



Vhembe District Municipality
Annual Financial Statements
for the year ended 30 June 2017

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Radzilani FF
Speaker	Nkondo TF
Chief Whip	Ndou RS
	Makhomisane SE
	Chauke TF
	Lerule- Ramakhaya MM
	Ludere R
	Maluleke M
	Matibe TB
	Mawela NG
	Mbedzi TS
	Mutavhatsindi FD
	Phiri CM
Councillors	
	Maboya TN
	Magada S
	Malada DM
	Managa L
	Mariba MJ
	Mashau P
	Masithi AJ
	Mathukha NR
	Matumba NJ
	Netshisaulu MO
	Radamba NC
	Rambuwani LR
	Ligaraba LE
Registered office	Old Parliament Building Thohoyandou 0950
Postal address	Private Bag X5006 Thohoyandou 0950
Website	www.vhembe.gov.za
Bankers	First National Bank
Auditors	Auditor General of South Africa

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

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

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Abbreviations

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

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 56, in terms of Section 126(1) of the Municipal Finance Management and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Vhembe District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

The annual financial statements set out on pages 4 to 61, and appendixes as set out on page 64 to 77 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
MR Rambado

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 461 348 078 (2016: surplus R 203 090 604).

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements.

2. Going concern

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

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

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

6. Corporate governance

The Council

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Chairperson and Chief Executive

Mr B. Mbewu was the chairperson of the audit committee for the year under review.

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

7. Bankers

The municipality has its primary bank account with First National Bank.

8. Auditors

The municipality is audited by the Auditor General of South Africa.

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	3	69 705 005	34 936 205
Receivables from exchange transactions	4	102 079 804	23 343 333
Receivables from non-exchange transactions	5	198 382 973	157 418 133
VAT receivable	6	91 046 325	40 517 321
Cash and cash equivalents	7	257 060 610	170 973 041
		718 274 717	427 188 033
Non-Current Assets			
Investment property	8	13 226 866	13 458 119
Property, plant and equipment	9	8 367 642 996	8 172 105 483
Intangible assets	10	12 327 431	2 554 885
		8 393 197 293	8 188 118 487
Total Assets		9 111 472 010	8 615 306 520
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	490 166 382	401 807 662
Taxes and transfers payable (non-exchange)		73 989 952	51 499 561
Consumer deposits	12	4 409 170	4 155 772
Unspent conditional grants and receipts	13	23 017 721	110 796 850
Provisions	14	49 471 223	47 062 270
Finance lease obligation	15	-	726 893
		641 054 448	616 049 008
Total Liabilities		641 054 448	616 049 008
Net Assets		8 470 417 562	7 999 257 512
Reserves			
Revaluation reserve		6 034 798	-
Accumulated surplus		8 464 382 764	7 999 257 512
Total Net Assets		8 470 417 562	7 999 257 512

* See Note 33

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Sale of water	16	121 457 754	91 578 005
Rendering of services		30 047	212 190
Rental of facilities and equipment	17	39 361	36 806
Interest received - trading		16 933 551	14 003 591
Certificate of acceptance		332 609	427 675
Fire services		190 249	182 586
Sale of tender documents		448 780	407 377
Other income	18	26 839 565	2 267 516
Interest received - investment	19	34 853 707	22 967 725
Total revenue from exchange transactions		201 125 623	132 083 471
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	20	1 304 348 739	986 782 564
Sundry income		700 329	51 483
Total revenue from non-exchange transactions		1 305 049 068	986 834 047
Total revenue	21	1 506 174 691	1 118 917 518
Expenditure			
Employee related costs	22	(439 934 786)	(407 050 948)
Remuneration of councillors	23	(10 917 528)	(11 400 362)
Administration	24	(971 034)	(31 479)
Depreciation and amortisation	25	(240 687 568)	(231 620 074)
Impairment loss/ Reversal of impairments		(10 607 841)	-
Finance costs	26	(1 616 902)	(787 021)
Debt Impairment	27	-	(99 472 643)
Collection costs		(706 733)	(324 478)
Repairs and maintenance		(50 208 455)	(49 569 363)
Auditors remuneration	29	(3 471 386)	(2 655 983)
General Expenses	28	(287 905 590)	(290 383 944)
Total expenditure		(1 047 027 823)	(1 093 296 295)
Actuarial gains/losses		2 201 210	-
Surplus for the year		461 348 078	25 621 223

* See Note 33

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported		1 903 096 851	1 903 096 851
Adjustments			
Correction of errors - Creditors		161 187 339	161 187 339
Correction of error - Debtors and VAT		(148 558 690)	(148 558 690)
Correction of error - Assets		6 047 973 223	6 047 973 223
Balance at 01 July 2015 as restated*		7 963 698 723	7 963 698 723
Changes in net assets			
Correction of error - Work In Progress		338 847	338 847
Correction of error - Creditor Makhado		(2 142 861)	(2 142 861)
Correction of error - VAT		11 741 588	11 741 588
Net income (losses) recognised directly in net assets		9 937 574	9 937 574
Surplus for the year		25 621 215	25 621 215
Total recognised income and expenses for the year		35 558 789	35 558 789
Total changes		35 558 789	35 558 789
Restated* Balance at 01 July 2016		7 999 257 515	7 999 257 515
Changes in net assets			
Correction of duplicate accruals		3 777 171	3 777 171
Net income (losses) recognised directly in net assets		3 777 171	3 777 171
Surplus for the year		461 348 078	461 348 078
Total recognised income and expenses for the year		465 125 249	465 125 249
Reveluation of property, plant and equipment	6 034 798		6 034 798
Total changes	6 034 798	465 125 249	471 160 047
Balance at 30 June 2017		6 034 798	8 470 417 562

* See Note 33

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Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		42 751 330	28 456 120
Grants		1 245 462 711	922 879 853
Interest income		34 853 707	22 967 725
Other receipts		20 692 535	18 070 355
		<u>1 343 760 283</u>	<u>992 374 053</u>
Payments			
Employee costs		(447 887 422)	(418 451 310)
Suppliers		(354 457 748)	(228 921 846)
Finance costs		(1 616 902)	(787 021)
		<u>(803 962 072)</u>	<u>(648 160 177)</u>
Net cash flows from operating activities	30	<u>539 798 211</u>	<u>344 213 876</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(441 600 583)	(259 707 843)
Purchase of intangible assets	10	(11 383 166)	-
Other cash item - other changes, movements in PPE	9	-	1 821 995
		<u>(452 983 749)</u>	<u>(257 885 848)</u>
Net cash flows from investing activities		<u>(452 983 749)</u>	<u>(257 885 848)</u>
Cash flows from financing activities			
Finance lease payments		(726 893)	(1 238 685)
		<u>(726 893)</u>	<u>(1 238 685)</u>
Net increase/(decrease) in cash and cash equivalents		86 087 569	85 089 343
Cash and cash equivalents at the beginning of the year		170 973 041	85 883 698
Cash and cash equivalents at the end of the year	7	<u>257 060 610</u>	<u>170 973 041</u>

* See Note 33

Vhembe District Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	92 749 234	(46 873 517)	45 875 717	121 457 754	75 582 037	
Rendering of services	-	7 000	7 000	30 047	23 047	
Rental of facilities and equipment	-	34 636	34 636	39 361	4 725	
Interest received (trading)	-	-	-	16 933 551	16 933 551	
Certificate of acceptance	-	226 992	226 992	332 609	105 617	
Fire services	-	155 074	155 074	190 249	35 175	
Sale of tender documents	-	174 697	174 697	448 780	274 083	
Other revenue	-	-	-	26 839 565	26 839 565	
Investment revenue	15 760 740	12 239 260	28 000 000	34 853 707	6 853 707	
Total revenue from exchange transactions	108 509 974	(34 035 858)	74 474 116	201 125 623	126 651 507	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	751 753 000	544 459 003	1 296 212 003	1 304 348 739	8 136 736	
Sundry income	-	402 934	402 934	700 329	297 395	
Total revenue from non-exchange transactions	751 753 000	544 861 937	1 296 614 937	1 305 049 068	8 434 131	
Total revenue	860 262 974	510 826 079	1 371 089 053	1 506 174 691	135 085 638	
Expenditure						
Employee cost	(465 117 173)	9 168 826	(455 948 347)	(439 934 786)	16 013 561	
Remuneration of councillors	(10 313 397)	(604 131)	(10 917 528)	(10 917 528)	-	
Administration	-	(1 080 686)	(1 080 686)	(971 034)	109 652	
Depreciation and amortisation	(31 770 468)	29 903 498	(1 866 970)	(240 687 568)	(238 820 598)	
Impairment loss/ Reversal of impairments	-	-	-	(10 607 841)	(10 607 841)	
Finance costs	-	(1 616 902)	(1 616 902)	(1 616 902)	-	
Collection costs	-	(1 000 844)	(1 000 844)	(706 733)	294 111	
Repairs and maintenance	-	(51 778 241)	(51 778 241)	(50 208 455)	1 569 786	
Auditors remuneration	-	(3 619 580)	(3 619 580)	(3 471 386)	148 194	
General Expenses	(212 503 061)	71 423 374	(141 079 687)	(287 905 590)	(146 825 903)	
Total expenditure	(719 704 099)	50 795 314	(668 908 785)	(1 047 027 823)	(378 119 038)	
Surplus before taxation	140 558 875	561 621 393	702 180 268	459 146 868	(243 033 400)	
Actuarial gains/losses	-	-	-	2 201 210	2 201 210	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	140 558 875	561 621 393	702 180 268	461 348 078	(240 832 190)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	51 431 169	-	51 431 169	69 705 006	18 273 837	Final budget
Receivables from exchange transactions	-	-	-	102 079 804	102 079 804	Final budget
Receivables from non-exchange transactions	284 222 706	-	284 222 706	198 382 973	(85 839 733)	Final budget
VAT receivable	-	-	-	91 046 325	91 046 325	Final budget
Consumer debtors	67 101 125	(9 567 650)	57 533 475	-	(57 533 475)	
Call investment deposits	255 000 000	(155 000 000)	100 000 000	-	(100 000 000)	
Cash and cash equivalents	175 000 000	(100 000 000)	75 000 000	257 060 610	182 060 610	Final budget
	832 755 000	(264 567 650)	568 187 350	718 274 718	150 087 368	
Non-Current Assets						
Investment property	-	-	-	13 226 866	13 226 866	Final budget
Property, plant and equipment	3 439 196 676	46 785 032	3 485 981 708	8 367 642 996	4 881 661 288	Final budget
Intangible assets	9 093 000	(8 743 945)	349 055	12 327 431	11 978 376	Final budget
	3 448 289 676	38 041 087	3 486 330 763	8 393 197 293	4 906 866 530	
Total Assets	4 281 044 676	(226 526 563)	4 054 518 113	9 111 472 011	5 056 953 898	
Liabilities						
Current Liabilities						
Payables from exchange transactions	398 444 000	(23 434 000)	375 010 000	490 166 383	115 156 383	Final budget
Taxes and transfers payable (non-exchange)	-	-	-	73 989 952	73 989 952	
Consumer deposits	5 499 602	(4 450 000)	1 049 602	4 409 170	3 359 568	Final budget
Unspent conditional grants and receipts	-	-	-	23 017 721	23 017 721	Final budget
Provisions	79 374 707	-	79 374 707	49 471 223	(29 903 484)	Final budget
	483 318 309	(27 884 000)	455 434 309	641 054 449	185 620 140	
Total Liabilities	483 318 309	(27 884 000)	455 434 309	641 054 449	185 620 140	
Net Assets	3 797 726 367	(198 642 563)	3 599 083 804	8 470 417 562	4 871 333 758	
Reserves						
Revaluation reserve	-	-	-	6 034 798	6 034 798	
Accumulated surplus	3 797 726 367	(198 642 563)	3 599 083 804	8 464 382 764	4 865 298 960	Final budget
Total Net Assets	3 797 726 367	(198 642 563)	3 599 083 804	8 470 417 562	4 871 333 758	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Services charges	54 567 588	(8 691 871)	45 875 717	9 229 594	(36 646 123)	Final budget
Government - operating	751 753 000	(2 855 000)	748 898 000	1 245 462 711	496 564 711	Final budget
Interest income	10 983 602	17 016 694	28 000 296	33 197 000	5 196 704	Final budget
Dividends received	761 396	882 833	1 644 229	-	(1 644 229)	
Government - capital	678 880 000	-	678 880 000	-	(678 880 000)	Final budget
Other receipts	-	-	-	20 439 137	20 439 137	
	1 496 945 586	6 352 656	1 503 298 242	1 308 328 442	(194 969 800)	
Payments						
Suppliers and employee costs	(703 303 327)	44 142 221	(659 161 106)	(727 634 740)	(68 473 634)	Final budget
Finance costs	(289 042)	-	(289 042)	(1 616 902)	(1 327 860)	Final budget
Transfers and grants	(23 807 433)	20 794 549	(3 012 884)	-	3 012 884	
	(727 399 802)	64 936 770	(662 463 032)	(729 251 642)	(66 788 610)	
Net cash flows from operating activities	769 545 784	71 289 426	840 835 210	579 076 800	(261 758 410)	
Cash flows from investing activities						
Capital assets	(719 503 017)	10 126 999	(709 376 018)	(492 982 417)	216 393 601	Final budget
Net increase/(decrease) in cash and cash equivalents	50 042 767	81 416 425	131 459 192	86 094 383	(45 364 809)	Final budget
Cash and cash equivalents at the beginning of the year	175 000 000	(100 000 000)	75 000 000	170 973 041	95 973 041	Final budget
Cash and cash equivalents at the end of the year	225 042 767	(18 583 575)	206 459 192	257 067 424	50 608 232	
Reconciliation						

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

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 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

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

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

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.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

Value in use of cash generating assets

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

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Vhembe District Municipality

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Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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.

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.

Effective interest rate

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

Allowance for doubtful debts

On receivables, 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. The recoverability percentage on receivables is calculated annual per receivables category.

1.3 Investment property

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

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

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - buildings	30-65 years

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

Vhembe District Municipality

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Accounting Policies

1.4 Property, plant and equipment (continued)

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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

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	30 years
Plant and machinery	Straight line	6 years
Furniture and fixtures	Straight line	7-10
Motor vehicles	Straight line	5 years
Office equipment	Straight line	3-7 years
IT equipment	Straight line	3 years
Infrastructure	Straight line	
• Roads and Paving		30 years
• Water		12-20
• Sewerage		12-20
Community	Straight line	
• Building		20 years
• Recreational facilities		20-30 years
Other property, plant and equipment	Straight line	
• Other items of property, plant and equipment		2-5 years
• Specialised plant and equipment		10-15
• Specialised vehicles		10 years

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

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

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

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

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

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

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

1.5 Intangible assets

An asset is identifiable if it either:

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

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

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.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3-20 years

Vhembe District Municipality

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Accounting Policies

1.6 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Classification

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

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transaction	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and non-recoverability 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:

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.

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

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

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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

1.8 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.

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.

Vhembe District Municipality

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Accounting Policies

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Accounting Policies

1.9 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.

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Re-designation

The re-designation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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Accounting Policies

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

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Vhembe District Municipality

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Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Vhembe District Municipality

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Accounting Policies

1.11 Employee benefits (continued)

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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Accounting Policies

1.12 Provisions and contingencies (continued)

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 31.

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

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

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

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

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

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Accounting Policies

1.12 Provisions and contingencies (continued)

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, a municipality recognises the obligation at the higher of:

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

1.13 Revenue from exchange transactions

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

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Accounting Policies

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.15 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.

1.16 Comparative figures

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

1.17 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.

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Accounting Policies

1.17 Unauthorised expenditure (continued)

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.

1.18 Fruitless and wasteful expenditure

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

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.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury requires the following :

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

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

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

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

1.20 Use of estimates

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

1.21 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;

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Accounting Policies

1.21 Commitments (continued)

- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

1.23 Related parties

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

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

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

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

1.24 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.25 Value-added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
2. New standards and interpretations		
2.1 Standards and interpretations effective and adopted in the current year		
There are no new standards and interpretations effective and adopted in the current year.		
2.2 Standards and interpretations issued, but not yet effective		
Standard/ Interpretation:		
• GRAP 20: Related parties		
• GRAP 32: Service Concession Arrangements: Grantor		
• GRAP 108: Statutory Receivables		
• GRAP 109: Accounting by Principals and Agents		
3. Inventories		
Water	25 329 163	(1 247)
Consumable stores	19 114 654	1 745 318
Maintenance material	25 261 188	33 192 134
	69 705 005	34 936 205
4. Receivables from exchange transactions		
Consumer debtors - Thulamela	205 123 484	186 401 529
Consumer debtors - Makhado	141 832 479	86 176 370
Consumer debtors - Musina	20 026 540	14 572 748
Consumer debtors - Mutale	23 590 144	23 822 315
Rental debtors	392 245	392 245
Other trade receivables	418 832	1 282 046
Provision for debt impairment	(289 303 920)	(289 303 920)
	102 079 804	23 343 333
Housing rental		
Over 6 months	392 245	392 245
Water		
Current (0-30 days)	9 145 409	7 384 667
31-60 days	8 220 447	6 637 785
61-90 days	7 568 013	6 110 963
91-120 days	5 990 059	4 836 808
> 120 days	354 194 927	286 002 678
Provision for debt impairment	(289 303 920)	(289 303 920)
	95 814 935	21 668 981
Summary of debtors by customer classification		
Government		
Current (0-30 days)	2 137 322	1 725 829
31-60 days	994 431	802 976
61-90 days	381 267	307 863
91-120 days	127 851	103 236
> 120 days	14 090 413	11 377 622
	17 731 284	14 317 526

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Notes to the Annual Financial Statements

Figures in Rand	2017	2016
4. Receivables from exchange transactions (continued)		
Businesses		
Current (0-30 days)	1 005 956	812 282
31-60 days	994 431	802 976
61-90 days	211 899	171 103
91-120 days	189 065	152 665
> 120 days	8 407 342	6 788 698
	10 808 693	8 727 724
Household		
Current (0-30 days)	6 002 131	4 846 556
31-60 days	6 231 584	5 031 833
61-90 days	6 974 846	5 631 997
91-120 days	5 673 143	4 580 907
> 120 days	331 697 171	267 836 358
	356 578 875	287 927 651
Reconciliation of allowance for impairment		
Opening balance	(289 303 920)	(205 005 241)
Provision for impairment	-	(84 298 679)
	(289 303 920)	(289 303 920)
5. Receivables from non-exchange transactions		
Sundry debtors	13 710 596	13 710 596
Debtors - Mutale	1 373 245	1 373 245
Debtors - Musina	183 299 132	142 334 292
	198 382 973	157 418 133
6. VAT receivable		
VAT	91 046 325	40 517 321
VAT is payable on payment basis and claimed from SARS when a payment is made.		
Input VAT	150 181 262	92 066 214
Provision for impairment	(20 414 036)	(20 414 036)
Output VAT	(38 720 901)	(31 134 857)
	91 046 325	40 517 321
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3 000	2 000
Bank balances	101 119 284	170 639 989
Short-term deposits	155 938 326	331 052
	257 060 610	170 973 041

Vhembe District Municipality

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7. Cash and cash equivalents (continued)

Cash and cash equivalent comprises of cash on hand and cash with banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

8. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	14 800 000	(1 573 134)	13 226 866	14 800 000	(1 341 881)	13 458 119

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	13 458 119	(231 253)	13 226 866

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	13 689 369	(231 250)	13 458 119

Pledged as security

No assets were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Borrowing costs capitalised

Vhembe District Municipality

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9. 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	6 350 000	-	6 350 000	6 350 000	-	6 350 000
Buildings	124 054 910	(26 637 981)	97 416 929	124 026 059	(22 503 779)	101 522 280
Plant and machinery	6 627 375	(2 289 730)	4 337 645	6 604 107	(1 771 928)	4 832 179
Furniture and fixtures	11 824 125	(5 602 938)	6 221 187	9 432 120	(3 972 797)	5 459 323
Motor vehicles	64 751 291	(18 605 759)	46 145 532	54 667 737	(14 851 756)	39 815 981
Office equipment	1 714 842	(782 857)	931 985	1 239 675	(554 384)	685 291
IT equipment	5 371 695	(3 505 390)	1 866 305	5 175 101	(2 091 025)	3 084 076
Infrastructure	7 829 996 445	(447 619 768)	7 382 376 677	7 551 525 092	(221 916 382)	7 329 608 710
Community	27 168 032	(4 977 397)	22 190 635	27 168 032	(4 071 796)	23 096 236
Other property, plant and equipment	27 452 288	(21 420 781)	6 031 507	24 267 009	(10 848 539)	13 418 470
Leased Assets	2 371 110	(2 371 110)	-	2 371 110	(1 777 791)	593 319
Capital Work In Progress	793 774 594	-	793 774 594	643 639 618	-	643 639 618
Total	8 901 456 707	(533 813 711)	8 367 642 996	8 456 465 660	(284 360 177)	8 172 105 483

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Revaluations	Depreciation	Impairment loss	Total
Land	6 350 000	-	-	-	-	-	6 350 000
Buildings	101 522 281	28 850	-	-	(4 134 202)	-	97 416 929
Plant and machinery	4 832 179	-	-	23 268	(373 395)	(144 407)	4 337 645
Furniture and fixtures	5 459 321	172 000	-	2 220 008	(763 567)	(866 575)	6 221 187
Motor vehicles	39 815 980	10 083 558	-	-	(3 754 006)	-	46 145 532
Office equipment	685 291	19 550	-	455 616	(100 648)	(127 824)	931 985
IT equipment	3 084 076	45 968	-	150 626	(847 682)	(566 683)	1 866 305
Infrastructure	7 329 608 710	-	278 471 353	-	(225 703 386)	-	7 382 376 677
Community	23 096 236	-	-	-	(905 601)	-	22 190 635
Other property, plant and equipment	13 418 470	-	-	3 185 279	(1 669 890)	(8 902 352)	6 031 507
Leased Assets	593 319	-	-	-	(593 319)	-	-
Capital Work In Progress	643 639 618	431 250 657	(281 115 681)	-	-	-	793 774 594
	8 172 105 481	441 600 583	(2 644 328)	6 034 797	(238 845 696)	(10 607 841)	8 367 642 996

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016 RESTATED

	Opening balance	Additions	Transfers	Depreciation	Correction of error	Total
Land	6 350 000	-	-	-	-	6 350 000
Buildings	56 622 633	-	-	(4 140 963)	49 040 611	101 522 281
Plant and machinery	5 200 305	-	-	(368 126)	-	4 832 179
Furniture and fixtures	5 280 128	816 594	-	(597 502)	(39 899)	5 459 321
Motor vehicles	35 073 168	7 642 831	-	(2 899 688)	(331)	39 815 980
Office equipment	679 148	56 734	-	(67 901)	17 310	685 291
IT equipment	309 761	3 356 702	-	(602 407)	20 020	3 084 076
Infrastructure	1 020 192 103	-	131 803 258	(218 895 718)	6 396 509 067	7 329 608 710
Community	18 383 364	-	-	(908 082)	5 620 954	23 096 236
Other property, plant and equipment	13 915 728	832 718	-	(1 332 876)	2 900	13 418 470
Leased Assets	1 676 517	-	-	(1 083 198)	-	593 319
Capital Work In Progress	1 144 395 373	247 002 264	(131 803 258)	-	(615 954 761)	643 639 618
	2 308 078 228	259 707 843	-	(230 896 461)	5 835 215 871	8 172 105 481

Ownership

Vhembe District Municipality has buildings structures such as Mtiti, Makuya MPCC, Musina fire station, Disaster Muledane and Water reservoirs on the land it does not have ownership of. The process of obtaining the ownership and rights of the land is currently underway.

The municipality performed the residual value movement on vehicles and assessment of other movable assets. It was considered that the assets with zero book value will be sold in the following financial year, hence the assessment was not effected as those amounts are not significant.

No property, plant and equipment were pledged as security for liabilities.

A register consisting the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Vhembe District Municipality

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10. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15 597 544	(3 270 113)	12 327 431	4 214 377	(1 659 492)	2 554 885

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	2 554 886	11 383 166	(592 376)	(1 018 245)	12 327 431

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Correction of error	Total
Computer software	1 526 886	-	(1 819 674)	(492 363)	3 340 037	2 554 886

11. Payables from exchange transactions

Trade payables	34 499 659	34 450 715
Payments received in advanced - contract in process	2 966 509	2 966 509
Other accrued expenses	59 051 186	67 110 537
Accrued bonus	8 970 293	8 680 672
Deposits received	558 322	558 322
Retention	104 380 560	82 749 797
Creditors - Musina	171 192 482	122 405 762
Creditors - Makhado	104 070 304	79 549 052
Sundry deposits	4 477 067	3 336 296
	490 166 382	401 807 662

12. Consumer deposits

Deposit - Musina	4 409 170	4 155 772
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13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Water and operation subsidy	-	39 756 709
Municipal Infrastructure Grant	8 800 000	64 333 872
Financial municipal grant	-	41 879
Municipal Systems Improvement Grant	-	59 259
MISA grant	-	45 000
Municipal Water Infrastructure Grant	14 217 721	6 560 131
	23 017 721	110 796 850

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

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

Vhembe District Municipality

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13. Unspent conditional grants and receipts (continued)

See note 20 for reconciliation of grants from National/Provincial Government.

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

14. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Leave provision	38 542 163	3 720 657	-	-	-	42 262 820
Performance bonus	91 138	-	-	-	-	91 138
Long service award	8 428 969	1 904 997	(324 641)	(690 850)	(2 201 210)	7 117 265
	47 062 270	5 625 654	(324 641)	(690 850)	(2 201 210)	49 471 223

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Leave provision	32 889 664	5 652 499	38 542 163
Performance bonus	417 882	(326 744)	91 138
Long service award	31 548 000	(23 119 031)	8 428 969
	64 855 546	(17 793 276)	47 062 270

The principle assumptions

	2017	2016
Discount rate	8,03 %	8,43 %
CPI	4,85 %	6,12 %
Net Effective Discount rate	2,06 %	1,23 %
Expected Retirement Age - Females	63 Years	63 Years
Expected Retirement Age - Males	63 Years	63 Years

Performance Bonus provision

Performance bonuses accrue to senior managers on an annual basis subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

15. Finance lease obligation

Minimum lease payments due

- within one year	-	<u>726 893</u>
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The average lease term is 3 years and the average effective borrowing rate is 4.5%. Interest rate is fixed at the contract date. All leases have fixed repayment terms and there are no escalations. No arrangements have been entered into for contingent rent. Obligations under finance leases are not secured by the lessor's title to the leased asset.

Vhembe District Municipality

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16. Sale of water		
Musina	40 718 098	41 903 908
Thulamela	24 997 867	25 590 285
Makhado	55 741 789	19 849 493
Mutale	-	4 234 319
	121 457 754	91 578 005
17. Rental of facilities and equipment		
Premises		
Premises	39 361	36 806
18. Other income		
Water connections	26 839 565	2 265 523
Hiring of halls	-	1 993
	26 839 565	2 267 516
19. Investment revenue		
Interest revenue		
Bank	34 853 707	22 967 725

Vhembe District Municipality

Annual Financial Statements for the year ended 30 June 2017

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Figures in Rand	2017	2016
20. Government grants and subsidies		
Operating grants		
Equitable share	743 857 561	681 496 997
Transport grant	1 892 358	1 944 000
Expanded public works programme grant	3 462 000	4 344 000
Financial Management Grant	1 460 000	1 283 121
MISA grant	-	252 417
Municipal System Improvement grant	-	880 741
Water Operation Subsidy Grant	-	17 243 291
Biosphere reserve	200 000	-
	750 871 919	707 444 567
Capital grants		
Municipal Infrastructure grant	459 694 541	255 666 128
Municipal Water Infrastructure grant	93 782 279	23 671 869
	553 476 820	279 337 997
	1 304 348 739	986 782 564

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Water and operation subsidy

Balance unspent at beginning of year	39 756 709	35 000 000
Current-year receipts	-	57 000 000
Conditions met - transferred to revenue	-	(17 243 291)
Amount withdrawn by treasury	(39 756 709)	(35 000 000)
	-	39 756 709

To subsidise the staff related costs, direct operating and maintenance costs, refurbishment of water services schemes transfers to water boards, and will facilitate the transfer of schemes.

Conditions still to be met - remain liabilities (see note 13).

Expanded Public Works Programme

Current-year receipts	3 462 000	4 344 000
Conditions met - transferred to revenue	(3 462 000)	(4 344 000)
	-	-

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Conditions still to be met - remain liabilities (see note 13).

Municipal infrastructure grant

Balance unspent at beginning of year	64 333 872	139 005 565
Current-year receipts	497 287 000	300 000 000
Conditions met - transferred to revenue	(459 694 541)	(255 666 128)
Amount withdrawn by treasury	(93 126 331)	(119 005 565)
	8 800 000	64 333 872

Vhembe District Municipality

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20. Government grants and subsidies (continued)

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.

Conditions still to be met - remain liabilities (see note 13).

Transport Grant

Current-year receipts	1 993 000	1 944 000
Conditions met - transferred to revenue	(1 892 358)	(1 944 000)
Amount withdrawn by treasury	(100 642)	-
	<u>-</u>	<u>-</u>

The grant is intended to provide physical integration of public transport infrastructure, including non-motorised transport infrastructure, fare collection infrastructure, unified branding and information and unified institutional management of network infrastructure.

Conditions still to be met - remain liabilities (see note 13).

Financial municipal grant

Balance unspent at beginning of year	41 879	286 887
Current-year receipts	1 460 000	1 325 000
Conditions met - transferred to revenue	(1 460 000)	(1 283 121)
Amount withdrawn by treasury	(41 879)	(286 887)
	<u>-</u>	<u>41 879</u>

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Conditions still to be met - remain liabilities (see note 13).

Municipal Systems Improvement Grant

Balance unspent at beginning of year	59 259	407 109
Current-year receipts	-	940 000
Conditions met - transferred to revenue	-	(880 741)
Amount withdrawn by treasury	(59 259)	(407 109)
	<u>-</u>	<u>59 259</u>

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies.

Conditions still to be met - remain liabilities (see note 13).

MISA grant

Balance unspent at beginning of year	45 000	-
Current-year receipts	-	297 417
Conditions met - transferred to revenue	-	(252 417)
Amount withdrawn by treasury	(45 000)	-
	<u>-</u>	<u>45 000</u>

Conditions still to be met - remain liabilities (see note 13).

MWIG

Balance unspent at beginning of year	6 560 131	-
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20. Government grants and subsidies (continued)		
Current-year receipts	108 000 000	30 232 000
Conditions met - transferred to revenue	(93 782 279)	(23 671 869)
Amount withdrawn by treasury	(6 560 131)	-
	14 217 721	6 560 131

Conditions still to be met - remain liabilities (see note 13).

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

Biosphere reserve

Current-year receipts	200 000	-
Conditions met - transferred to revenue	(200 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 13).

21. Revenue

Service charges - Water	121 457 754	91 578 005
Rendering of services	30 047	212 190
Rental of facilities and equipment	39 361	36 806
Interest received (trading)	16 933 551	14 003 591
Certificate of acceptance	332 609	427 675
Fire services	190 249	182 586
Sale of tender documents	448 780	407 377
Water connections	26 839 565	2 267 516
Interest received - investment	34 853 707	22 967 725
Government grants & subsidies	1 304 348 739	986 782 564
Sundry income	700 329	51 483
	1 506 174 691	1 118 917 518

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

Service charges - Water	121 457 754	91 578 005
Rendering of services	30 047	212 190
Rental of facilities and equipment	39 361	36 806
Interest received (trading)	16 933 551	14 003 591
Certificate of acceptance	332 609	427 675
Fire services	190 249	182 586
Sale of tender documents	448 780	407 377
Water connection	26 839 565	2 267 516
Interest received - trading	34 853 707	22 967 725
	201 125 623	132 083 471

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

Transfer revenue

Government grants & subsidies	1 304 348 739	986 782 564
Sundry income	700 329	51 483
	1 305 049 068	986 834 047

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22. Employee related costs		
Basic	289 729 169	272 245 080
Bonus	21 629 479	20 106 454
Medical aid - company contributions	10 802 672	10 241 163
UIF	2 601 581	791 603
SDL	3 651 950	3 375 657
Leave pay provision charge	4 563 749	7 296 181
Other short term costs	(258 904)	154 524
Defined contribution plans	43 808 748	41 770 810
Travel, motor car, accommodation, subsistence and other allowances	20 677 640	18 074 324
Overtime payments	29 804 734	18 970 682
Long-service awards	1 214 147	917 844
Housing benefits and allowances	11 677 087	13 090 169
Standby allowance	5 798	16 457
Other allowances	26 936	-
	439 934 786	407 050 948
Remuneration of municipal manager		
Annual Remuneration	67 054	312 623
Car Allowance	14 748	-
Cell Phone Allowance	2 500	-
Acting Allowance	231 797	-
Contributions to UIF, Medical and Pension Funds	13 107	892
	329 206	313 515
Remuneration of chief finance officer		
Annual Remuneration	274 066	-
Car Allowance	45 000	-
Acting allowance	107 753	146 773
	426 819	146 773
Remuneration of technical manager		
Annual Remuneration	274 066	-
Car Allowance	68 449	-
Contributions to UIF, Medical and Pension Funds	4 132	-
Cell Phone Allowance	10 000	-
Acting allowance	3 791	52 815
	360 438	52 815
Remuneration of general manager: Planning		
Annual Remuneration	634 928	597 649
Housing allowance	110 031	103 570
Cell phone allowance	24 000	24 000
Contributions to UIF, Medical and Pension Funds	148 524	160 858
Reimbursive allowance	33 816	18 831
Performance Bonuses	53 670	50 632
Car Allowance	120 663	-
Back pay	12 425	13 547
Other	3 308	3 669
	1 141 365	972 756
Remuneration of general manager: Corporate services		

Vhembe District Municipality

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Figures in Rand	2017	2016
22. Employee related costs (continued)		
Annual Remuneration	-	640 659
Car Allowance	-	134 875
Performance Bonuses	-	54 276
Housing allowance	-	238 846
Cell phone allowance	-	24 000
Reimbursive allowance	-	11 463
Back pay	-	16 866
Acting Allowance	120 241	-
	120 241	1 120 985
23. Remuneration of councillors		
Executive Mayor	694 686	828 889
Chief Whip	533 534	687 292
Mayoral Committee Members	3 879 368	3 610 041
Speaker	623 010	411 229
Councillors	5 186 930	5 862 911
	10 917 528	11 400 362
24. Administrative expenditure		
Project Management	971 034	31 479
25. Depreciation and amortisation		
Property, plant and equipment	240 687 568	231 620 074
26. Finance costs		
Finance leases	-	250 415
Fair value adjustments on payables	-	3 765
Interest on late payments	1 616 902	532 841
	1 616 902	787 021
27. Bad debt		
Debt impairment	-	99 472 643

Vhembe District Municipality

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28. General expenses		
Advertising	555 463	278 473
Assessment rates & municipal charges	1 076 411	753 548
Bank charges	241 181	232 937
Sanitation Expenses	77 135 638	108 222 352
Commission paid	473 220	46 190
Consulting and professional fees	23 274 474	17 811 661
Consumables	2 375	32 451
Debt collection	1 936 153	1 981 057
Entertainment	100 293	95 906
Repairs and maintenance	7 294 886	-
Lease rentals on operating lease	2 323 303	1 882 683
Insurance	4 672 923	1 012 816
Events	11 675	-
Conferences and seminars	263 780	117 740
IT expenses	4 266 853	3 077 930
Marketing	1 548 013	791 452
Levies	294 050	-
Magazines, books and periodicals	51 875	-
IDP Review Costs	294 118	85 850
Licences	391 014	318 906
Fuel and oil	5 677 456	2 253 037
Postage and courier	7 583	4 396
Licences	2 812 760	1 807 018
Protective clothing	3 319 591	588 850
Mayor's bursary fund	192 000	-
Research and development costs	5 000	-
Security (Guarding of municipal property)	-	3 890 105
Staff welfare	694 174	372 157
Planning forums	5 002 163	4 773 859
Telephone and fax	4 262 668	5 085 451
Training	460 243	4 151 839
Travel - local	1 583 492	1 601 525
Raw water material	-	659 151
Rations	1 372 933	1 905 569
Rations	44 426 893	48 441 156
Water services expenditure	70 518 997	46 278 823
Uniforms	702 040	452 980
Accommodation	1 687 875	7 755 098
Community programmes	3 713 339	5 278 914
Marketing	3 029 009	-
Mayor's bursary fund	913 040	644 206
Planning forums	3 270	-
Events	1 274 914	359 829
Chemicals	8 439 771	16 517 481
IDP Review Costs	964 356	393 045
Marketing	634 325	427 503
	287 905 590	290 383 944
29. Auditor's remuneration		
Audit fees	3 471 386	2 655 983

Vhembe District Municipality

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30. Cash generated from operations		
Surplus	461 348 078	25 621 223
Adjustments for:		
Depreciation and amortisation	240 687 568	231 620 074
Impairment deficit	10 607 841	-
Debt impairment	-	99 472 643
Prior year correction movements	-	222 891 461
Movements in provisions	2 408 953	(17 793 276)
Non cash transaction from WIP to Refurbishments	2 644 329	-
Correction of duplicate accruals	3 777 171	-
Correction of error 14/15	-	(508 977)
Correction of error 15/16	-	9 598 727
Prior period adjustment originally disclosed	-	(228 371 328)
Changes in working capital:		
Inventories	(34 768 800)	2 148 816
Receivables from exchange transactions	(78 736 471)	36 138 568
Consumer debtors	-	(99 472 643)
Other receivables from non-exchange transactions	(40 964 840)	96 496 327
Payables from exchange transactions	88 358 726	(22 359 879)
VAT	(50 529 004)	441 969
Taxes and transfers payable (non exchange)	22 490 391	51 499 561
Unspent conditional grants and receipts	(87 779 129)	(63 902 711)
Consumer deposits	253 398	693 321
	539 798 211	344 213 876

Vhembe District Municipality

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Figures in Rand	2017	2016
31. Contingencies		
Contingent Liabilities:		
MICS empowerment	1 808 531	1 508 531
Mr Sibandela	260 000	-
Konani Trading	595 650	-
Capstain Trading	608 660	608 660
Mandiwana Tshifhiwa	33 318	-
Tricks Wought	1 419 870	1 419 870
Getusdsburg Community	17 375 599	27 984 000
Phalandwa Edzisani/Nyambeni Frans	-	-
Generic Core / Denrob Business Enterprise	904 924	904 924
Gudani Security	2 300 064	2 300 064
Minister Of Water And Sanitation	307 083 113	-
Sharon pipeline specialists	2 488 975	2 488 975
Tinyiko Manganyi OBO Manganyi Andile	1 000 000	100 000
Konani Trading	783 864	783 864
Thikhathali Mashika Attorneys	9 119	-
K.T. Nsikazi.com	3 708 956	3 708 956
Limpompo Legal Solutions	-	200 000
Limpopo Legal Solutions	-	-
Tshiane Holdings	-	200 000
Limpompo Legal Solutions	-	700 000
Ramovha Nyambeni	-	32 557
Munzhelele Mashudu Mary Rose	2 380 000	2 605 000
Nemaname Mabuda Thokoane, Phophi	-	2 300 000
Mundala Madala Aubrey	-	33 318
Minister of water and Sanitation	-	400 000
LLB	-	1 000 000
Stan South	11 644 558	500 000
Samwu Vhembe	-	500 000
Nemanashi	-	2 000 000
Adv Nemugumoni	-	-
Wounter and Leone Mentjies	163 418	-
Afriforum	-	-
Hermans truck accident repairs(pty)ltd	142 843	-
Khethwayo Construction CC	2 398 777	-
Mathavha Thiambiwi Nelson	150 000	-
Synergy Income Fund Ltd	479 515	-
Telkom SA	9 119	-
Thiambi Winnie Phuluwa	350 000	-
	358 098 873	52 278 719

MICS empowerment

MICS EMPOWERMENT is litigating against the Municipality as they are alleging that they have serviced water equipment which was taken from the National Department of Water Affairs as the former Water Service Authority. The Municipality is disputing claim as it does not have a contractual relationship with MICS EMPOWERMENT. They are suing for R1,508,531.33. Disbursements for the case are estimated at R300, 000.00. The case is still pending.

Sibandela NN

Mr Sibadela NN is claiming that his house is water damaged due to the Municipality's reservoir that is leaking. He is claiming R 260 000. 00 from the Municipality. There is no disbursement for now as the case is still dealt with internally including resolving it amicably by repairing the damage if liable. The case is pending.

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31. Contingencies (continued)

All Connections

All Connections was awarded a one year training contract, as per appointment letter, by the Municipality. They are claiming that the advert indicated that it will be a three year contract. However, the appointment letter issued was specifically for one year subject to satisfactory performance the Municipality can renew. The claim against the Municipality is based on the allegations that the Municipality has terminated their contract unilaterally. The claimed amount is R12, 036,120.00. The disbursement amount is estimated at

Tshianeo Holdings

Tshianeo holdings is litigating against the municipality as they wanted the municipality to review and set aside the tender VDM/CORP/30/09/2014/02 which has been awarded to lateral unison insurance and declared the contract null and void. The municipality is defending the case. The estimated disbursement is R200 000.00. The case is still pending

Limpopo Legal Solutions

Limpopo legal solutions are litigating against the municipality as they are alleging the sewer blockage in malamulele area. They require the municipality to unblock such sewer immediately. The municipality is defending the case. The estimated disbursement is R200 000. The case is still pending

Limpopo Legal Solutions

Limpopo legal solutions are litigating against the municipality as they alleged that there is sewer blockage at Thohoyandou police station and they require municipality to unblock it immediately. The municipality is defending the case.

Limpopo Legal Solutions

Limpopo legal solutions are litigating against the municipality as they are alleging that in malamulele area there is no adequate sanitation. They wanted municipality to provide sanitation immediately. The municipality was defending the case. The estimated disbursement is R150 000.00. The case is still pending.

Capstain Trading

Capstain Trading is litigating against the Municipality and is disputing the validity of a cession that is purported to have been signed between the Capstain as the cedar and the third party. On the strength of the cession agreement the Municipality paid the third party an amount of R608, 660.42. The Municipality is defending the case. The estimated disbursement amount is R200, 000.00 and the case is pending.

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31. Contingencies (continued)

Musitha ME

Musitha ME was involved in an accident and claim is that the motor vehicle of the Municipality was the sole cause of that accident. She is suing for R82, 509.53 from the Municipality. The estimated disbursement amount is R50, 000.00 and the case is pending.

Tricks Wought

Tricks Wrought instituted a claim of R1, 419, 871.00 due to the Municipality not honouring a cession agreement. The Municipality is disputing the claim. The estimated disbursement amount is R400, 000.00 and the case is pending.

Thiambi Winnie Phuluwa

Thiambi Winnie Phuluwa sued the Municipality for an amount of R200, 000.00 including her legal cost claiming that the motor vehicle of the Municipality was the sole cause of that accident. The estimated disbursement amount is R150, 000.00 and the case is pending.

Generic Core/Denrob Business Enterprises

Generic Core, a sub-contractor, is suing Denrob Business Enterprises for R904, 924.10 for the job done. The Municipality is a joinder due to a contractual relationship with Denrob Enterprises as the main contractor. The estimated disbursement is R400, 000.00 and the case is still pending.

Getrusburg Community Property Association

The Association is suing the Makhado Municipality for R27, 984, 000.00 for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM as a Water Services Authority. The estimated disbursement is R700, 000.00 and the case is still pending.

Sharon Pipeline Specialists

Sharon pipeline is litigating against the municipality as they are alleging that they provided services and has been paid. Sharon is suing the municipality for an amount of R2 488 975.22. The municipality is defending the case. The estimated disbursement is R300 000.00. The case is still pending.

Adv Nemugumoni

Mr Nemugumoni is alleging that during his course of employment he was underpaid and that amounts to unfair labour practice, therefore he wishes to be compensated in a fair rate. The case is still in house.

MR NEMANASHI

Mr Nemanashi has been ordered by the municipality to remove the erected building which is causing sewer blockage at stand no.3294 in Makwarela location as it is outside the building line and it is affecting the operations of the public service infrastructure. The case is still pending.

TINYIKO MANGANYI OBO MANGANYI ANDILE

Tinyiko has instituted a claim against the municipality alleging that there were bodily injuries sustained due negligence by the municipality. She is suing the municipality for an amount of R1 000,000.00. The case is still in house.

KONANI TRADING

Konani has instituted a claim against the municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 783 864.00. The case is still in house.

MUNZHELELE MASHUDU MARYROSE

Mashudu is litigating against the municipality as she alleges that she has lost her house due to fire as a result of negligence by municipality fire officials and their late response on cases as such. She is claiming an amount of R1 900 000.00 as the value of the burnt house, R450 000.00 as the value of the burnt properties, R25 500.00 as rent lost, R4500 as rent from march 2016 to date of final payment. The municipality is defending the case.

KONANI TRADING

Konani has instituted a claim against the municipality as they alleged that they have suffered damages as a result of the municipality failing to comply with the training agreement that was concluded. The claim amount is R 595 650. 00. The case is still in house.

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31. Contingencies (continued)

K.T NSIKAZI.COM

Nsikazi is litigating against the municipality as they allege that they had leased the municipality IT hardware materials which upon expiry of the contract were never returned to them. They are claiming an amount of R3 708 956.39 being the value of items in possession of the municipality. The municipality is defending the case.

MANDIWANA TSHIFHIWA

Tshifhiwa has instituted a claim against the municipality as he alleges that there was an accident between his car and the municipality's car which was driven by Mundalamo A at the time of accident. He claims an amount of R33 318.08 being damages suffered in repair of the car. The municipality is defending the case.

PHALANDWA EDZISANI/NYAMBENI FRANS

Nyambeni Frans has instituted a claim against the Municipality as he alleges that the water tanker collided with his car at the time of accident. No letter of demand sent yet.

MINISTER OF WATER AND SANITATIO

The Department of water and Sanitation has instituted legal proceedings against Vhembe District Municipality for outstanding water services. Their claiming an amount of R307 083 112.67. The Municipality is defending the case.

THIKHATHALI MASHIKA ATTORNEYS

Telkom Group Finance has instituted a claim against Vhembe District Municipality that they damaged a 50pr, underground Cables. Cost of damages they are claiming is R9 119.27. Still in the House

WOUNTER AND LEONE MENTJIES

Wounter Waldous and Leonie Mentjies have instituted a claim against Vhembe district municipality for invoices that are still outstanding or rather not paid. The plaintiffs are claiming an amount of R163 417.93. The municipality is defending the case.

STAN SOUTH FINANCIAL AND INVESTMENT SERVICES CC.

Stan South Financial and Investment Services are claiming for the work done. They are claiming R11, 644,558.18. The Municipality is defending the case.

AFRIFORUM

Afriforum has taken the Municipality to court for lack of services. The municipality is defending the case. Technical Services has been alerted of this case and they have in turn written a report in that regard.

HERMANS TRUCK ACCIDENT REPAIRS(PTY)LTD|

Hermans Truck Accident Repairs (PTY) LTD has instituted a claim against Vhembe District Municipality for not paying them an amount of R142 843.41. This amount is for towing and storage.

KHETHWAYO CONSTRUCTION CC

Khethwayo Construction CC has instituted a claim against Vhembe District Municipality that they owe them money for service rendered. The claim amount is R2 398 776.80. The municipality is defending the case.

THIAMBI WINNIE PHULUWA

Thiambi Winnie Phuluwa sued the Municipality for an amount of R200, 000.00 including her legal cost claiming that the motor vehicle of the Municipality was the sole cause of that accident. The estimated disbursement amount is R150, 000.00 and the case is pending.

SYNERGY INCOME FUND LTD

Synergy Income Fund Ltd is the owner of a Mall in Elim. They were experiencing blockages on their system and they procured services of an Engineering firm to assist in dealing with the blockage. After paying they sued the Municipality for the amount paid which is R279, 515.01 asserting that it is the duty of the Municipality to unblock the system. The Municipality is disputing the claim. The estimated disbursement amount is R200, 000.00 and the case is pending.

MR SIBADELA NN

Mr Sibadela NN is claiming that his house is water damaged due to the Municipality's reservoir that is leaking. He is claiming R 260 000. 00. from the Municipality. There is no disbursement for now as the case is still dealt with internally including resolving it amicably by repairing the damage if liable. The case is pending

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31. Contingencies (continued)

TELKOM SA

TELKOM has written a letter of demand claiming an amount of R9 119.27 including Vat. They are alleging that on or about the 16th of January 2016 while the Vhembe District Municipality employees were working, they damaged TELKOM cables.

32. Related parties

Relationships

Accounting Officer

Refer to accounting officer's report note

Controlled entities

Refer to note 22

Section 57 managers

Refer to note 23

Municipality did not enter into business with the above members of the key management and their close family members.

33. Prior period errors

33.1 Property, plant and equipment

- 33.1.1 In the previous set of financial statements for the year ending 30 June 2016, the costs / valuation indicated under Infrastructure Assets was incorrectly stated due to deficiencies in the completeness, existence and valuation of the asset register. This correction resulted in an increase of R5 455 047 756 in the cost of the infrastructure assets and a decrease of R899 277 186 in the accumulated depreciation of infrastructure assets.
- 33.1.2 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated under land and buildings was incorrectly stated as a result of omission of Vuwani Fire Station and Training Centre. The correction resulted in an increase of R49 990 195 in the cost of buildings and an increase of R2 615 926 in the accumulated depreciation for buildings.
- 33.1.3 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated for Community Assets was incorrectly stated as a result of the omission of the Tshakhuma Fresh Produce Market. This correction resulted in an increase of R6 659 754 in the cost of Community Assets and an increase of R1 261 400 in the accumulated depreciation of Community Assets.
- 33.1.4 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated for Capital Work in Progress was incorrectly stated as a result of the lack of a full proper costing and reconciliation of Capital Work in Progress payments and retention withheld. This correction resulted in a decrease of R535 909 280 in the value of Work in Progress.
- 33.1.5 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated for Furniture and Fittings, Motor Vehicles, IT Equipment, Office Equipment and Other PPE were incorrectly stated as a result of misclassifications between asset categories.
- 33.1.6 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated for Leased Assets was incorrectly stated as a result of non-disposal of Leased Computer Equipment to the value of R5 126 470 whose lease period had expired. This correction resulted in a decrease of R5 126 470 in the cost of Leased Assets and a decrease of R5 126 470 in the accumulated depreciation of Leased Assets.

33.2 Intangible assets

- 33.2.1 In the previous set of financial statements for the year ending 30 June 2016, the figure indicated under intangible assets was incorrectly stated as a result of omission of the Microsoft intangible assets that were acquired in the 2015 financial year. This correction resulted in an increase of R1 801 320 in the cost of Intangible Assets and an increase of R641 566 in the accumulated depreciation of Intangible Assets.

33.3 VAT Receivable

- 33.3.1 Vat receivable was overstated as at 30 June 2016 due to SARS assessments, penalties and interest payable to SARS from the VAT statement of account not being correctly accounted for in the accounting records of Vhembe District Municipality.

33.4 Receivables from exchange transactions

- 33.4.1 Receivable from exchange transactions were understated as at 30 June 2016 with R1 282 046 which was incorrectly classified as payables from exchange transactions, therefore the amount of R1 282 046 was reclassified from payables from exchange transactions to receivables from exchange transactions, thereby decreasing payables from exchange transactions and increasing receivable from exchange transactions by R1 282 046.

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33. Prior period errors (continued)

33.5 Receivables from non-exchange transactions

33.5.1 Receivables from non-exchange transactions were overstated due to Debtors -Musina being incorrectly overstated by R136 375 319 in the accounting records of Vhembe District Municipality. The correction resulted in decrease in receivables from non-exchange and increase in accumulated surplus by R136 375 319.

33.6 Payables from exchange transactions

33.6.1 Payable from exchange transactions were understated as at 30 June 2016 due to Makhado creditor being understated in the accounting records of Vhembe District Municipality and Mutale creditor being overstated in Vhembe District Municipality.

33.6.2 Trade payables were understated due to Other receivables of R1 282 046 were incorrectly classified as Trade payables in the annual financial statements, thereby decreasing payables from exchange transactions and increasing receivable from exchange transactions by R1 282 046.

33.7 General expenses

33.7.1 General expenses were previously understated due to Sanitation expenses of R59 313 607 being capitalised instead of being expensed during the financial year ended 30 June 2016 and subsistence and travel allowance being overstated by R7 000

33.8 Interest received – trading

33.8.1 Interest received – trading was overstated as at 30 June 2016 due misallocation in the accounting records of Vhembe District Municipality. Interest on outstanding debtors to an amount of R1 334 355 was incorrectly reversed under VAT and not interest received-trading, therefore VAT increase by R1 334 355 and interest received-trading decrease by R1 334 355.

33.9 Depreciation and Amortization

33.9.1 In the previous set of financial statements for the year ending 30 June 2016, the costs for Intangible Assets, Buildings, Community Assets and Infrastructure Assets were incorrectly stated by the non-inclusion of certain assets. The restatement of the costs and the inclusion of the omitted assets resulted in the recalculation of the comparative depreciation and amortization expense. This correction resulted in the increase of depreciation and amortisation expense by R116 828 421

Statement of financial position

VAT Receivable	-	(1 776 137)
Receivable from exchange transactions	-	1 282 046
Payable from exchange transactions	-	157 769 434
Receivables from non-exchange transactions	-	(136 375 319)
Property, plant and equipment	-	5 871 010 282
Intangible assets	-	1 159 751
Opening Accumulated Surplus or Deficit	-	5 866 794 803
Movement Accumulated Surplus or Deficit	-	9 937 574

Statement of Financial Performance

Interest received - trading	-	1 334 355
Depreciation and amortisation	-	116 828 421
General expenses	-	59 306 606

Vhembe District Municipality

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33. Prior period errors (continued)

Cash flow statement

Cash flow from operating activities

Sale of goods and services	-	(23 799 243)
Grants	-	(63 902 711)
Other receipts	-	14 536 205
Employee costs	-	(2 511 721)
Suppliers	-	6 081 470
	-	(69 596 000)

Cash flow from investing activities

Purchase of property, plant and equipment	-	91 032 405
Other cash items	-	(162 028 541)
	-	(70 996 136)

Cash flow from financing activities

Finance lease payments	-	(2 095 372)
	-	(2 095 372)

34. Risk management

Liquidity risk

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

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Credit risk

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

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

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

Financial instrument	2017	2016
Interest rate swap	-	61 933 273
Fixed interest loan to X Ltd	-	292 432 511
Bank A	-	170 902 610

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35. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

36. Unauthorised expenditure

Opening Balance	678 246 364	376 174 995
Incurred during the year	125 690 738	223 833 346
Non cash items-Depreciation, Amortisation and Impairment	249 463 409	78 238 023
	1 053 400 511	678 246 364

During the current year and the prior year the municipality incurred unauthorised expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

37. Fruitless and wasteful expenditure

Opening balance	41 327 447	39 510 106
Incurred during the year	13 401 764	1 817 341
	54 729 211	41 327 447

During the year and the prior year the municipality incurred unauthorised, irregular and fruitless expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

Fruitless and wasteful expenditure amounting to R10 451 775 relates to interest and penalties incurred from SARS for VAT assessments raised by SARS, the municipality is still disputing these interest and penalties with SARS through objections. The municipality has not paid these interest and penalties to SARS, however they have been accrued for.

38. Irregular expenditure

Opening balance	656 073 731	475 394 175
Add: Irregular Expenditure - current year	208 443 856	180 679 556
Add: Irregular Expenditure - prior years expenditure-discover during current year	17 573 197	-
	882 090 784	656 073 731

Details of irregular expenditure – current year

-

During the current year and the prior year the municipality incurred irregular expenditures. In terms of section 32 of the MFMA the council appoint a committee to investigate these. The council will appoint the committee to investigate.

Vhembe District Municipality

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39. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Incurred during the year	89 960 722	-
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Water Projects

During current year and prior year the municipality incurred expenditure of R64 336 449.54 on work in progress which could not be allocated to physical assets. As at year end the amount was still under investigation and will be allocated accordingly

Community Projects

The municipality incurred expenditure of R25 624 273.07 on Awelani Community Tourism project

Total material losses R89 960 722

Audit fees

Current year subscription / fee	3 471 386	2 617 610
Amount paid - current year	(3 471 386)	(2 617 610)
	-	-

PAYE and UIF

Current year subscription / fee	58 334 026	46 977 091
Amount paid - current year	(58 334 026)	(46 977 091)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	53 687 710	51 985 704
Amount paid - current year	(53 687 710)	(51 985 704)
	-	-

VAT

VAT receivable	91 046 325	40 517 321
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Deviation

Incident

Current year	3 011 148	7 521 723
Noted by council	(3 011 148)	(7 521 723)
	-	-

40. Distribution losses

Reconciliation of water losses:

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40. Distribution losses (continued)

Opening balance	-	945 813
Add: Irregular Expenditure - current year	-	462 616 522
Less: Amounts condoned	-	(1 110 278)
Less: Amounts recoverable (not condoned)	-	(91 578 005)
Less: Amounts not recoverable (not condoned)	-	(3 593 246)
	-	367 280 806

41. Commitments

Capital commitments

Already contracted for but not provided for

• Infrastructure	1 256 359 877	631 501 990
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Total capital commitments

Already contracted for but not provided for	1 256 359 877	631 501 990
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Operational commitments

Authorised operational expenditure

Already contracted for but not provided for

• Telephone, data, network and software expenses	784 807	-
• Printing	404 000	-
• Materials	1 944 465	-
• Financial management support	17 043 141	-
• HR and payroll services	170 000	-
• Insurance	5 893 074	-
	26 239 487	-

Total operational commitments

Already contracted for but not provided for	26 239 487	-
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Total commitments

Total commitments

Authorised operational expenditure	26 239 487	-
Authorised capital expenditure	1 256 359 877	631 501 990
	1 282 599 364	631 501 990

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

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	1 183 958	1 080 404
- in second to fifth year inclusive	2 463 962	3 647 920
- later than five years	-	-
	3 647 920	4 728 324

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42. Budget and Actual variance explanations

Sale of good increase by 76% due to prepaid meters being installed in more households than expected.

Other revenue increased significantly due to the additional water meters being installed.

Increase in investment revenue due to conditional grants not yet utilised.

Collection costs decreased due to termination of service provider who was responsible for VAT recovery.

Increase in repairs and maintenance was due to aged infrastructure.