**375,745,000**	**-**	**375,745,000**	**369,818,219**	**(5,926,781)**	
Expenditure						
Personnel	(145,253,000)	-	**(145,253,000)**	(151,384,869)	**(6,131,869)**	45 (V.10)
Remuneration of councillors	(12,910,000)	-	**(12,910,000)**	(13,214,753)	**(304,753)**	45 (V.11)
Depreciation and amortisation	(32,531,000)	-	**(32,531,000)**	(64,224,886)	**(31,693,886)**	45 (V.12)
Debt impairment	(28,883,000)	-	**(28,883,000)**	-	**28,883,000**	45 (V.13)
Finance costs	(1,100,000)	-	**(1,100,000)**	(5,696,886)	**(4,596,886)**	45 (V.14)
Repairs and maintenance	-	-	**-**	(3,870,588)	**(3,870,588)**	45 (V.15)
Bulk purchases	(105,000,000)	-	**(105,000,000)**	(125,220,265)	**(20,220,265)**	45 (V.16)
Contracted Services	(16,200,000)	-	**(16,200,000)**	(2,065,640)	**14,134,360**	45 (V.17)
Transfers and Subsidies	(8,000,000)	-	**(8,000,000)**	-	**8,000,000**	45 (V.18)
General Expenses	(17,000,000)	-	**(17,000,000)**	(166,586,426)	**(149,586,426)**	45 (V.19)
Other materials	(5,000,000)	-	**(5,000,000)**	-	**5,000,000**	45 (V.20)
Total expenditure	**(371,877,000)**	**-**	**(371,877,000)**	**(532,264,313)**	**(160,387,313)**	
Operating deficit	**3,868,000**	**-**	**3,868,000**	**(162,446,094)**	**(166,314,094)**	
Fair value adjustments	-	-	**-**	6,084,555	**6,084,555**	
Deficit before taxation	**3,868,000**	**-**	**3,868,000**	**(156,361,539)**	**(160,229,539)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**3,868,000**	**-**	**3,868,000**	**(156,361,539)**	**(160,229,539)**	

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 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.

1.3 Investment property (continued)

Fair value

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

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

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

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

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

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

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

1.4 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.

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.

1.4 Property, plant and equipment (continued)

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

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

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

Property, plant and equipment are depreciated on the carry amount over their expected useful lives to their estimated residual value.

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

Item	Depreciation method	Average useful life
Land	N/A	Indefinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	1 - 7 years
Furniture and fixtures	Straight line	1 - 7 years
Motor vehicles	Straight line	2 - 4 years
IT equipment	Straight line	1 - 4 years
Investment property	Straight line	30 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 cash flow statement.

1.5 Intangible assets

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

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

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	1 - 5 years

1.6 Financial instruments

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

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

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.

1.6 Financial instruments (continued)

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.

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.

1.6 Financial instruments (continued)

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.

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
Receivables from non exchange and exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value
Investments	Financial asset measured at fair value

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

Class	Category
Long-term liabilities	Financial liability measured at amortised cost
Payables from exchange and non exchange transactions	Financial liability measured at fair value

1.6 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Accounting Policies

1.6 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.6 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.7 Tax

VAT

The entity account for VAT on the cash basis. The entity is liable to account for VAT at a standard rate of 14% in terms of section 7 (1) (a) of the VAT act in respect of the supply of goods and services, except were the suppliers are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT act or , are scoped out for vat purposes. The entity accounts for VAT on a monthly basis.

1.8 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.

Operating leases - lessee

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

1.9 Inventories

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

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

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

1.9 Inventories (continued)

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.

1.10 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:

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.11 Employee benefits

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

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

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

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

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

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

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

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

1.11 Employee benefits (continued)

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

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

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

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

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

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

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

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

1.13 Revenue from exchange transactions

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

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

1.13 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.14 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

1.14 Revenue from non-exchange transactions (continued)

Measurement

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

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

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

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.

1.15 Investment income

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

Accounting Policies

1.16 Borrowing costs

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

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

1.17 Comparative figures

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

1.18 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.

1.19 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.

1.20 Irregular expenditure

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

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

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.

Accounting Policies

1.20 Irregular expenditure (continued)

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.

1.21 Budget information

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

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

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

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

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

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

1.22 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.

1.23 Events after reporting date

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

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

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

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

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 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.

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;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- 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.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the 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.

The impact of this standard is currently being assessed.

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.

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.

Figures in Rand	2016	2015

3. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	111,717,524	-	111,717,524	101,409,243	-	101,409,243

Reconciliation of investment property - 2016

	Opening balance	**Transfers**	**Fair value adjustments**	**Total**
Investment property	101,409,243	4,223,726	6,084,555	111,717,524

Reconciliation of investment property - 2015

	Opening balance	**Fair value adjustments**	**Total**
Investment property	92,190,220	9,219,023	101,409,243

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.

4. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and buildings	464,094,662	(188,158,703)	275,935,959	467,884,185	(187,635,604)	280,248,581
Work in progress (WIP)	21,724,422	-	21,724,422	23,518,301	-	23,518,301
Infrastructure	1,047,038,832	(474,577,491)	572,461,341	1,058,315,387	(473,670,938)	584,644,449
Other property, plant and equipment	22,727,114	(18,018,506)	4,708,608	22,802,701	(13,524,929)	9,277,772
Total	**1,555,585,030**	**(680,754,700)**	**874,830,330**	**1,572,520,574**	**(674,831,471)**	**897,689,103**

Reconciliation of property, plant and equipment - 2016

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Land and buildings	280,248,581	10,646,785	-	(14,959,407)	275,935,959
Work in progress (WIP)	23,518,301	-	(1,793,879)	-	21,724,422
Infrastructure	584,644,449	23,111,387	-	(35,294,495)	572,461,341
Other property, plant and equipment	9,277,772	-	-	(4,569,164)	4,708,608
	897,689,103	**33,758,172**	**(1,793,879)**	**(54,823,066)**	**874,830,330**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Depreciation	Total
Land and buildings	297,367,186	1,022,984	(18,141,589)	280,248,581
Work in progress (WIP)	6,972,438	16,545,863	-	23,518,301
Infrastructure	625,286,796	2,674,393	(43,316,740)	584,644,449
Other property, plant and equipment	9,277,772	-	-	9,277,772
	938,904,192	**20,243,240**	**(61,458,329)**	**897,689,103**

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.

5. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Intangible assets	1,714,426	(894,556)	819,870	979,936	(244,562)	735,374

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Intangible assets	735,374	479,271	(394,775)	819,870

Reconciliation of intangible assets - 2015

	Opening balance	Total
Intangible assets	735,374	735,374

6. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical monuments	506,794	-	506,794	506,794	-	506,794

Reconciliation of heritage assets 2016

	Opening balance	Total
Historical monuments	506,794	506,794

Reconciliation of heritage assets 2015

	Opening balance	Total

Figures in Rand	2016	2015
6. Heritage assets (continued)		
Historical monuments	506,794	506,794

7. Employee benefit obligations

Defined benefit plan

Post retirement benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2015 by Mr Niel Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

	2016	2015
Carrying value		
Present value of the defined benefit obligation-partly or wholly funded	(21,047,000)	(20,690,000)

Net expense recognised in the statement of financial performance

	2016	2015
Current service cost	325,000	807,900
Interest cost	1,850,000	2,414,000
Actuarial (gains) losses	(570,000)	(12,341,041)
Benefits paid	(1,248,000)	-
	357,000	**(9,119,141)**

Key assumptions used

Assumptions used at the reporting date:

	2016	2015
Discount rates used	7.75 %	7.75 %
Medical aid contribution inflation rate	5.25 %	5.25 %
Consumer price inflation	6.27 %	6.27 %
Net effective discount rates	1.41 %	1.41 %

The basis used to determine the overall expected rate of return on assets is as follow:

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

Consequently, a discount rate of 7.75% per annum has been used. These rates do not reflect any adjustment for taxation. These rates were deducted from the JSE Zero Coupon bond yield after the market close on 30 June 2016.

The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

Figures in Rand	2016	2015

8. Inventories

Consumable stores	1,841,369	1,928,617
Water	66,394	62,478
	1,907,763	**1,991,095**

9. Receivables from exchange transactions

Trade debtors	1,026	1,026

10. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	5,323,747	4,819,332

11. VAT receivable

VAT	9,098,318	6,223,043

12. Consumer debtors

Gross balances		
Rates	36,426,890	31,087,258
Electricity	61,646,455	59,748,865
Water	85,553,184	97,572,764
Sewerage	28,069,408	22,381,400
Refuse	26,108,431	21,229,571
	237,804,368	**232,019,858**
Less: Allowance for impairment		
Accumulated impairments	(194,862,915)	(139,555,685)
Net balance		
Rates	36,426,890	31,087,258
Electricity	61,646,455	59,748,865
Water	85,553,184	97,572,764
Sewerage	28,069,408	22,381,400
Refuse	26,108,431	21,229,571
Other (specify)	(194,862,915)	(139,555,685)
	42,941,453	**92,464,173**
Rates		
Current (0 -30 days)	3,629,711	15,588,606
31 - 60 days	1,949,614	1,475,343
61 - 90 days	1,574,641	14,023,309
91 - 120 days	1,498,593	-
121 - 365 days	11,539,897	-
> 365 days	16,234,434	-
	36,426,890	**31,087,258**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

12. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	9,990,269	2,780,344
31 - 60 days	1,969,189	2,950,645
61 - 90 days	2,738,164	10,589,921
91 - 120 days	1,373,558	-
121 - 365 days	12,100,615	-
> 365 days	33,474,660	43,427,955
	61,646,455	**59,748,865**

Water		
Current (0 -30 days)	3,832,095	2,780,344
31 - 60 days	2,153,352	2,950,645
61 - 90 days	1,908,321	10,589,921
91 - 120 days	1,682,190	-
121 - 365 days	11,313,971	-
> 365 days	64,663,255	81,251,854
	85,553,184	**97,572,764**

Sewerage		
Current (0 -30 days)	1,165,055	784,028
31 - 60 days	868,355	860,501
61 - 90 days	843,135	20,736,871
91 - 120 days	844,699	-
121 - 365 days	5,510,225	-
> 365 days	18,837,939	-
	28,069,408	**22,381,400**

Refuse		
Current (0 -30 days)	1,186,928	799,740
31 - 60 days	964,768	771,838
61 - 90 days	903,520	19,657,993
91 - 120 days	861,741	-
121 - 365 days	5,515,349	-
> 365 days	16,676,125	-
	26,108,431	**21,229,571**

Other (specify)		
Current (0 -30 days)	15,094	362,364
31 - 60 days	34,432	348,419
61 - 90 days	4,898	(111,659,751)
91 - 120 days	10,919	-
121 - 365 days	96,772	-
> 365 days	(195,025,030)	(28,606,717)
	(194,862,915)	**(139,555,685)**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

12. Consumer debtors (continued)

Summary of debtors by customer classification

Government		
Current (0 -30 days)	1,590,275	840,033
31 - 60 days	1,348,385	804,577
61 - 90 days	1,041,250	669,532
91 - 120 days	1,069,286	617,140
121 - 365 days	8,272,404	6,034,142
> 365 days	35,639,268	34,653,716
	48,960,868	**43,619,140**

Business		
Current (0 -30 days)	9,505,522	1,965,207
31 - 60 days	2,011,113	2,788,986
61 - 90 days	2,101,334	1,744,101
91 - 120 days	1,195,300	1,388,334
121 - 365 days	7,411,654	11,419,703
> 365 days	12,737,913	17,807,646
	34,962,836	**37,113,977**

Households & other		
Current (0 -30 days)	9,125,741	5,619,383
31 - 60 days	4,964,814	4,937,011
61 - 90 days	5,212,751	3,544,675
91 - 120 days	4,385,186	3,508,605
121 - 365 days	33,000,896	28,906,804
> 365 days	130,418,004	139,113,045
	187,107,392	**185,629,523**

Total		
Current (0 -30 days)	20,221,537	8,424,623
31 - 60 days	8,324,312	8,530,573
61 - 90 days	8,355,335	5,958,308
91 - 120 days	6,649,772	5,514,079
121 - 365 days	7,305,948	46,360,648
> 365 days	186,947,464	157,231,627
	237,804,368	232,019,858
Less: Allowance for impairment	(194,862,915)	(139,555,685)
	42,941,453	**92,464,173**

Less: Allowance for impairment		
> 365 days	(194,862,915)	(139,555,685)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(139,555,685)	(130,000,000)
Contributions to allowance	(55,307,230)	(9,555,685)
	(194,862,915)	**(139,555,685)**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1,597,225	1,561,625
Short-term deposits	(3,864,567)	4,743,137
Other cash and cash equivalents	66,299,691	66,406,195
	64,032,349	**72,710,957**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Library grant	303,721	-
MIG grant	-	1,615,402
	303,721	**1,615,402**

Movement during the year

Balance at the beginning of the year	1,615,402	114,443
Additions during the year	23,507,417	31,946,941
Income recognition during the year	(24,819,098)	(30,445,982)
	303,721	**1,615,402**

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

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

See note 22 for the grants revenue recognised.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	19,272,926	788,020	-	20,060,946
Long service awards	8,215,000	1,690,000	(1,332,000)	8,573,000
	27,487,926	**2,478,020**	**(1,332,000)**	**28,633,946**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	18,301,199	971,727	19,272,926
Long service awards	6,405,521	1,809,479	8,215,000
	24,706,720	**2,781,206**	**27,487,926**

	2016	2015
Non-current liabilities	8,573,000	8,215,000
Current liabilities	20,060,946	19,272,926
	28,633,946	**27,487,926**

Environmental rehabilitation provision

In terms of the licencing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R19 272 926 to restore the ite at the end of its useful life, estimated to be between 2015 to 2022 for Lichtenberg Townlands landfill site. Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

Long service awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2015 by Mr N Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

16. Payables from exchange transactions

	2016	2015
Trade payables	223,264,841	142,109,106
Suspense accounts	1,818,165	1,812,717
Accrued leave pay	11,175,908	12,144,416
Accrued bonus	4,938,143	4,472,658
Unallocated receipts	84,093,563	77,248,621
Other payables	2,187,886	832,104
	327,478,506	**238,619,622**

17. Consumer deposits

	2016	2015
Services	3,596,105	3,655,756

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Service charges

Sale of electricity	88,209,455	90,063,623
Sale of water	25,107,611	28,465,749
Sewerage and sanitation charges	14,014,689	10,661,450
Refuse removal	13,012,984	11,248,317
	140,344,739	**140,439,139**

19. Rental of facilities and equipment

Premises		
Housing	3,403,931	3,340,691
Community hall	85,076	105,111
Bus terminals	-	2,237
	3,489,007	**3,448,039**
Facilities and equipment		
Rental of facilities	15,630	36,128
	3,504,637	**3,484,167**

20. Other income

Sundry income	2,747,885	11,354,957

21. Property rates

Rates received

Residential	23,995,667	20,343,397
Commercial	18,644,974	17,500,968
State	2,870,732	1,188,305
Less: Income forgone	(8,215,920)	(1,628,965)
	37,295,453	**37,403,705**

22. Government grants and subsidies

Operating grants		
Equitable share	96,478,828	64,529,403
Capital grants		
MIG grant	18,403,402	22,598,598
FMG grant	1,675,000	1,600,000
ISDG grant	-	2,500,000
MSIG grant	930,000	930,000
LG SETA grant	89,417	239,500
Library grant	2,196,629	2,339,843
EPWP grant	1,025,000	1,181,000
INEP grant	2,000,000	558,000
	26,319,448	**31,946,941**
	122,798,276	**96,476,344**

Figures in Rand	2016	2015

23. Employee related costs

Basic	94,087,503	83,003,073
Bonus	3,604,954	5,170,823
Medical aid contributions	6,648,815	6,085,024
UIF	897,169	841,671
SDL	1,944,770	1,863,759
Pension fund contributions	18,534,188	17,065,213
Travel, motor car, accommodation, subsistence and other allowances	12,045,638	11,826,650
Overtime payments	11,761,525	11,058,731
Long-service awards	1,860,307	3,094,047
	151,384,869	**140,008,991**

24. Remuneration of councillors

Executive Major	815,530	698,694
Councillors	12,399,223	10,173,005
	13,214,753	**10,871,699**

25. Depreciation and amortisation

Property, plant and equipment	64,224,886	66,497,540

26. Finance costs

Interest paid	5,696,886	7,114,673

27. Bulk purchases

Electricity	121,778,246	69,148,107
Water	3,442,019	2,839,845
	125,220,265	**71,987,952**

28. Contracted services

Other Contractors	2,065,640	2,235,470

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

29. General expenses

Advertising	1,052,679	883,155
Auditors remuneration	1,009,028	232,867
Bank charges	458,591	528,253
Chemicals	44,018	29,194
Connections	1,251,691	1,059,867
Consulting and professional fees	13,858,580	13,836,225
Consumables	324,298	428,510
Free basic services	6,285,408	5,272,139
Fuel and oil	3,155,820	4,711,831
Grant expenditure	1,411,961	8,935,381
Impairments	99,130,609	(1,046,316)
Insurance	1,713,756	1,074,981
Medical expenses	58,027	5,931
Other expenses	5,406,773	2,489,865
Postage and courier	2,536,395	2,298,456
Provision for landfill site expense	986,892	971,728
Refuse	229,134	109,716
Rentals	919,539	1,269,584
Security expenses	4,190,304	1,048,723
Subscriptions and membership fees	186,513	106,315
Training	19,788	12,189
Travel - local	321,806	302,030
Uniforms and protective clothing	466,443	363,778
VAT settlement (in kind)	21,568,373	-
	166,586,426	**44,924,402**

30. Fair value adjustments

Investment property (Fair value model)	6,084,555	9,219,022

31. Cash generated from operations

Deficit	(156,361,539)	(3,234,008)
Adjustments for:		
Depreciation and amortisation	64,224,886	66,497,540
Fair value adjustments	(6,084,555)	(9,219,022)
Movements in retirement benefit assets and liabilities	357,000	(10,346,141)
Movements in provisions	1,146,020	2,781,206
Transfers	(2,429,847)	-
Reversal of depreciation	9,690,331	1,394,076
Changes in working capital:		
Inventories	83,332	517,557
Receivables from exchange transactions	-	9,116,200
Consumer debtors	49,522,720	135,159,741
Other receivables from non-exchange transactions	(504,415)	(2,743,332)
Payables from exchange transactions	88,858,884	(56,664,865)
VAT	(2,875,275)	5,382,375
Unspent conditional grants and receipts	(1,311,681)	1,500,959
Consumer deposits	(59,651)	155,824
	44,256,210	**140,298,110**

Figures in Rand	2016	2015

32. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	20,480,410	27,264,398
Total capital commitments		
Already contracted for but not provided for	20,480,410	27,264,398

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, existing cash resources, MIG allocations during the year and funds internally generated.

33. Contingencies

The municipality has the following contingent liabilities and contingent assets:

Sixbar Trading 649// Ditsobotla LM (June 2013)

The Plaintiff was appointed on risk to do Credit Control on behalf of Council. He terminated his services due to lack of cooperation from our staff. He claims the amount for collection services on the 30-120 day and more Debtors Book from the Defendant. The claim amount is R3 080 537.

Erroneous Payment (November 2011)

Payment made to previous Employees and Councillors amounting to R167 226

Malebilo Trading Cc//Ditsobotla LM. (June 2011)

Contract was terminated for web design, development and maintenance amounting to R60 000.

Balemi Civils//Ditsobotla LM. (July 2012)

Termination of contract due to non-performance. The matter was handled by Edward Nathan Sonneberg Attorneys and due to their high fees the Administrator Mr. Dikoko directed that it be dealt with locally. The claim amount is R3 800 000.

TlotloTlhago Plant Hire// Ditsobotla LM (October 2012) 10 Dec 2010

The plaintiff tendered for the upgrading of the Itsoseng Internal Roads & Stormwater system. The claim amount is R2 565 486.

Ditsobotla Local Municipality//Annemie Goncalves (July 2013)

Appointed to sell Electricity to Municipality. The claim amount is R2 163 124

EL Masigo (January 2014)

Struck by spike at the park Case No. DI242. The claim amount is R2 100 000.

Tshikaleti T7691 Consulting Cc(Feb 2009)

Payment for Service rendered on matter readings: DI0196. The claim amount is R15 600 000.

Phakisa Civils (Edms) Bpk (June 2007)

DL0066. The claim amount is R189 668.

Willem Smit// Ditsobotla LM (Jan 2014)

Plaintiff's car damaged by pothole on the 31st August 2011 on Deelpan Road. The claim amount is R62 390.

Bracewell Construction// Ditsobotla Local Municipality (2001)

Termination of contract for non performance in RDP construction project. The claim amount is R435 560.

Abravo//Ditsobotla Local Municipality (February 2014)

Failure to pay services rendered. The claim amount is R1 500 000

White Leopard//Ditsobotla Local Municipality (July 2015)

Failure to pay for services rendered. The claim amount is R3 115 981.

Saduma//Ditsobotla Local Municipality (2014)

33. Contingencies (continued)

Failure to pay for services rendered. The claim amount is R10 000 000.

Mabasa Construction// Ditsobotla Local Municipality (2015)

Challenging the termination of Contract. The claim amount is R7 000 000

Mosimanegape Matlapa//DLM (June 2014)

Damages Claim. The claim amount is R500 000.

Auditor General// Ditsobotla (2014)

Failure to pay for the services rendered. The claim amount is R10 168 016.

Lethadika cc ta LT Services// Ditsobotla Local Municipality

Failure to pay for services rendered. The claim amount is R662 413

G.J Pretorius//Ditsobotla Local Municipality (1998) Water Supply in Coligny.

They claim for supplying water without proper readings. The claim amount is R593 000.

Quill and Associates// Ditsobotla Local Municipality

Failure to pay for services rendered to the Municipality. The claim amount is R10 260 000.

Francious B arend Van Der Merwe//Ditsobotla Local Municipality

Failure to maintain roads that led to an accident. The claim amount is R2 200 000.

Lucas Fouche'//Ditsobotla Local Municipality

Failure to maintain roads that led to damage of vehicle. The claim amount is R190 000.

Combined summons between MokganediMorwe//Ditsobotla Local Municipality (April 2015)

Failure to provide electricity contrary to the contract of sale of land. The claim amount is R550 000.

Figures in Rand	2016	2015

34. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note

Related party transactions

Remuneration of councillors

	2016	2015
Executive mayor	815,530	698,694
Councillors	12,399,223	10,173,005

Remuneration of management

Executive management

2016

Name	Annual remuneration	Car allowance	Contributions	Other allowance
SS Nnete (Acting MM)	471,491	131,274	158,915	39,11
W Moserwa (Acting MM)	471,491	129,244	135,570	39,11
LJ Dintwe (CFO)	653,438	207,562	153,130	
IRT Tsie (Acting CFO)	471,491	129,244	130,217	39,11
Executive directors	2,919,674	-	715,554	
	4,987,585	**597,324**	**1,293,386**	**117,33**

35. Prior period errors

Inventories: A decrease in inventory due to incorrect classification of electivity charges under inventory.

Receivables from exchange transactions: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Receivables from non-exchange transactions: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

VAT receivable: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Consumer debtors: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.s

Cash and cash equivalents: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Other Assets: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Property plant and equipment: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Intangible assets: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Heritage assets: The prior year figure was reclassified.

Payables from exchange transactions: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Consumer deposits: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Unspent conditional grants and receipts: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Provisions: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Other Liability: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Other financial liabilities: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Employee benefit obligation: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Provisions: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Service charges: Error occurred due to incorrect classification of service charges

Agency services: Error occurred due to incorrect classification of agency fees

Licences and permits: Error occurred due to incorrect classification of licenses and permits

Employee related costs: A decrease in employee related costs due clearing out of employee related costs

35. Prior period errors (continued)

Depreciation and amortisation: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Finance costs: Error occurred due to incorrect classification of finance cost

General Expenses: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Administration: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

Transfers and Subsidies: The prior year figure was amended to a lack of adequate supporting documentation. Various limitations were written-off due to the above mentioned.

The correction of the errors results in adjustments as follows:

Statement of financial position		
Inventories	-	41,570,425
Receivables from exchange transactions	-	225,707,822
Receivables from non-exchange transactions	-	57,581
VAT receivable	-	7,401,190
Consumer debtors	-	(14,819,515)
Cash and cash equivalents	-	(46,268,431)
Other Assets	-	1,476
Property plant and equipment	-	45,740,666
Intangible assets	-	314,850
Heritage assets	-	(506,794)
Payables from exchange transactions	-	108,451,173
Consumer deposits	-	(1,650)
Provisions	-	(9,779,348)
Other Liability	-	6,756
Opening Accumulated Surplus or Deficit	-	(156,361,538)
Statement of Financial Performance		
Service charges	-	1,724
Employee related costs	-	(10,034,733)
Depreciation and amortisation	-	5,039,210
Finance costs	-	7,110,313
General Expenses	-	875,345
Administration	-	(94,942)
Transfers and Subsidies	-	(9,414,652)

36. Comparative figures

Certain comparative figures have been reclassified due to the nature of the items.

37. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

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

Credit risk

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

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

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

38. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 730,119,896 and that the municipality's total assets exceed its liabilities by R 730,119,896, despite the loss recognised in the Statement of Financial Performance for both the financial years

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

39. Events after the reporting date

Management is not aware of any events that happed after the reporting date that requires disclosure.

40. Unauthorised expenditure

Opening balance	43,213,118	-
Add: Unauthorised expenditure - current year	44,429,483	43,213,118
	87,642,601	**43,213,118**

The unautorised expenditure incurred is still under investigation.

41. Fruitless and wasteful expenditure

Opening balance	9,170,709	-
Add: Fruitless and wasteful expenditure - current year	4,296,831	9,170,709
	13,467,540	**9,170,709**

The fruitless and wasteful expenditure incurred is still under investigation.

42. Irregular expenditure

Opening balance	1,642,110	-
Add: Irregular Expenditure - current year	2,685,267	1,642,110
	4,327,377	**1,642,110**

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1,594,962	-
Current year subscription / fee	1,522,260	1,594,962
Amount paid - current year	142,431	-
	3,259,653	**1,594,962**

Audit fees

Opening balance	7,965,164	5,066,614
Current year audit fees	3,271,592	2,898,549
Interest charged	81,967	-
Current year amount paid	199,500	-
	11,518,223	**7,965,163**

PAYE and UIF

Current year amount	16,997,269	15,739,138
Amount paid (current year)	(15,786,878)	(14,617,480)
	1,210,391	**1,121,658**

Pension and Medical Aid Deductions

Current year amount	25,183,003	21,325,724
Amount paid - current year	(23,150,237)	(23,270,925)
	2,032,766	**(1,945,201)**

Notes to the Annual Financial Statements

Figures in Rand

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

Councillors' arrear consumer accounts

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

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
DOD Dipholo	-	37,636	37,636
TE Njakanjaka	-	21,792	21,792
IE Lethoko	-	20,852	20,852
K Ditlhareng	-	17,165	17,165
AS Khambula	-	10,701	10,701
MW Holele	-	3,984	3,984
E Matlholwa	-	3,280	3,280
MW Morutse	-	23,400	23,400
MS Moseki	-	9,215	9,215
S Mebuo	-	21,352	21,352
IM Mogonediwa	-	11,753	11,753
KM Mothibi	-	10,719	10,719
BP Melamu	-	7,888	7,888
SW Ntoagae	-	27,481	27,481
QE Mgqamqo	-	7,898	7,898
MV Mgquba	-	1,627	1,627
TE Bogatsu	-	4,656	4,656
	-	**241,399**	**241,399**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
BB Maretlwa	-	6,572	6,572
JS Skaakhane	-	16,174	16,174
DOD Dipholo	-	34,393	34,393
TE Njakanjaka	-	17,546	17,546
IE Lethoko	-	15,741	15,741
IM Mogonediwa	-	10,549	10,549
K Ditlhareng	-	14,663	14,663
AS Khambula	-	9,079	9,079
MW Holele	-	4,107	4,107
IM Mogonediwa	-	1,596	1,596
E Matlholwa	-	20,357	20,357
MW Morutse	-	7,268	7,268
MS Moseki	-	21,740	21,740
S Mebuo	-	9,518	9,518
KM Mothibi	-	9,016	9,016
BP Melamu	-	8,906	8,906
SW Ntwagae	-	23,148	23,148
QE Mgqamqo	-	4,327	4,327
MV Mgquba	-	2,761	2,761
TE Bogatsu	-	2,827	2,827
IM Mogonediwa	-	7,586	7,586
J Fourie	-	332	332
	-	**248,206**	**248,206**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

44. Distribution losses

The following distribution losses were incurred during the financial year:

Water:

2016: R2 847 616 - 14% (Kilolitres - 763 436)
2015: R4 168 905 - 24% (Kilolitres - 1 187 722)

The above variances were due to incorrect and inconsistent billing that occurred in the preivous years, which was subsequently corrected. The adjustment were corrected by journals on billing.

45. Budget differences

Material differences between budget and actual amounts

The reasons for the material differences are as follows:

X.1 - The variance is due to the debt incentive scheme, which was just before was introduced just year end.
X.2 - The municipality projected a downward movement, however certain improvements were registered subsequently.
X.3 - The cash book was not previously kept updated on regular basis and the budget was not based on actual estimates.
X.4 - The municipality projected a downward movement, however certain improvements were registered subsequently.
X.5 - Due to shortage of staff the municipality was unable to reach our targets hence the downward movement
X.6 - Improved controls regarding the sale of tender documents and improved record keeping regarding the interest earned from call accounts also contribute to the movement
X.7 - The variance was caused due to the indigent write offs
X.8 - The variance was caused due to the withhelding of the equitable share.
X.9 - The variance is due to the late payments of creditors.
X.10 - The variance is due to the appointments of 107 general workers and excessive overtime claimed by personnel
X.11 - The councillors' upper limits were approved over the required threshold
X.12 - This was not included as a buydgeted item in the budget.
X.13 - The debt impairment estimated was under-estimated, as the figure shown here is only for indigent debt which is not consistent with our debt impairment methodology.
X.14 - Finance costs only included bank charges and need to be revised to satisfy the definition of finance costs as per GRAP guideline
X.15 - This was not included as a budgeted item in the budget.
X.16 - The difference is due to invoices from Sedibeng Water, which were not included in the bulk purchases
X.17 - This was due to that the budget figure was not based on prior year actuals.
X.18 - This was not included as a budgeted item in the budget.
X.19 - This was not included as a budgeted item in the budget.
X.20 - This was not included as a budgeted item in the budget.

Changes from the approved budget to the final budget

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

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