Kgetlengrivier Local Municipality
Annual Financial Statements
for the year ended June 30, 2017

Index

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the entity 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 entity 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity 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 entity’s cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, he is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 3 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on June 30, 2017 and were signed on its behalf by:

Sipho Ngwenya
Acting Municipal Manager

Accounting Officer's Report

The director submits his report for the year ended June 30, 2017.

1. Review of activities

Main business and operations

Kgetlengrivier Local Municipality is a low capacity municipality and falls under the Bojanala District Municipality.

2. Going concern

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. However, the municipality has liquidity problems as current liabilities exceed current assets by R47 624 943.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

None have been identified.

Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Inventories	6	51,114,924	51,314,486
Other financial assets	4	1,141,855	1,077,418
Receivables from exchange transactions	7	4,741,736	685,525
Receivables from non-exchange transactions	8	28,034,388	26,442,117
Consumer debtors	9	40,610,817	15,736,113
Cash and cash equivalents	10	1,957,099	3,487,379
		127,600,819	**98,743,038**
Non-Current Assets			
Investment property	2	35,901,000	35,599,000
Property, plant and equipment	3	545,495,470	565,842,775
Other financial assets	4	25,197	23,657
		581,421,667	**601,465,432**
Non-Current Assets		581,421,667	601,465,432
Current Assets		127,600,819	98,743,038
Total Assets		**709,022,486**	**700,208,470**
Liabilities			
Current Liabilities			
Vat payable		655,460	43,020
Payables from exchange transactions	15	144,439,621	120,363,049
Consumer deposits	16	1,896,991	1,909,160
Employee benefit obligation	5	589,000	695,000
Unspent conditional grants and receipts	13	8,238,660	6,212,513
Provisions	14	18,631,607	17,576,178
Other liability		774,423	774,423
		175,225,762	**147,573,343**
Non-Current Liabilities			
Employee benefit obligation	5	12,547,000	14,330,000
Provisions	14	2,062,000	2,026,000
		14,609,000	**16,356,000**
Non-Current Liabilities		14,609,000	16,356,000
Current Liabilities		175,225,762	147,573,343
Total Liabilities		**189,834,762**	**163,929,343**
Assets		709,022,486	700,208,470
Liabilities		(189,834,762)	(163,929,343)
Net Assets		**519,187,724**	**536,279,127**
Accumulated surplus		519,187,724	536,279,127

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	18	36,574,915	40,079,559
Rental of facilities and equipment	19	107,699	78,450
Licences and permits		4,839,332	5,192,287
Miscellaneous other revenue		570,382	873,483
Interest - outstanding debtors		16,072,318	11,782,966
Interest received - investment	21	43,794	293,895
Total revenue from exchange transactions		**58,208,440**	**58,300,640**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	7,638,364	7,608,108
Transfer revenue			
Government grants & subsidies	23	101,415,731	90,408,309
Fines, Penalties and Forfeits		34,524,560	24,621,900
Total revenue from non-exchange transactions		**143,578,655**	**122,638,317**
		58,208,440	58,300,640
		143,578,655	122,638,317
Total revenue	17	**201,787,095**	**180,938,957**
Expenditure			
Employee related costs	24	(46,600,417)	(45,207,676)
Remuneration of councillors	25	(6,308,215)	(4,947,760)
Depreciation and amortisation	26	(45,441,949)	(38,909,830)
Impairment loss/ Reversal of impairments	27	2,237,272	(3,541,066)
Finance costs	28	(3,888,581)	(4,146,583)
Lease rentals on operating lease		(383,995)	(656,852)
Debt Impairment	29	(14,942,181)	(23,000,685)
Repairs and maintenance		(25,690,632)	(17,171,740)
Bulk purchases	30	(31,428,933)	(29,908,852)
General Expenses	31	(44,863,304)	(48,051,177)
Total expenditure		**(217,310,935)**	**(215,542,221)**
		-	-
Total revenue		201,787,095	180,938,957
Total expenditure		(217,310,935)	(215,542,221)
Operating deficit		**(15,523,840)**	**(34,603,264)**
Loss on disposal of assets and liabilities		(1,271,948)	-
Inventories losses/write-downs		(295,614)	-
		(1,567,562)	**-**
Operating deficit		(15,523,840)	(34,603,264)
		(1,567,562)	-
Deficit before taxation		**(17,091,402)**	**(34,603,264)**
Taxation	33	-	15,392
Operating surplus/deficit		(1,567,562)	-
Deficit before taxation		(17,091,402)	(34,603,264)
Taxation		-	15,392
Deficit for the year		**(17,091,402)**	**(34,618,656)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
Balance at July 1, 2015	**(37,121,522)**	**1,478,276**	**(35,643,246)**	**605,866,758**	**570,223,512**
Changes in net assets					
Surplus for the year	-	-	-	(34,618,656)	(34,618,656)
Changes in Capital Replacement Reserve	-	674,273	674,273	-	674,273
Transfer to accumulated surplus	37,121,522	(2,152,549)	34,968,973	(34,968,973)	-
Total changes	37,121,522	(1,478,276)	35,643,246	(69,587,629)	(33,944,383)
Balance at July 1, 2016	**-**	**-**	**-**	**536,279,128**	**536,279,128**
Changes in net assets					
Surplus for the year	-	-	-	(17,091,402)	(17,091,402)
Total changes	-	-	-	(17,091,402)	(17,091,402)
Balance at June 30, 2017	**-**	**-**	**-**	**519,187,726**	**519,187,726**
Note(s)	11	12			

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Sale of goods and services		33,938,384	1,829,649
Grants		103,441,878	90,150,461
Interest income		16,116,112	12,076,861
Other receipts		4,537,332	37,422,295
		158,033,706	141,479,266
Payments			
Employee costs		(54,424,933)	(48,548,232)
Suppliers		(77,163,356)	(64,180,708)
Finance costs		(3,888,581)	(4,146,583)
		(135,476,870)	(116,875,523)
Total receipts		158,033,706	141,479,266
Total payments		(135,476,870)	(116,875,523)
Net cash flows from operating activities	34	**22,556,836**	**24,603,743**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(24,323,561)	(26,233,219)
Proceeds from sale of property, plant and equipment	3	302,422	141,755
Net cash flows from investing activities		**(24,021,139)**	**(26,091,464)**
Cash flows from financing activities			
Movement in other financial liability		(65,977)	4,854,003
Repayment of Borrowings		-	(1,791,658)
Net cash flows from financing activities		**(65,977)**	**3,062,345**
Net increase/(decrease) in cash and cash equivalents		**(1,530,280)**	**1,574,624**
Cash and cash equivalents at the beginning of the year		3,487,379	1,912,755
Cash and cash equivalents at the end of the year	10	**1,957,099**	**3,487,379**

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	56,910,313	(528,514)	**56,381,799**	36,574,915	**(19,806,884)**	Electricity revenue was decreased during year due to conversion from convention meter to prepaid vending.
Rental of facilities and equipment	124,637	(44,000)	**80,637**	107,699	**27,062**	More revenue was realised from rental of municipal facilities
Licences and permits	2,434,428	2,565,574	**5,000,002**	4,839,332	**(160,670)**	Budget was based on previous year receivables
Miscellaneous other revenue	349,391	340,406	**689,797**	570,382	**(119,415)**	The variance is the result of Low revenue received and infrastructure Levy not billed due to insufficient public participation
Other income	3,926,687	5,000,000	**8,926,687**	16,072,318	**7,145,631**	The variance is due to non payment resulting from high level of indigent registration and late paymnet and property rates penalties being included under interest on oustanding
Interest received - investment	628,493	-	**628,493**	43,794	**(584,699)**	The variance is the result of decreased in surplus funds available for investments during the year.
Total revenue from exchange transactions	**64,373,949**	**7,333,466**	**71,707,415**	**58,208,440**	**(13,498,975)**	

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
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7,145,954	-	**7,145,954**	7,638,364	**492,410**	The variance is a result increase in the value of properties from the supplement valuation roll
Transfer revenue						
Government grants & subsidies	78,410,695	3,801,726	**82,212,421**	101,415,731	**19,203,310**	The variance is the result of more grant received from governmnet, unspent funded capital projects from previous year revenue could not be recognised due to conditions not being met.
Fines, Penalties and Forfeits	3,393,279	4,580,000	**7,973,279**	34,524,560	**26,551,281**	The variance is due to that the municipality uses past trends when budgeting for traffic fines revenue whilst actual revenue is recorded by applying IGRAP 1 requirements.
Total revenue from non-exchange transactions	**88,949,928**	**8,381,726**	**97,331,654**	**143,578,655**	**46,247,001**	
'Total revenue from exchange transactions'	64,373,949	7,333,466	**71,707,415**	58,208,440	**(13,498,975)**	
'Total revenue from non-exchange transactions'	88,949,928	8,381,726	**97,331,654**	143,578,655	**46,247,001**	
Total revenue	**153,323,877**	**15,715,192**	**169,039,069**	**201,787,095**	**32,748,026**	

Expenditure

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
Personnel	-	-	**-**	(46,600,417)	**(46,600,417)**	Employee costs variance is due to excessive overtime and employees' and new appointment, medical aid cost for permanent employees and other benefits.
Remuneration of councillors	-	-	**-**	(6,308,215)	**(6,308,215)**	
Depreciation and amortisation	(23,348,000)	3,000,000	**(20,348,000)**	(45,441,949)	**(25,093,949)**	The variance is due to the review of assets useful lives, the depreciation of assets which were previously classified as work in progress. Another impact is that a portion of depreciation of assets funded through internal reserves is not included in the budget when determining the tarrifs.
Impairment loss/ Reversal of impairments	-	-	**-**	2,237,272	**2,237,272**	The variance is due to a reversal of impairement of vandalised assets - Beer hall and Derby high mast light
Finance costs	-	-	**-**	(3,888,581)	**(3,888,581)**	The budgeted finance charges include charges relate to the late payment of services provider such as Eskom, AG

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
Lease rentals on operating lease	(296,959)	(150,000)	**(446,959)**	(383,995)	**62,964**	The variance is due to reductions in the scope of some of the work performed during the year
Debt Impairment	(5,540,061)	-	**(5,540,061)**	(14,942,181)	**(9,402,120)**	The variance is the result of an increase in the allowance for doubtful debts including traffic fines as well as increase in provision for rates and rural water during the year.
Repairs and maintenance	(9,554,760)	(21,519,000)	**(31,073,760)**	(25,690,632)	**5,383,128**	The variance is due to increase in unplanned maintenance which is caused by emergencies, therefore funds were transferred from general expenditure.
Bulk purchases	(26,524,046)	(2,789,900)	**(29,313,946)**	(31,428,933)	**(2,114,987)**	The variance is due to payment arrangement on Eskom bulk account.
Contracted Services	(2,213,455)	(1,220,870)	**(3,434,325)**	-	**3,434,325**	The variance is due to increase in the scope of some of the work performed under contracted services.

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
General Expenses	(35,000,316)	(9,200,651)	**(44,200,967)**	(44,863,304)	**(662,337)**	The variance is due to programming material, community facilitation, uniforms, advertising, insurance and valuation roll which was under budgeted.
Total expenditure	**(102,477,597)**	**(31,880,421)**	**(134,358,018)**	**(217,310,935)**	**(82,952,917)**	
	153,323,877	15,715,192	**169,039,069**	201,787,095	**32,748,026**	
	(102,477,597)	(31,880,421)	**(134,358,018)**	(217,310,935)	**(82,952,917)**	
Operating deficit	**50,846,280**	**(16,165,229)**	**34,681,051**	**(15,523,840)**	**(50,204,891)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1,271,948)	**(1,271,948)**	
Inventories losses/write-downs	-	-	**-**	(295,614)	**(295,614)**	
	-	**-**	**-**	**(1,567,562)**	**(1,567,562)**	
	50,846,280	(16,165,229)	**34,681,051**	(15,523,840)	**(50,204,891)**	
	-	-	**-**	(1,567,562)	**(1,567,562)**	
Deficit before taxation	**50,846,280**	**(16,165,229)**	**34,681,051**	**(17,091,402)**	**(51,772,453)**	
Surplus before taxation	50,846,280	(16,165,229)	**34,681,051**	(17,091,402)	**(51,772,453)**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**50,846,280**	**(16,165,229)**	**34,681,051**	**(17,091,402)**	**(51,772,453)**	

Reconciliation

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 financial statements have been prepared based on the going concern basis.

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions. Provisions are measured using managements best estimates of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effects are material. Reliance was based on expert knowledge.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

Allowance for doubtful debts

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

1.4 Investment property

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

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.

Accounting Policies

1.4 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.

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

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

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

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

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

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The entity separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The entity discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	50 years
Furniture and fixtures	Straight line	5 - 7 years
Office equipment	Straight line	5 - 7 years
Infrastructure		
Roads	Straight line	100 years
Paving	Straight line	50 years
Electricity	Straight line	45 years
Water	Straight line	100 years
Community		
Buildings	Straight line	50 years
Recreation facilities	Straight line	50 years
Security Halls	Straight line	5 years
Other property, plant and equipment		
Other Vehicles	Straight line	4 - 10 years
Specialised plant and equipment	Straight line	15 years

1.5 Property, plant and equipment (continued)

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.

1.6 Intangible assets

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

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

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

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.

1.6 Intangible assets (continued)

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	Depreciation method	Average useful life
Licenses and franchises	Straight line	3 years
Computer software , other	Straight line	3 years

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

1.7 Financial instruments

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

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.

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.

Accounting Policies

1.7 Financial instruments (continued)

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Classification

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

Class	**Category**
Receivables from exchange and non 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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The 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:

1.7 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.

1.7 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.

1.7 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, net of any related income tax benefit (where applicable). Transaction costs incurred on residual interests are accounted for as a deduction from net assets. net of any related income tax benefit (where applicable).

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

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

1.8 Tax

VAT

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

1.9 Leases

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

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

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.

1.10 Inventories

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

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

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.

1.10 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.

1.11 Impairment of cash-generating assets

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

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

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

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

Discount rate

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

A cash-generating unit is the smallest identifiable group of assets 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 service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

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

Identification

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

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

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

Value in use

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

Accounting Policies

1.13 Share capital / contributed capital

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality’s own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Employee benefits (continued)

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

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

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

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

1.15 Provisions and contingencies

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

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

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

1.15 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

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;

1.15 Provisions and contingencies (continued)

- 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.

1.16 Capital Commitments

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

Capital commitments are not recognised in the financial position as a liability, but are included in the disclosure notes in the following casest:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

1.17 Revenue from exchange transactions

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

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

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.

1.17 Revenue from exchange transactions (continued)

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 Charges

Flat rate service charges relating to electricity and water which are based on consumption are metered and an estimate of consumption between the latest meter reading and the reporting date shall be recognised.

Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings ahve not been performed and are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made then recognised in the statement of financial perfromance in the invoicing period in which meters have been read.

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

In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tarrifs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

Service charges from sewerage and sanitation are based on the size of the property, number of dwellings on each property and the connections, using the tarrifs approved by Council and are levied monthly.

Other Revenue

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

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

Interest

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

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

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

Accounting Policies

1.18 Revenue from non-exchange transactions

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

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.

1.18 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.

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.

Government Grants and other grants

Equitable share allocation is recognised in frevenue at the start of the financial year if no time-based restriction exists. Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, condition or obligation embodied in the agreement. Where the agreement contains a stipulation to return with any assets, other future economic benefits or services potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, condition or obligation has been met. Where such requirements are not enforceable, or where past experience has indicated that the transfer has never enforced the requirement to return the transferred assets, other future economic benefit or service potential when breaches have occured, the stipulation will be considered a restriction and is recognised as revenue.

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are recognised as revenue and as assets. Services in-kind provided by individuals to the municipality in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognised to reflect the consumption of these services in-kind.

The municipality may be a recipient of services in-kind under voluntary or non-voluntary schemes operated in the public interest , for example:

(a) Technical assistance from other governments or international organisations;
(b) Local governments may increase the services of volunteer fire fighters.

Due to the many uncertainities surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, the municipality did not recognise any services in-kind however the services in-kind will be disclosed in the notes to the financial statements.

The disclosures will assist users to make informed judgements about the contribution made by such services to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such services for the achievement of its objectives in the future.

1.19 Investment income

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

1.20 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.

1.21 Translation of foreign currencies

Foreign currency transactions

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

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

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

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

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

Irregular expenditure 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.

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

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

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

1.26 Investments

Where the carrying amount of n investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and remeasured to fair value at subsequent reporting dates.

Changes in the fair value of the derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of fiancial performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they rise.

1.27 Conditional grants nd receipts

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

1.28 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.29 Budget information

Municipality is 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.

Accounting Policies

1.29 Budget information (continued)

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-Jul-16 to 30-Jun-17.

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.

1.30 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.

1.31 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.

Figures in Rand	2017	2016

2. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	35,901,000	-	35,901,000	35,599,000	-	35,599,000

Reconciliation of investment property - 2017

	Opening balance	**Transfers received**	**Fair value adjustments**	**Total**
Investment property	35,599,000	(64,000)	366,000	35,901,000

Reconciliation of investment property - 2016

	Opening balance	**Total**
Investment property	35,599,000	35,599,000

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 entity.

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

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

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

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

2. Investment property (continued)

- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	159,161,973	(43,248,888)	115,913,085	158,938,418	(40,845,238)	118,093,180
Infrastructure	789,415,304	(403,279,886)	386,135,418	770,026,764	(366,563,903)	403,462,861
Community	55,660,537	(35,756,510)	19,904,027	55,660,537	(34,081,102)	21,579,435
Leased infrastructure	17,001,956	-	17,001,956	16,681,153	-	16,681,153
Other assets	16,317,454	(9,776,470)	6,540,984	16,414,345	(10,388,199)	6,026,146
Total	**1,037,557,224**	**(492,061,754)**	**545,495,470**	**1,017,721,217**	**(451,878,442)**	**565,842,775**

Reconciliation of property, plant and equipment - 2017

	Opening balance	**Additions**	**Derecognition**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	118,093,180	223,555	-	-	(2,403,650)	-	115,913,085
Infrastructure	403,462,861	23,411,962	(1,574,370)	-	(39,273,344)	108,309	386,135,418
Community	21,579,435	-	-	-	(1,675,408)	-	19,904,027
Work in progress	16,681,153	21,410,075	-	(23,411,922)	-	2,322,650	17,001,956
Other assets	6,026,146	2,689,922	(85,409)	-	(2,089,675)	-	6,540,984
	565,842,775	**47,735,514**	**(1,659,779)**	**(23,411,922)**	**(45,442,077)**	**2,430,959**	**545,495,470**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land and Buildings	118,666,642	-	-	1,784,096	(2,357,558)	118,093,180
Infrastructure	411,524,381	24,269,470	-	-	(32,330,990)	403,462,861
Community	25,203,685	-	-	(1,784,096)	(1,840,154)	21,579,435
Work-in-progress	20,083,800	24,407,920	(24,269,469)	(3,541,098)	-	16,681,153
Other assets	6,723,699	1,825,330	-	(141,755)	(2,381,128)	6,026,146
	582,202,207	**50,502,720**	**(24,269,469)**	**(3,682,853)**	**(38,909,830)**	**565,842,775**

Pledged as security

No property, plant and equipment were pledged as security during the year under review.

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 entity.

4. Other financial assets

At amortised cost		
	-	-
Non-current assets		
At amortised cost	25,197	23,657
Current assets		
At amortised cost	1,141,855	1,077,418
Non-current assets	25,197	23,657
Current assets	1,141,855	1,077,418
	1,167,052	**1,101,075**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Employee benefit obligations

Defined benefit plan

The municipality has a policy to subsidise post-employment health care costs of employees that belonged to medical scheme on their retirement. the subsidy covers the employee as well as spouse or dependent.

The plan is a final salary pension / flat plan or a post employment medical 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 Medicl 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 a 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 employess.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017 by Niel Fourie , fellow of the Actuarial Society of South Africa. The present value of the defined benefit plan 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:

Carrying value		
Present value of the defined benefit obligation-partly or wholly funded	(13,136,000)	(15,025,000)
Non-current liabilities	(12,547,000)	(14,330,000)
Current liabilities	(589,000)	(695,000)
	(13,136,000)	**(15,025,000)**

The municipality has no further obligation to cover unfunded benefits.

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

Opening balance	15,025,000	14,149,000
Benefits paid	(472,000)	(591,000)
Net expense recognised in the statement of financial performance	(1,417,000)	1,467,000
	13,136,000	**15,025,000**

Net expense recognised in the statement of financial performance

Current service cost	555,000	537,000
Interest cost	1,486,000	1,293,000
Actuarial (gains) losses	(3,458,000)	(363,000)
	(1,417,000)	**1,467,000**

Figures in Rand	2017	2016

5. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.76 %	7.76 %
Expected rate of return on assets	6.33 %	6.33 %
Expected rate of return on reimbursement rights	7.35 %	7.35 %
Actual return on reimbursement rights	0.59 %	0.59 %

The basis on which the discount rate has been determined is as follows:

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 2017.

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.)

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Inventories

Water	54,516	29,756
Stock General	634,171	348,661
Stock Electricity	122,877	333,131
Land held for sale	50,303,360	50,602,938
	51,114,924	**51,314,486**

6.1 Inventory reconciliation

2.1.1 Water Consumables		
Balance at the beginning of the year	29,756	13,384
Movement during the year	24,760	16,372
Balance at the end of the year	**54,516**	**29,756**

2.1.2 Stock General		
Balance at the beginning of the year	348,661	491,959
Movement during the year	285,510	(143,298)
Balance at the end of the year	**634,171**	**348,661**

2.1.3 Stock Electricity		
Balance at the beginning of the year	333,131	360,535
Movement during the year	(210,254)	(27,404)
Balance at the end of the year	**122,877**	**333,131**

2.1.4 Land held for sale		
Balance at the beginning of the year	50,602,938	50,602,938
Fair value adjustment	(299,578)	-
Balance at the end of the year	**50,303,360**	**50,602,938**

Land held for sale was valued by JBFE.

7. Receivables from exchange transactions

Trade debtors	685,525	685,525
Sundry Debtors	4,056,211	-
	4,741,736	**685,525**

Figures in Rand	2017	2016

8. Receivables from non-exchange transactions (Net Balances)

Fines	43,846	159,165
Other receivables from non-exchange revenue	27,990,542	26,268,448
Consumer debtors - Other (Specified)	-	14,504
	28,034,388	**26,442,117**

Gross Balance		
Fines	43,846	159,165
Other receivables from non exchange revenue	48,573,282	26,268,448
Consumer debtors-Other (specified)	-	14,504
	48,617,128	**26,442,117**

Less :Allowance for impairment			
Other receivables from non exchange revenue	-	(20,582,740)	-
Subtotal	-	(20,582,740)	-
	-	**(20,582,740)**	**-**

9. Consumer debtors

Gross balances		
Rates	11,329,160	10,332,934
Electricity	17,123,062	22,230,005
Water	32,830,383	33,209,782
Sewerage	14,072,179	14,094,266
Refuse	8,514,857	8,017,759
Other (specify)	83,574,248	52,750,163
	167,443,889	**140,634,909**

Less: Allowance for impairment		
Rates	(7,539,401)	(7,526,192)
Electricity	(12,937,046)	(16,177,887)
Water	(27,756,359)	(31,745,853)
Sewerage	(11,340,313)	(13,244,897)
Refuse	(7,382,682)	(7,530,304)
Other (specify)	(59,877,271)	(48,673,663)
	(126,833,072)	**(124,898,796)**

Net balance		
Rates	3,789,759	2,806,742
Electricity	4,186,016	6,052,118
Water	5,074,024	1,463,929
Sewerage	2,731,866	849,369
Refuse	1,132,175	487,455
Other (specify)	23,696,977	4,076,500
	40,610,817	**15,736,113**

Rates		
Current (0 -30 days)	244,602	716,875
31 - 60 days	223,831	546,913
> 61 days	3,321,326	1,542,954
	3,789,759	**2,806,742**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

9. Consumer debtors (continued)

Electricity		
Current (0 -30 days)	121,932	3,120,803
31 - 60 days	106,871	1,647,849
> 61 days	3,957,213	1,283,466
	4,186,016	**6,052,118**

Water		
Current (0 -30 days)	65,626	509,046
31 - 60 days	49,724	375,309
61 - 90 days	4,958,674	579,574
	5,074,024	**1,463,929**

Sewerage		
Current (0 -30 days)	56,101	316,258
31 - 60 days	53,758	268,225
> 61 days	2,622,007	264,886
	2,731,866	**849,369**

Refuse		
Current (0 -30 days)	23,554	172,255
31 - 60 days	22,712	146,656
> 61 days	1,085,909	168,544
	1,132,175	**487,455**

Other (specify)		
Current (0 -30 days)	519,617	1,158,234
31 - 60 days	506,073	1,111,997
61 - 90 days	22,671,287	1,806,269
	23,696,977	**4,076,500**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(124,898,796)	(101,898,109)
Contributions to allowance	(1,934,276)	(23,000,687)
	(126,833,072)	**(124,898,796)**

Consumer debtors pledged as security

No consumer debtors were pledged as security during the year under review.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	64	-
Bank balances	256,746	3,100,863
Short-term deposits	1,685,903	372,130
Other cash and cash equivalents	14,386	14,386
	1,957,099	**3,487,379**

Figures in Rand	2017	2016

10. Cash and cash equivalents (continued)

Cash at bank and short term deposits, excluding cash on hand

Call investment deposits are investments with a maturity period of less than 3 months and earn interest rates varying from day to day.

Management of the municipality is of the opinion that the carrying value of the bank balance and cash recorded at amortised cost in the financial statements approximate their fair values.

The fair value of bank balance and cash were determined after considering the standard terms and conditions of agreements entered into between the municipality and the financial institutions:

Short term deposits		
ABSA Bank - Call Account - 406-946-5550	1,936	1,869
ABSA Bank - Call Account - 407-406-9151	1,447,613	134,291
ABSA Bank - Call Account - 407-406-0920	327	323
ABSA Bank - Cheque - 406-045-1122	232,080	231,841
FNB - Savings - 740-3742-6985	2,213	2,063
ABSA Bank - Call Account - 909-898-605	1,733	1,676
	1,685,902	**372,063**

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
ABSA BANK - Cheque - 170-000-0032	378,020	1,607,543	2,025,638	256,746	3,100,863	1,554,554

11. Revaluation reserve

Opening balance	-	(37,121,522)
Transferred to accumulated surplus	-	37,121,522
	-	-

12. Statutory reserve

Opening balance	-	1,478,276
Add: Movements for the year	1,914,453	674,273
Transferred to accumulated surplus	(1,914,453)	(2,152,549)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	(1)
Bojanala Water Meter Grant	(1)	(1)
ACIP Grant	2,264,988	1
Library Grant	1,002,747	775,588
Provincial Infrastructure Grant	4,127,767	4,127,767
Provincial Cleaning Programme Grant	(48,081)	(48,081)
Regional Bulk Infrastructure Grant	354,077	354,077
R.D.P. Housing Project	64,939	64,939
Expanded Public Works Programme Grant	1	1
Energy Efficiency Grant	(237)	465,763
SETA Grant	472,460	472,460
	8,238,660	**6,212,513**

Movement during the year

Balance at the beginning of the year	6,212,513	6,942,821
Additions during the year	39,462,000	32,200,000
Income recognition during the year	(37,435,853)	(32,930,308)
	8,238,660	**6,212,513**

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 entity has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

14. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	13,817,702	739,579	14,557,281
Leave reserve funds	3,674,476	209,850	3,884,326
Provision for long service awards	2,110,000	142,000	2,252,000
	19,602,178	**1,091,429**	**20,693,607**

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	13,237,910	579,792	-	13,817,702
Leave reserve funds	3,204,488	523,204	(53,216)	3,674,476
Provision for long service awards	1,902,000	208,000	-	2,110,000
	18,344,398	**1,310,996**	**(53,216)**	**19,602,178**

	2017	2016
Non-current liabilities	2,062,000	2,026,000
Current liabilities	18,631,607	17,576,178
	20,693,607	**19,602,178**

The provision for landfill site is classified as a current liability as the municipality has not obtained a license to operate all three landfill sites as yet.

Environmental rehabilitation provision

In terms of the licensing of the landfill refuse site, the municipality will incur licensing and rehabilittion costs of R13 817 702 to restore the site at the end of its useful life, estimated to be between 2017 and 2024 for Koster Townlands landfill sites. Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

Wage curve agreement

As a result of the uncertainities arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional payable for employees wages, depending on the outcome of the pending litigation. It is not practical to reliably estimate the amount of this payable prior to the outcome of the pending litigations.

Long service award

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 2017 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.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	8.97%
General Salary Increase	8.22%
Net effective discount rate	1.46%
Consumer Price Inflation	7.22%

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Provisions (continued)

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	2,110,000	1,902,000
Current service costs	260,000	216,000
Interest Cost	221,000	177,000
Acturial looses/ Gains	(82,847)	(152,000)
Benefits Paid	(256,153)	(33,000)
	2,252,000	**2,110,000**

The amount recognised in the Statement of Financial Position is as follows:

Present Value of unfunded obligations	2,252,000	2,110,000

The amounts recognised in the Statement of Financial Performance are as follows:

Current service costs	260,000	216,000
Interest paid	221,000	177,000
Acturial losses (gains)	(82,847)	(152,000)
	398,153	**241,000**

Employee benefit cost provision

Defined contribution plan

The municipality has a policy to subsidise post-employment health care costs of employees that belonged to medical scheme on their retirement. The subsidy covers the employee as well as the spouse or dependent.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualified 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 2017 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 costs were measured using the Projected Unit Credit Method.

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

Present value of the defined benefit obligation-wholly unfunded	13,136,000	15,025,000

Non-current liabilities	(12,547,000)	(14,330,000)
Current liabilities	(589,000)	(695,000)
	(13,136,000)	**(15,025,000)**

The municipality has no further obligation to cover unfunded benefits.

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

Opening balance	15,025,000	14,149,000
Benefits paid	(472,000)	(591,000)
Net expense recognised in the statement of financial performance	(1,417,000)	1,467,000
	13,136,000	**15,025,000**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Provisions (continued)

Net expense recognised in the statement of finncial performance		
Current service cost	555,000	537,000
Interest cost	1,486,000	1,293,000
Actuarial (gains) losses	(3,458,000)	(363,000)
	(1,417,000)	**1,467,000**

Key assumptions used

Assumption used at the reporting date:

Discount rate used - Yield curve
CPI (Consumer Price Inflation) - Difference between nominal and yield curves
Medical Aid Contribution Inflation - CPI + 1%
Net Effective Discount Rate - Yield curve based

The basis on which the discount rate has been determined is as follows:

GRAP 25 stipulates that the choice of the rate should be derived from high quality corpotare bond yields. However, where the market in these bonds is not significant , the market yield 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 ant adjustments for taxation. These rates were deducted from the JSE Zero Coupon bond yield after the market close on 30 June 2017.

The rate is calculated by using the 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 the component's liability-weighted average duration, using the an iterative process (because the yield depends on the liability, which in turn depends on the yield).

15. Payables from exchange transactions

Trade payables	126,451,524	101,087,010
Retention	7,551,465	7,414,101
Accrued bonus	1,137,631	2,083,124
Accrued expenses	9,299,001	9,778,814
	144,439,621	**120,363,049**

16. Consumer deposits

Water and Electricity	1,896,991	1,909,160

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposits as payments for the outstanding account. No interest is paid on Consumer deposits held. The management of the municipality is of the opinion that the carrying value of Consumer deposits approximate their fair value.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

17. Revenue

Service charges	36,574,915	40,079,559
Rental of facilities and equipment	107,699	78,450
Licences and permits	4,839,332	5,192,287
Miscellaneous other revenue	570,382	873,483
Interest - Basic Charges	16,072,318	11,782,966
Interest received - investment	43,794	293,895
Property rates	7,638,364	7,608,108
Government grants & subsidies	101,415,731	90,408,309
Fines, Penalties and Forfeits	34,524,560	24,621,900
	201,787,095	**180,938,957**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	36,574,915	40,079,559
Rental of facilities and equipment	107,699	78,450
Licences and permits	4,839,332	5,192,287
Miscellaneous other revenue	570,382	873,483
Interest - Basic Charges	16,072,318	11,782,966
Interest received - investment	43,794	293,895
	58,208,440	**58,300,640**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7,638,364	7,608,108
Transfer revenue		
Government grants & subsidies	101,415,731	90,408,309
Fines, Penalties and Forfeits	34,524,560	24,621,900
	143,578,655	**122,638,317**

18. Service charges

Sale of electricity	25,832,637	29,414,638
Sale of water	4,919,253	5,483,716
Sewerage and sanitation charges	3,627,614	3,360,399
Refuse removal	2,195,411	1,820,806
	36,574,915	**40,079,559**

19. Rental of facilities and equipment

Premises		
Premises	85,563	65,094
Venue hire	20,734	12,267
	106,297	**77,361**

Facilities and equipment		
Rental of tools	1,402	940
Rental of equipment	-	149
	1,402	**1,089**

Premises	106,297	77,361
Garages and parking	-	-
Facilities and equipment	1,402	1,089
	107,699	**78,450**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

20. Other revenue

21. Investment revenue

Interest revenue		
Bank	43,794	293,895
	-	-
	43,794	293,895

22. Property rates

Rates received		
Property tax	7,638,364	7,608,108

23. Government grants and subsidies

Operating grants		
Equitable share	62,494,000	57,478,000
Financial Management Grant	2,010,000	1,875,000
Bojanala Financial Support Grant	2,000,000	2,000,000
Library Grant	1,072,842	524,412
Municipal Infrastructure Grant	22,915,000	21,259,153
Municipal Systems Improvement Grant	-	929,058
Expanded Public Works Programme Grant	1,737,000	1,878,000
ACIP Grant	9,186,889	1,031,449
Electricity Efficiency Grant	-	3,433,237
	101,415,731	**90,408,309**
	101,415,731	90,408,309
	-	-

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	941,092
Current-year receipts	22,915,001	20,318,000
Conditions met - transferred to revenue	(22,915,001)	(21,259,092)
	-	-

Bojanala Platinum District Municipality Grant

Current-year receipts	2,000,000	2,000,000
Conditions met - transferred to revenue	(2,000,000)	(2,000,000)
	-	-

ACIP Grant

Balance unspent at beginning of year	1	1,031,449
Current-year receipts	11,451,877	(1,031,448)
Conditions met - transferred to revenue	(9,186,890)	-
	2,264,988	**1**

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

Library Grant

Balance unspent at beginning of year	775,588	-
Current-year receipts	1,300,000	1,300,000
Conditions met - transferred to revenue	(1,072,841)	(524,412)
	1,002,747	**775,588**

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	(942)
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(929,058)
	-	-

Provincial Infrastructure Grant

Balance unspent at beginning of year	4,127,767	4,127,767

Financial Management Grant

Current-year receipts	2,010,000	1,875,000
Conditions met - transferred to revenue	(2,010,000)	(1,875,000)
	-	-

Provincial Government Cleaning Campaign Project Grant

Balance unspent at beginning of year	(48,081)	(48,081)

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	354,077	354,077

RDP Housing Project

Balance unspent at beginning of year	64,939	64,939

Expanded Public Works Programme Grant

Balance unspent at beginning of year	1	1
Current-year receipts	1,737,000	1,878,000
Conditions met - transferred to revenue	(1,737,000)	(1,878,000)
	1	**1**

Electricity Efficiency Grant

Balance unspent at beginning of year	465,763	-
Current-year receipts	-	3,899,000
Conditions met - transferred to revenue	(466,000)	(3,433,237)
	(237)	**465,763**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

SETA Grant

Balance unspent at beginning of year	472,460	472,460

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Employee related costs

Basic	29,288,289	27,503,625
Bonus	2,178,979	2,612,995
Medical aid - company contributions	3,055,721	3,050,380
UIF	317,332	246,656
SDL	361,438	340,427
Travel, motor car, accommodation, subsistence and other allowances	1,742,881	1,823,180
Overtime payments	1,060,821	1,468,151
Housing benefits and allowances	3,246,029	3,098,980
Contributions to Pension fund and SALGA	4,854,995	4,539,689
Group Life Insurance	3,224	33,705
Standby and Shift Allowances	490,708	489,888
	46,600,417	**45,207,676**

Remuneration of Acting Municipal Manager

Annual Remuneration	574,174	521,976
Car Allowance	110,072	10,420
Acting allowance	197,277	-
Contributions to UIF, Medical and Pension Funds	260,750	233,791
	1,142,273	**766,187**

Remuneration of Acting Chief financial Officer

Annual Remuneration	291,001	297,406
Acting allowance	640,720	413,030
Contributions to UIF, Medical and Pension Funds	252,310	95,340
Travel allowance, Subsistance and other allowances	88,070	79,795
	1,272,101	**885,571**

Director - Corporate Services

Annual Remuneration	548,545	403,702
Contributions to UIF, Medical and Pension Funds	69,595	7,258
Travel Allowance	152,127	153,651
Cellphone Allowance	-	12,000
	770,267	**576,611**

Acting Director - Community Services

Acting allowance	467,257	-

Acting Director - Technical Services

Acting allowance	353,147	-
Annual Remuneration	-	48,950
Contributions to UIF, Medical and Pension Funds	-	1,011
Travel Allowance	-	23,733
Cellphone Allowance	-	2,000
	353,147	**75,694**

Director

Annual Remuneration	-	452,274
Acting allowance	-	143,398
Contributions to UIF, Medical and Pension Funds	-	7,745
Travel Allowance	-	150,758
Cellphone Allowance	-	8,000

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

24. Employee related costs (continued)

Leave payout	-	178,028
	-	**940,203**

Director - Finance

Annual Remuneration	-	521,976
Contributions to UIF, Medical and Pension Funds	-	10,420
Travel Allowance	-	221,791
Cellphone Allowance	-	12,000
	-	**766,187**

25. Remuneration of councillors

Executive Major	2,595,334	2,159,626
Councillors	3,055,418	2,309,316
Councillors’ pension contribution	657,463	478,818
	6,308,215	**4,947,760**

26. Depreciation and amortisation

Property, plant and equipment	45,441,949	38,909,830

27. Impairment of assets

Impairments

Property, plant and equipment	(2,237,272)	3,541,066
	(2,237,272)	3,541,066
	-	-

28. Finance costs

Trade and other payables	3,888,581	4,146,583

29. Debt impairment

Debt impairment	14,942,181	23,000,685

30. Bulk purchases

Electricity	30,472,124	28,379,857
Water	956,809	1,528,995
	31,428,933	**29,908,852**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

31. General expenses

Advertising	582,093	842,997
Auditors remuneration	3,502,912	2,010,287
Bank charges	476,308	414,459
Cleaning	2,028,719	2,953,343
Computer expenses	1,303	1,209
Consulting and professional fees	19,681,068	15,994,761
Consumables	1,494,618	930,331
Entertainment	274,689	492,565
Insurance	503,537	402,765
Fuel and oil	1,293,210	1,016,496
Postage and courier	1,355,435	1,116,697
Protective clothing	88,504	1,164,896
Security (Guarding of municipal property)	2,600,837	4,621,157
Software expenses	6,211,477	2,921,814
Staff welfare	41,863	22,550
Subscriptions and membership fees	167,728	13,510
Telephone and fax	35,577	20,631
Training	229,098	68,455
Travel - local	1,229,377	920,190
Township development	-	269,600
Valuation cost	246,153	210,526
Indigent subsidy	55,837	-
Revenue enhancement cost	2,629,847	-
Provisions for bonus	(1,747,000)	3,065,361
Other expenses	1,880,114	8,576,577
	44,863,304	**48,051,177**

32. Auditors' remuneration

Fees	3,502,912	2,010,287

33. Taxation

Major components of the tax expense

Current		
CGT	-	15,392
Current	-	15,392
Deferred	-	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

34. Cash generated from operations

Deficit	(17,091,402)	(34,618,656)
Adjustments for:		
Depreciation and amortisation	45,442,077	38,909,830
Gain on sale of assets and liabilities	1,271,948	-
Movements in retirement benefit assets and liabilities	(1,889,000)	876,000
Impairment	(2,345,582)	3,541,066
Debt impairment	14,942,181	23,000,685
Leave accrual reversal	230,699	523,204
Environmental Rehabilitation	739,579	579,792
Other provision adjustment	(302,000)	(899)
Bonus provision	121,151	208,000
Changes in working capital:		
Inventories	199,562	154,330
Receivables from exchange transactions	(4,056,211)	-
Consumer debtors	(39,816,885)	-
Other receivables from non-exchange transactions	(1,592,271)	(39,300,603)
Payables from exchange transactions	24,076,572	30,384,862
VAT	612,440	505,220
Unspent conditional grants and receipts	2,026,147	(257,848)
Consumer deposits	(12,169)	98,760
	22,556,836	**24,603,743**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	1,957,266	2,894,828
Total capital commitments		
Already contracted for but not provided for	1,957,266	2,894,828

Authorised operational expenditure

Approved and contracted for		
• Operating lease rentals	56,775	353,368
Total operational commitments		
Already contracted for but not provided for	56,775	353,368

Figures in Rand	2017	2016

36. Contingencies

Litigation is in the process against the KgetlengRivier Local Municipality relating to a dispute with external parties who seek damages of R1 670 000. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts to R1 670 000.

	2017	2016
Contingent liabilities		
Dichaba Joseph	-	850,000
Modise Abram - Labour Matter	-	800,000
Audit Rusternburg - Civil Matter	-	650,000
Kgosimore Bathoeng - Labour Matter	-	850,000
Ranamane Mokalane Inc	-	500,000
Ranamane Mokalane Inc	-	600,000
Ranamane Mokalane Inc	-	150,000
MJ Letsholo	250,000	250,000
Chgoshane Attorneys	470,000	-
Tax Payer associations	500,000	-
Summit Ridge	450,000	-
	1,670,000	**4,650,000**

Landfill Sites:

The municipality might be fined and penalised for operating unlicensed landfill sites by the Department of Environmental Affairs. However, the municipality could not reliably estimate the probable fine that might be incurred as there are no known similar cases against other municipalities.

37. Related parties

Transactions took place between the municipality and key management personnel or their close family members during the reporting period. Details relating to remuneration of key personnel is disclosed in the employee related cost note.

Related party transactions

	2017	2016
Purchases from (sales to) related parties		
Tlong Funeral Undertaker	-	52,700
Moedi wa Batho Consulting Engineers	4,584,700	1,031,449

Name of Director: **Kgosimore Patrick**

Position: **Acting Director Community Service**

Remuneration of management :**No remuneration in the current period as the acting director resigned in 201516 financial year**

Nature of the relationship with the related parties: **Mr P Kgosimore is the former director in a company where the Director of Moedi Wa Batho is a director**

Details of the transactions with the related parties : **R4, 584, 700**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

38. Prior period errors

Statement of Financial Position

Receivables from exchange transactions - Two balance sheet vote numbers relating to receivables were erronously mapped under the income statement.

Unspent conditional grants - A balance sheet vote relating to unspent grants was erronously mapped under the income statement.

Reserves - The revaluation reserve and the capital replacement reserves were set off against accumulated surplus.

Statement of Financial Performance

Government grants and subsidies - A balance sheet vote relating to unspent grants was erronously mapped under the income statement line item government grants and subsidies. This resulted in an overstated amount for government grants and subsidies.

Repairs and maintenance - A balance sheet vote that should have been cleared to repairs and maintenance was not cleared resulting in understatement of repairs and maintanance.

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

Statement of financial position	As previously reported	Restatement	Restated amount
Receivables from non-exchange transactions	26,495,022	(52,905)	26,442,117
Unspent conditional grants	5,740,053	472,460	6,212,513
Revaluation reserve	(37,121,522)	37,121,522	-
Capital replacement reserve	2,152,549	(2,152,549)	-
	(2,733,898)	**35,388,528**	**32,654,630**

Statement of financial performance	As previously reported	Restatement	Restated amount
Miscellaneous other revenue	868,483	5,000	873,483
Government grants and subsidies	90,880,769	(472,460)	90,408,309
Repairs and Maintanance	17,167,359	4,381	17,171,740
	108,916,611	**(463,079)**	**108,453,532**

39. Comparative figures

Certain comparative figures have been reclassified.

Employee related costs - certain vote numbers that were previously disclosed under general expenditure and remuneration of councillors were moved to employee related costs. This increased the comparative amount.

Remuneration of councillors - certain vote numbers that were previously disclosed under remuneration of councillors were moved to employee related costs. This decreased the comparative amount.

General expenditure - certain vote numbers that were previously disclosed under general expenditure were moved to employee related costs. This decreased the comparative amount.

Consumer debtors - a vote number relating to Vat on retentions was incorrectly mapped under consumer debtors.

Payables from exchange transactions - a vote number for Vat on retentions was incorrectly mapped under consumer debtors.

Notes to the Annual Financial Statements

Figures in Rand

39. Prior-year adjustments (continued)

2017	As previously reported	Reclassification	As reclassified
Employee related costs	41,641,191	3,566,485	45,207,676
Remuneration of councillors	5,517,189	(569,429)	4,947,760
General expenditure	50,994,707	(2,997,056)	47,997,651
Consumer debtors	15,579,012	157,101	15,736,113
Payables from exchange transactions	120,205,949	157,101	120,363,050
	233,938,048	**314,202**	**234,252,250**

40. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Finance department provides services to the business,co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitute of risks. These risks include market risk (including currency risk,fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities arenot exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage risks facing the municipality in undertaking its activities.

The Department of Finance monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the manucipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and anually by external auditors. The municipality does not enter into or trade financial instruments for speculative purpose.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk

- Liquidity Risk

- Market Risk

Risks and exposures are disclosed as follows:

Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or conterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

40. Risk management (continued)

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cashflow requirements are met

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.

40. Risk management (continued)

Credit risk

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

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy. The municipality uses its own trading record to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

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 management.

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.

Investments/Bank, Cash and Cash Equivalents

Refer to http://www.fidfund.co.za/banking-options/bank-credit-ratings/ for the most updated ratings.

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an international accredited credit rating agency. The municipality’s exposure is continuously monitored and the aggregate value of transactions concluded in spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality’s Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due not impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on-going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water services rendered to them.

Trade Receivables consist of a large number of customers. Periodic credit evaluation is performed on the financial condition of accounts receivable. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by “demand for payment”, “restriction of services” and, as a last resort, “handed over for collection”, whichever procedure is applicable in terms of Council’s Credit Control and Debt Collection Policy. At this stage, the municipality only partially implement its credit control policy as there is no hand over of debtors.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality’s maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Figures in Rand	2017	2016

40. Risk management (continued)

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Financial instrument	2017	2016
Receivables from exchange transactions	4,741,736	685,525
Receivables from non exchange transactions	28,034,388	26,442,117
Other financial assets	1,141,855	1,077,418
Consumer debtors	40,610,817	15,736,113
Cash and cash equivalents	1,957,099	3,487,379
Vat payable	655,460	43,020
Consumer deposits	1,896,991	1,909,160
Unspent conditional grants	8,238,660	6,212,513
Employee benefit obligations	13,136,000	15,025,000

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with financial instrument will fluctuate in amount as a result of market interest charges.

Financial Assets and Liabilities that are sensitive to interest risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rate.

Potential concentration of interest rate risk consists mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Receivables comprise a widespread customer base. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by “demand for payment”, “restriction of services”, and, as a last resort, “handed over for collection”, whichever procedure is applicable in terms of Council’s Credit Control and Debt Collection Policy at this stage the municipality only partially implement its credit control policy as there is no hand over of debtors.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

Price Risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

41. Unauthorised expenditure

Opening balance	108,986,135	36,090,399
Add: Unauthorised expenditure current year	62,586,808	72,895,736
	171,572,943	**108,986,135**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

42. Fruitless and wasteful expenditure

Opening balance	11,061,886	6,118,150
Add: Fruitless and wasteful expenditure current year	9,747,667	4,943,736
	20,809,553	**11,061,886**

Fruitless and Wasteful expenditure relates to interest charges incurred on late payments to Eskom, Auditor General and Magalies water.

43. Irregular expenditure

Opening balance	20,363,321	8,609,360
Add: Irregular Expenditure - current year	36,290,801	11,753,961
	56,654,122	**20,363,321**

Irregular expenditure is a consequence of contravention to SCM policy.

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Non submission of tax clearance certificate (Quotes)	None	49,746
Non submission of declaration of interest (Quotes)	None	946,575
No written quotations (Quotes)	None	464,305
Non compliance with SCM Reg 32 (Tenders)	None	15,789,397
Procurement process not followed (Tenders)	None	13,671,403
Advertisement not compliant (Tenders)	None	2,428,927
The awarding of the points for certain criteria was not cleared and consistant (Tenders)	None	2,940,448
		36,290,801

Details of irregular expenditure - prior year

	Disciplinary steps taken/criminal proceedings	
Non submission of tax clearance certificate (Quotes)	None	1,928,027
Non submission of declaration of interest (Quotes)	None	2,570,640
No 3 written price quotations (Quotes)	None	837,951
Non compliance with SCM Reg 32 (Tenders)	None	1,102,251
Procurement process not followed (Tenders)	None	2,690,956
The awarding of the points for certain criteria was not cleared and consistant (Tenders)	None	1,737,319
The awarding of the points for certain criteria was not cleared and consistant (Tenders)	None	886,817
		11,753,961

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	25,725	1,499
Current year subscription / fee	436,341	430,431
Amount paid - current year	(409,501)	(406,205)
	52,565	**25,725**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

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

PAYE and UIF

Opening balance	950,834	687,342
Current year subscription / fee	5,823,281	4,947,192
Amount paid - current year	(4,528,386)	(4,683,700)
	2,245,729	**950,834**

Pension and Medical Aid Deductions

Opening balance	6,651,196	5,843,362
Current year subscription / fee	8,048,501	11,328,223
Amount paid - current year	(9,170,980)	(10,520,389)
	5,528,717	**6,651,196**

VAT

VAT payable	655,460	43,020

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

Notes to the Annual Financial Statements

44. 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 June 30, 2017:

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr A Chabaka	553	1,327	1,880
Cllr T Naledi	6,959	12,503	19,462
Cllr T.T Lekabe	3,058	3,067	6,125
Cllr L.S Jacobs	909	2,763	3,672
Cllr JP Snyman	6,007	5,561	11,568
Cllr P Zwede	1,042	2,093	3,135
Cllr KM & OS Ramorake	1,042	-	1,042
Cllr A & M Molefe	2,261	3,414	5,675
Cllr K Medupi	916	54	970
Cllr Lesomo Medupi	465	-	465
	23,212	**30,782**	**53,994**

June 30, 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor AVR Kgari	321	705	1,026
Councillor CT Jacobs	418	20,763	21,181
Councillor TG Naledi	4,931	49,030	53,961
Councillor GS Johnson	686	234	920
Councillor KR Lekane	1,070	-	1,070
Councillor OD Medupe	753	545	1,298
Councillor ML Molefe	931	11,221	12,152
Councillor JP Snyman	21,366	6,595	27,961
Councillor PS Robinson	6,583	-	6,583
Councillor OS Molusi	2,028	2,989	5,017
Councillor PR Zwide	631	7,226	7,857
	39,718	**99,308**	**139,026**

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

45. Deviation from supply chain management regulations

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

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

Incident		
Emergency water pumps repair	2,372,520	1,689,011
Emergency of Electrical fitting	2,236,479	732,955
Electrical water pumps repair	1,195,663	656,829
Emergency hire of vehicle for mayor	-	66,440
Draught disaster	3,521,185	11,376,614
Cleaning Swartruggens Dam	1,030,234	880,800
Emergency protective clothing	-	361,258
Repair of water tankers	-	804,543
Emergency cable testing and fault location	47,148	-
Hire of equipment	139,784	-
Website design and development	187,000	-
	10,730,013	**16,568,450**

46. Distribution losses

Water distribution losses		
KL lost	-	-
Electricity distribution losses	-	-
Kwh lost	1,229,318	7,772,252
	1,229,318	**7,772,252**

47. Repairs and maintenance

Repairs and maintenance		
Repairs for land and buildings	1,188,535	818,895
Repairs for electrical network	1,613,633	1,704,217
Repairs for furniture and equipment	235,682	765,833
Repairs for water and sanitation network	20,060,114	12,278,873
Repairs for machinery	188,971	210,358
Repairs on road networks	413,596	169,047
Repairs for vehicles	1,289,687	1,138,755
Repairs of street lights	700,414	81,381
	25,690,632	**17,167,359**

48. Interest on outstanding debtors

Interest		
Basic charges	16,072,318	11,782,966