ENOCH MGIJIMA
LOCAL MUNICIPALITY

Enoch Mgijima Local Municipality
Annual Financial Statements
for the year ended 30 June 2017

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)
Nature of business and principal activities	Enoch Mgijima Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Cllr Lindiwe Gunuza Nkwentsha
Councillors	Cllr Mzoxolo Peter (Speaker)
	Cllr Funeka Sybil Sopapaza-Lungisa (Chief Whip)
	Cllr Thembeka Bunu (SPU Portfolio Head)
	Cllr Adele Natacia (Public Safety Portfolio Head)
	Cllr Elizabeth Mqingwana (Human Settlement and Land Portfolio Head)
	Cllr Xoliswa Xele (IPED Portfolio Head)
	Cllr Sibusiso Eric Mvana (Technical Services Portfolio Head)
	Cllr Madoda Papiyana (Finance Portfolio Head)
	Cllr Marina Bennet (MPAC Chairperson)
Grading of local authority	Pending
Accounting Officer (Acting)	Mr. Siyabonga Nkonki
Chief Finance Officer (CFO) (Acting)	Mrs. Nolitha Mbele Tyali
Registered office	70 Cathcart Road Queenstown 5320
Postal address	Private Bag X7111 Queenstown 5320
Bankers	ABSA Bank First National Bank
Attorneys	Smith Tabata Bowes McDougall Incorporated Wheeldom, Rushmere and Cole Incorporated Bobotyana and Company

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

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)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

In terms of the Provincial Gazette No. 3717, Provincial Notice 182 of 2016 Lukhanji Local Municipality, Tsolwana Local Municipality and Inkwanca Local municipality were disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality was establised.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 annual financial statements set out on pages 4 to 80, 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. Siyabonga Nkonki

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016
Assets			
Current Assets			
Receivables from exchange transactions	2	90,406,168	-
Receivables from non-exchange transactions	3	39,962,774	-
VAT receivable	4	16,486,062	-
Cash and cash equivalents	5	123,833,110	-
		270,688,114	**-**
Non-Current Assets			
Biological assets that form part of an agricultural activity	6	6,151,100	-
Investment property	7	291,608,199	-
Property, plant and equipment	8	1,164,987,823	-
Intangible assets	9	286,633	-
Heritage assets	10	1,087,370	-
Other financial assets	11	343,800	-
		1,464,464,925	**-**
Non-Current Assets		1,464,464,925	-
Current Assets		270,688,114	-
Total Assets		**1,735,153,039**	**-**
Liabilities			
Current Liabilities			
Finance lease obligation	12	181,783	-
Payables from exchange transactions	13	52,328,797	-
Consumer deposits	14	10,304,752	-
Employee benefit obligation	15	33,993,909	-
Unspent conditional grants and receipts	16	39,408,739	-
Provisions	17	498,196	-
		136,716,176	**-**
Non-Current Liabilities			
Finance lease obligation	12	3,591	-
Employee benefit obligation	15	94,493,274	-
Provisions	17	35,523,836	-
		130,020,701	**-**
Non-Current Liabilities		130,020,701	-
Current Liabilities		136,716,176	-
Total Liabilities		**266,736,877**	**-**
Assets		1,735,153,039	-
Liabilities		(266,736,877)	-
Net Assets		**1,468,416,162**	**-**
Accumulated surplus		1,468,416,163	-

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	18	232,790,600	-
Rental of facilities and equipment	19	2,354,278	-
Interest received on debtors		20,095,895	-
Agency services		4,673,941	-
Other income	20	6,083,928	-
Interest received - investment	21	5,374,068	-
Total revenue from exchange transactions		**271,372,710**	**-**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	85,156,900	-
Licences and Permits		3,082,322	-
Transfer revenue			
Government grants & subsidies	23	197,263,530	-
Fines, Penalties and Forfeits		324,143	-
Total revenue from non-exchange transactions		**285,826,895**	**-**
		271,372,710	-
		285,826,895	-
Total revenue	24	**557,199,605**	**-**
Expenditure			
Employee related costs	25	(235,979,035)	-
Remuneration of councillors	26	(25,117,300)	-
Depreciation and amortisation		(48,568,824)	-
Finance costs	27	(45,306)	-
Debt Impairment		(466,658,673)	-
Repairs and maintenance	28	(13,008,850)	-
Bulk purchases	29	(188,015,205)	-
Contracted services	30	(13,787,667)	-
Transfers and Subsidies	31	(21,920,916)	-
General Expenses	32	(86,323,388)	-
Total expenditure		**(1,099,425,164)**	**-**
		-	-
Total revenue		557,199,605	-
Total expenditure		(1,099,425,164)	-
Operating deficit		**(542,225,559)**	**-**
Loss on disposal of assets and liabilities		(8,864,209)	-
Fair value adjustments		499,200	-
		(8,365,009)	**-**
Operating surplus/deficit		(8,365,009)	-
Deficit before taxation		(550,590,568)	-
Taxation		-	-
Deficit for the year		**(550,590,568)**	**-**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance from transfer of function 07 August 2016	**2,019,006,731**	**2,019,006,731**
Changes in net assets		
Surplus for the year	(550,590,568)	(550,590,568)
Total changes	(550,590,568)	(550,590,568)
Balance at 30 June 2017	**1,468,416,163**	**1,468,416,163**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Receipts			
Cash receipts from customers		(26,563,876)	-
Grants		197,263,530	-
Interest income		5,374,068	-
		176,073,722	-
Payments			
Employee costs		(261,096,335)	-
Suppliers		(250,908,092)	-
		(512,004,427)	-
Total receipts		176,073,722	-
Total payments		(512,004,427)	-
Net cash flows from operating activities	34	**(335,930,705)**	**-**
Cash flows from investing activities			
Purchase of movable and immovable assets	8	342,688,994	-
(Increase) /Decreasein financial assets	7	(14,295)	-
Purchases of heritage assets	10	(177,277)	-
Net cash flows from investing activities		**342,497,422**	**-**
Net increase/(decrease) in cash and cash equivalents		**6,566,717**	**-**
Cash and cash equivalents at the beginning of the year		117,266,393	-
Cash and cash equivalents at the end of the year	5	**123,833,110**	**-**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	276,203,000	(407,000)	**275,796,000**	232,790,600	**(43,005,400)**	Note 47
Rental of facilities and equipment	2,992,000	(603,000)	**2,389,000**	2,354,278	**(34,722)**	Note 47
Interest received - debtors	31,089,000	(4,635,000)	**26,454,000**	20,095,895	**(6,358,105)**	Note 47
Agency services	6,448,000	(1,679,000)	**4,769,000**	4,673,941	**(95,059)**	Note 47
Other income	99,031,000	35,759,000	**134,790,000**	6,083,928	**(128,706,072)**	Note 47
Interest received - investment	10,521,000	(4,227,000)	**6,294,000**	5,374,068	**(919,932)**	Note 47
Total revenue from exchange transactions	**426,284,000**	**24,208,000**	**450,492,000**	**271,372,710**	**(179,119,290)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	95,320,000	786,000	**96,106,000**	85,156,900	**(10,949,100)**	Note 47
Licences or Permits (Non-exchange)	4,335,000	(1,101,000)	**3,234,000**	3,082,322	**(151,678)**	Note 47
Transfer revenue						
Government grants & subsidies	234,219,000	3,428,000	**237,647,000**	197,263,530	**(40,383,470)**	Note 47
Fines, Penalties and Forfeits	472,000	(392,000)	**80,000**	324,143	**244,143**	Note 47
Total revenue from non-exchange transactions	**334,346,000**	**2,721,000**	**337,067,000**	**285,826,895**	**(51,240,105)**	
'Total revenue from exchange transactions'	426,284,000	24,208,000	**450,492,000**	271,372,710	**(179,119,290)**	
'Total revenue from non-exchange transactions'	334,346,000	2,721,000	**337,067,000**	285,826,895	**(51,240,105)**	
Total revenue	**760,630,000**	**26,929,000**	**787,559,000**	**557,199,605**	**(230,359,395)**	
Expenditure						
Employee related costs	(225,757,000)	16,824,000	**(208,933,000)**	(235,979,035)	**(27,046,035)**	Note 47
Remuneration of councillors	(28,812,000)	554,000	**(28,258,000)**	(25,117,300)	**3,140,700**	Note 47
Depreciation and amortisation	(47,433,000)	2,689,000	**(44,744,000)**	(48,568,824)	**(3,824,824)**	Note 47
Finance costs	-	-	**-**	(45,306)	**(45,306)**	Note 47
Debt Impairment	(73,857,000)	(17,583,000)	**(91,440,000)**	(466,658,673)	**(375,218,673)**	Note 47
Repairs and maintenance	-	-	**-**	(13,008,850)	**(13,008,850)**	Note 47
Bulk purchases	(220,944,000)	-	**(220,944,000)**	(188,015,205)	**32,928,795**	Note 47
Contracted Services	(6,284,000)	(2,664,000)	**(8,948,000)**	(13,787,667)	**(4,839,667)**	Note 47
Transfers and Subsidies	(16,005,000)	(43,981,000)	**(59,986,000)**	(21,920,916)	**38,065,084**	Note 47
General Expenses	(167,751,000)	43,445,000	**(124,306,000)**	(86,323,388)	**37,982,612**	Note 47
Total expenditure	**(786,843,000)**	**(716,000)**	**(787,559,000)**	**(1,099,425,164)**	**(311,866,164)**	
	760,630,000	26,929,000	**787,559,000**	557,199,605	**(230,359,395)**	
	(786,843,000)	(716,000)	**(787,559,000)**	(1,099,425,164)	**(311,866,164)**	
Operating deficit	**(26,213,000)**	**26,213,000**	**-**	**(542,225,559)**	**(542,225,559)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Loss on disposal of assets and liabilities	-	-	-	(8,864,209)	**(8,864,209)**	
Fair value adjustments	-	-	-	499,200	**499,200**	
	-	**-**	**-**	**(8,365,009)**	**(8,365,009)**	
	(26,213,000)	26,213,000	-	(542,225,559)	**(542,225,559)**	
	-	-	-	(8,365,009)	**(8,365,009)**	
Deficit before taxation	**(26,213,000)**	**26,213,000**	**-**	**(550,590,568)**	**(550,590,568)**	
Surplus before taxation	(26,213,000)	26,213,000	-	(550,590,568)	**(550,590,568)**	
Taxation	-	-	-	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(26,213,000)**	**26,213,000**	**-**	**(550,590,568)**	**(550,590,568)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	977,000	-	**977,000**	-	**(977,000)**	Note 47
Receivables from exchange transactions	29,990,000	43,079,000	**73,069,000**	421,535,553	**348,466,553**	Note 47
Receivables from non-exchange transactions	31,047,000	(29,987,000)	**1,060,000**	39,962,774	**38,902,774**	Note 47
VAT receivable	-	-	**-**	16,486,062	**16,486,062**	Note 47
Cash and cash equivalents	192,677,000	(99,497,000)	**93,180,000**	123,833,110	**30,653,110**	Note 47
	254,691,000	**(86,405,000)**	**168,286,000**	**601,817,499**	**433,531,499**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	-	-	**-**	6,151,100	**6,151,100**	Note 47
Investment property	272,300,000	17,193,000	**289,493,000**	291,608,199	**2,115,199**	Note 47
Property, plant and equipment	1,471,066,000	(335,292,000)	**1,135,774,000**	1,164,987,823	**29,213,823**	Note 47
Intangible assets	757,000	-	**757,000**	286,633	**(470,367)**	Note 47
Heritage assets	-	-	**-**	1,087,370	**1,087,370**	Note 47
Other financial assets	-	-	**-**	343,800	**343,800**	Note 47
	1,744,123,000	**(318,099,000)**	**1,426,024,000**	**1,464,464,925**	**38,440,925**	
Non-Current Assets	254,691,000	(86,405,000)	**168,286,000**	601,817,499	**433,531,499**	
Current Assets	1,744,123,000	(318,099,000)	**1,426,024,000**	1,464,464,925	**38,440,925**	
Total Assets	**1,998,814,000**	**(404,504,000)**	**1,594,310,000**	**2,066,282,424**	**471,972,424**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	181,783	**181,783**	Note 47
Payables from exchange transactions	60,487,000	(861,000)	**59,626,000**	52,328,797	**(7,297,203)**	Note 47
Consumer deposits	8,206,000	1,466,000	**9,672,000**	10,304,752	**632,752**	Note 47
Employee benefit obligation	-	-	**-**	33,993,909	**33,993,909**	Note 47
Unspent conditional grants and receipts	-	-	**-**	39,408,739	**39,408,739**	Note 47
Provisions	61,200,000	(15,880,000)	**45,320,000**	498,196	**(44,821,804)**	Note 47
	129,893,000	**(15,275,000)**	**114,618,000**	**136,716,176**	**22,098,176**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	3,591	**3,591**	
Employee benefit obligation	-	-	**-**	94,493,274	**94,493,274**	
Provisions	28,212,000	(6,830,000)	**21,382,000**	35,523,836	**14,141,836**	Note 47
	28,212,000	**(6,830,000)**	**21,382,000**	**130,020,701**	**108,638,701**	
	129,893,000	(15,275,000)	**114,618,000**	136,716,176	**22,098,176**	
	28,212,000	(6,830,000)	**21,382,000**	130,020,701	**108,638,701**	
	-	-	**-**	-	**-**	
Total Liabilities	**158,105,000**	**(22,105,000)**	**136,000,000**	**266,736,877**	**130,736,877**	

Enoch Mgijima Local Municipality

(Registration number EC139)
Trading as Enoch Mgijima Local Municipality
Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Assets	1,998,814,000	(404,504,000)	**1,594,310,000**	2,066,282,424	**471,972,424**	
Liabilities	(158,105,000)	22,105,000	**(136,000,000)**	(266,736,877)	**(130,736,877)**	
Net Assets	**1,840,709,000**	**(382,399,000)**	**1,458,310,000**	**1,799,545,547**	**341,235,547**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,840,709,000	(382,399,000)	**1,458,310,000**	1,799,545,547	**341,235,547**	

Enoch Mgijima Local Municipality

(Registration number EC139)
Trading as Enoch Mgijima Local Municipality
Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	73,837,300	-	**73,837,300**	-	**(73,837,300)**	Note 47
Sale of goods and services	256,295,000	(30,000,000)	**226,295,000**	(55,744,678)	**(282,039,678)**	Note 47
Grants	297,057,000	11,984,000	**309,041,000**	187,950,033	**(121,090,967)**	Note 47
Interest income	12,971,000	(3,224,000)	**9,747,000**	4,237,672	**(5,509,328)**	Note 47
Other revenue	118,164,000	(87,304,000)	**30,860,000**	-	**(30,860,000)**	
	758,324,300	**(108,544,000)**	**649,780,300**	**136,443,027**	**(513,337,273)**	
Payments						
Employee costs and Suppliers	(706,835,000)	84,536,000	**(622,299,000)**	(244,551,335)	**377,747,665**	Note 47
Other payments	(16,005,000)	(43,981,000)	**(59,986,000)**	(249,203,548)	**(189,217,548)**	Note 47
	(722,840,000)	**40,555,000**	**(682,285,000)**	**(493,754,883)**	**188,530,117**	
Total receipts	758,324,300	(108,544,000)	**649,780,300**	136,443,027	**(513,337,273)**	
Total payments	(722,840,000)	40,555,000	**(682,285,000)**	(493,754,883)	**188,530,117**	
Net cash flows from operating activities	**35,484,300**	**(67,989,000)**	**(32,504,700)**	**(357,311,856)**	**(324,807,156)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(101,065,000)	(23,314,000)	**(124,379,000)**	304,726,524	**429,105,524**	Note 47
Proceeds from sale of property, plant and equipment	27,871,000	25,474,000	**53,345,000**	(122,566)	**(53,467,566)**	Note 47
Net cash flows from investing activities	**(73,194,000)**	**2,160,000**	**(71,034,000)**	**304,603,958**	**375,637,958**	
Net increase/(decrease) in cash and cash equivalents	(37,709,700)	(65,829,000)	**(103,538,700)**	(52,707,898)	**50,830,802**	
Cash and cash equivalents at the beginning of the year	192,746,000	-	**192,746,000**	117,266,393	**(75,479,607)**	
Cash and cash equivalents at the end of the year	**155,036,300**	**(65,829,000)**	**89,207,300**	**64,558,495**	**(24,648,805)**	

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.

Those standards of GRAP and Interpretations of such standards aplicable to the operations of the municipality, are therefore as follows:

Standards

Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2012)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2012)
- GRAP 4 - The Effects of Changes in Foreign Exchange Rates
- GRAP 5 - Borrowing Costs (as revised in 2013)
- GRAP 6 - Consolidated and Separate Financial Statements (as revised in 2010)
- GRAP 7 - Investments in Associates (as revised in 2012)
- GRAP 8 - Interests in Joint Ventures (as revised in 2010)
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2012)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies
- GRAP 11 - Construction Contrscts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2012)
- GRAP 13 - Leases (as revised in 2012)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2012)
- GRAP 17 - Property Plant and Equipment (as revised in 2012)
- GRAP 18 - Segment Reporting
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 - Employee Benefits
- GRAP 26 - Impairmentof cash-generating assets
- GRAP 27 - Agriculture (Replaces GRAP 101) (as revised in 2012)
- GRAP 31 - Intangible Assets (Replaces GRAP 102) (as revised in 2012)
- GRAP 100 - Discontinued Operations
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 108 - Statutory Receivables, GRAP 109 - Accounting by Principals and Agents, GRAP 110 - Living and Non-living Resources

Interpretations Issued and Effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities

Accounting Policies

- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 - Loyalty programmes
- IGRAP 7 - The Limit on a Defined Bebefit Asset, Minimum Funding Requirements Interactaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 10 - Assets Received from Customer
- IGRAP 11 - Consolidation Special purpose entities
- IGRAP 12 - Jointly controlled entities - Non- monetary contributions by ventures
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

Interpretations Issued, Future Effective Date - can be accounting policy on, or early adopt

- IGRAP 17 - Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset
- IGRAP 18 - Recognition and Derecognition of Land
- IGRAP 19 - Liabilities to Pay Levies

1.1 Presentation currency

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

1.2 Going concern assumption

In terms of Provincial Gazette No.3717, Provincial Notice 182 of 2016, Lukhanji Local Municipality, Tsolwana Local Municiality and Inkwanca Local Municipality are disestablished with effect from 06 August 2016 and Enoch Mgijima Local Municipality was establised. These annual financial statements have been prepared on a going concern basis as it is expected that the Municipality will continue to operate for at least the next 12 months as part of Enoch Mgijima Local Municipality.

1.3 Mergers

Definitions

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

Combined municipality is a new reporting entity formed from the combination of two or more entities.

Combining entities are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

Accounting Policies

1.3 Mergers (continued)

Identifying the combined entity and combining entities

For each merger a combined municipality and combining entities is identified. All relevant facts and circumstances are considered in identifying the combined municipality and combining municipality.

The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting municipality after the merger.

Determining the merger date

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.

Inkwanca Local Municiality, Tsolwana Local Municipality and Lukhanji Local Municipality ceased to exist with effect from 06 August 2016 and merged to form Enoch Mgijima Local Municipality.

All relevant facts and circumstances are considered in identifying the merger date.

Assets acquired and liabilities assumed

The recognition of assets and liabilities by the entity as combined entity are subject to the following conditions:

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

Accounting Policies

1.3 Mergers (continued)

Accounting by the entity as the combined entity

Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the merger date.

The municipality considers all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the municipality can identify a reason for a change to provisional amounts.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a merger only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

Accounting Policies

1.3 Mergers (continued)

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

The annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

1.4 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 and other 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 surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Impairment testing

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

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

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 17 - Provisions.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the Employee Benefit Obligation Note 15 to the financial statements.

Effective interest rate

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

Useful lives of Property, Plant and Equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5 Biological assets that form part of an agricultural activity

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Biological assets are derecognised when disposed off. The gains or lossed are then recognised through the Statement of Financial Performance.

1.6 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

Accounting Policies

1.6 Investment property (continued)

- sale in the ordinary course of operations.

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.

The cost of self-constructed investment property is the cost at the date of completion.

The following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market related rentals or for capital appreciation, or for both and are mot used for administrative purposes and that will not be sold within the next 12 months are classified as investment property;
- Land held for currently undermined future use. If the municipality has not determined that it will use the land as owner-occupied property, or for a short term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by municipality under finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behlaf of the municipality; and
- A building that is vacant but is held to be leased but under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, Plant and Equipment or Non-current Assets Held for Sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being contsructed or developed on bahlaf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as investment property;
- Property that is being leased out under finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and a service delivery.

Property interest held under operating leases are classified and accounted for as investment property if property interest that is held by lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied and from property held for sale is established by using criteria that it can utilise to exercise judgement consistently in accordance with the definition of investment property and with the related guidance.

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 by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	30 years
Air-conditioners	3-7 years

Accounting Policies

1.6 Investment property (continued)

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

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

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

Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the investment property.

1.7 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 are initially recognised at cost on the acquisition date, or n the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition..

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. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site on which is located

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.

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

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

Accounting Policies

1.7 Property, plant and equipment (continued)

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset or that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the expenditure will flow to the municipality and the cost can be measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity of future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

The Economic Useful Life ("EUL") of an asset has been determined with reference to the Local Government Capital Asset Management Guidelines and the Guidelines for Infastructure Asset Management in Local Government and tailored to the Municipalities specific requirements where applicable.

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

Item	Depreciation method	Average useful life
Land		Indefinite years
Finance lease assets		
• Office equipment	Striaght line	3 years
• Motor vehicles	Straight line	5 years
Infrastructure		
• Roads	Straight line	10 - 80 years
• Buildings	Straight line	25 - 60 years
• Electricity	Straight line	25 - 50 years
• Landfill sites	Straight line	10 - 50 years
Other property, plant and equipment		
• Motor vehicles	Straight line	5 - 15 years
• Office equipment	Straight line	5 - 10 years
• Furniture and fittings	Straight line	5 - 10 years
• Machinery and equipment	Straight line	5 - 10 years
• Computer equipment	Straight line	5 - 10 years

The residual value, the useful life and depreciation method of each asset is 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 difffer 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.

1.7 Property, plant and equipment (continued)

Incomplete construction owork

Incomplete construction work is stated at historical cost, depreciation only comences when the asset is available for use.

Finance leases

Assets capitalised under finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the assets management policy.

Infrastructure assets

Infrastructure assets are any assets that are part of a network or similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment assets

The carrying amount of an item of property, plant and equiment is derecognised on disposal, or when no future economic benefits or service potential are expected to flow from its use or disposal.

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. Gains anre included in the revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the statement of financial performance as a gain or loss on disposal of property, plant and equipment.

1.8 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.

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.

Intangible assets are initially recognised at cost.

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.

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

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

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

Accounting Policies

1.8 Intangible assets (continued)

If the expectations from from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible asset is acquired in exxhange for non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the assets given up.

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred.

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.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:
Where intangible asets are deemed to have an infinite useful life, such intangible assets are not amortised, for example servitudes ontained by the municipality give the municipality access to land for specific purposes for an unlimited period however such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of the value in use and the fair value less cost to sell.

The estimated useful life and amortisation methods are reviewed annually at the end of each financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the statement of financial performance for the year.

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised. The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset.

1.9 Heritage assets

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Accounting Policies

1.9 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

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

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

1.10 Financial instruments

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

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

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.

Accounting Policies

1.10 Financial instruments (continued)

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

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 municipality 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 municipality 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 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.

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

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 municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

Accounting Policies

1.10 Financial instruments (continued)

Classification

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

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

The municipality 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
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

Gains and losses

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

Impairment and uncollectibility of financial assets

The municipality 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.

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.

Accounting Policies

1.10 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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.

Financial liabilities

The municipality 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.

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

Presentation

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

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

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

1.11 Leases

The Municipality as a lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the municipality. Property, plant and equiment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Accounting Policies

1.11 Leases (continued)

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are aplied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease renatl income is recognised on a straight line over the term of the relevant lease.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

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 if it is practicable to determine. If not, the rate for the government bond with a maturity similar to the lease is used.

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.

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.12 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.

Accounting Policies

1.12 Inventories (continued)

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

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

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

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

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

1.13 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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. 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.

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.

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (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.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.14 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.

Accounting Policies

1.14 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.

Identification of a potential impairment

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.

Recognition and measurement of non-cash generating units

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.

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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.

1.15 Share capital / contributed capital

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

1.16 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
- the municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

Accounting Policies

1.16 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

Post-employment benefits: Defined contribution plans

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

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

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

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

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement

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

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

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

Accounting Policies

1.16 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care medical aid benefits upon retirement to some retirees.

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

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

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

1.17 Provisions and contingencies

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

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

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

Accounting Policies

1.17 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.18 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial preiod the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed on the commitement note to the financial statements.

Accounting Policies

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest

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

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

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

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

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an aacrual is made based on the average monthly consumption of consumers.

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

Finance Income

Interest earned on investment is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorisation tariff. This includes the issue of licenses and permits.

Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

Revenue from the renatl of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

1.20 Revenue from non-exchange transactions

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

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

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

1.20 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts or where the donation is in the form of; property, plant and equipment, when such items are available for use.

Public contributions

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not been met, a liability is recognised.

Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has ocomplied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investment is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest it is recognised as interest earned in the statement of finacial performance in the period in which it is received.

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 revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:
- receive goods and services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occured.

1.21 Investment income

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

Accounting Policies

1.22 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.

1.23 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
  expenditure not in terms of the conditions of the allocation from another sphere of Government, Municipality or Organ of State and expenditure in the form of a grant tha is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

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.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

1.24 Fruitless and wasteful expenditure

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

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

If the expenditure is not subsequently certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the statement of financial performance. If the expenditure is not certified as irrecoverable by council it is treated as an asset until it is recoverred or written off.

1.26 Revenue from recovery of unauthorised, Irregular, fruitless and wasteful expenditure

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

1.27 Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is required or permitted by a standard of GRAP.

1.28 Budget information

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

Accounting Policies

1.28 Budget information (continued)

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

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

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local 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.

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.31 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practible. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where aaplicable.

Correction if errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treament is practicable. Details of the prior period errors are disclosed in the note to the financial statements where applicable.

1.32 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Accounting Policies

1.32 Value Added Tax (VAT) (continued)

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the municipality would recognise a payable for VAT.

The municipality accounts for VAT on a payment basis.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

2. Receivables from exchange transactions

	2017	2016
Trade debtors	417,247,899	-
Other debtors	4,287,654	-
Impairment of debtors	(331,129,385)	-
	90,406,168	**-**

Ageing of receivables from exchange transactions	0-30 days	31-60 days	61-90 days	90 days +	Total
Electricity	9,985,783	3,975,782	3,586,636	51,842,325	69,390,526
Refuse	3,266,567	2,872,544	2,664,878	141,435,703	150,239,692
Interest	671	1,638,181	1,515,214	128,236,561	131,390,627
Sundry	3,804,654	1,295,084	1,240,367	59,886,949	66,227,054
	17,057,675	**9,781,591**	**9,007,095**	**381,401,538**	**417,247,899**

Credit quality of trade and other receivables

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

Trade receivables

Category A – These debtors are of good quality no default in payment is expected.

Category B – These debtors are usually good payers, but there is a possibility that the debtor might not be able to pay on time.

Category C – These debtors usually pay but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

None of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of provision for impairment of trade and other receivables

	2017	2016
Provision for impairment	331,129,385	-

Debtors are required to be settled after 30 days, ineterest is charged after this date at prime + 1%. This credit period granted is considered to be consistent with the terms used in the public sector, through establised practices and legislation. Discounting of trade and other receivables on initial recognitionis not deemed necessary.

The fair value of trade and other receivables approximates their carrying amounts.

3. Receivables from non-exchange transactions

	2017	2016
Consumer debtors - Rates	175,492,062	-
Impairment	(135,529,288)	-
	39,962,774	**-**

Ageing of receivables from non-exchange transactions	0-30 days	31-60 days	61-90 days	90 days +	Total
Rates	11,132,302	3,794,749	3,283,937	157,281,074	175,492,062

Credit quality of receivables from non-exchange transactions

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

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

3. Receivables from non-exchange transactions (continued)

Reconciliation of provision for impairment of receivables from non-exchange transactions

Provision for impairment	331,129,385	-

Debtors are required to be settled after 30 days, interest is charged after this date at prime + 1%.

The fair value of trade and other receivables approximates their carrying amounts.

4. VAT receivable

VAT	16,486,062	-

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38,082	-
Bank balances	13,624,270	-
Short-term deposits	110,170,758	-
	123,833,110	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

5. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB BANK - Current Account - 6243-8159-809	4,021,964	-	-	3,754,640	-	-
ABSA BANK - Current Account - 216-014-3854	834,047	-	-	840,549	-	-
FNB BANK - Current Account - 538-52257-262	51,856	-	-	51,856	-	-
STD BANK - Current Account - 280-670-893	(100)	-	-	-	-	-
FNB BANK - Call Account - 626-56734-392	10,723,914	-	-	10,723,914	-	-
FNB BANK - Call Account - 538-50009-219	(1,070)	-	-	(1,069)	-	-
FNB BANK - Call Account - 620-23697-157	2,134	-	-	2,134	-	-
STD BANK - Call Account - 280-661-061	716,549	-	-	-	-	-
FNB BANK - Call Account - 624-59044-162	5,335,740	-	-	5,335,740	-	-
FNB BANK - Call Account-EPWP - 624-96427-967	1,000	-	-	1,000	-	-
FNB BANK - Call Account-ISDG - 624-96432-635	1,783,444	-	-	1,783,444	-	-
FNB BANK - Call Account - MSIG - 624-96436-265	1,000	-	-	1,000	-	-
FNB BANK - Call Account - FMG - 624-96439-607	1,000	-	-	1,000	-	-
FNB BANK - Call Account - MIG - 624-96441-842	28,221,134	-	-	28,221,134	-	-
FNB BANK - Call Account - INEP - 625-99305-763	1,232,360	-	-	1,232,360	-	-
FNB BANK - Call Account - 621-96097-995	16,046	-	-	16,046	-	-
FNB BANK - Call Account - 620-67415-127	(13)	-	-	(12)	-	-
FNB BANK - Call Account - 622-40939-100	1,084	-	-	1,083	-	-
FNB BANK - Call Account - 613-85739-623	80	-	-	79	-	-
Total	**52,942,169**	**-**	**-**	**51,964,898**	**-**	**-**

6. Biological assets that form part of an agricultural activity

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Game animals	6,151,100	-	6,151,100	-	-	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

6. Biological assets that form part of an agricultural activity (continued)

Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Take on balance	Decreases due to harvest / sales	Gains or losses arising from changes in fair value	Total
Game animals	-	5,651,900	(1,125,700)	1,624,900	6,151,100

Non - Financial information

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the deveopment or acquisition of biological assets.

All biological assets are located in the nature reserve and spa. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduces the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets.
- Regular monitoring of game quantities by municipal staff.

Methods and assumptions used in determining fair value

Game type			Quantity (Unit)	Fair Value (per animal) R	Fair Value
Rhino	-	-	7	530,000	3,710,000
Giraffe	-	-	16	12,000	192,000
Eland	-	-	57	6,000	342,000
Kudu	-	-	53	4,500	238,500
Zebra	-	-	39	5,000	195,000
Nyala	-	-	15	5,000	75,000
Lechwe	-	-	29	15,000	435,000
Blesbok	-	-	94	1,200	112,800
Impala	-	-	102	1,200	122,400
Springbok	-	-	39	1,000	39,000
Fallow Deer	-	-	18	2,500	45,000
Gemsbok	-	-	47	4,500	211,500
Duiker	-	-	11	1,000	11,000
Steenbok	-	-	1	1,000	1,000
Balckwildebeest	-	-	101	1,800	181,800
Red Hartebeest	-	-	48	3,500	168,000
Ostrich	-	-	13	1,200	15,600
Mountain Reed buck	-	-	37	1,500	55,500
	-	**-**	**727**	**597,900**	**6,151,100**

	2017	2016
Fair value less estimated point-of-sale costs of agricultural produce harvested during the period, determined at the point of harvest	6,151,100	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

7. Investment property

	2017			2016		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	291,836,178	(227,979)	291,608,199	-	-	-

Reconciliation of investment property - 2017

	Opening balance	**Take on balance**	**Total**
Investment property	-	291,608,199	291,608,199

Pledged as security

No investment properties were pledged as security for liability.

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.

8. 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	112,050,390	-	112,050,390	-	-	-
Buildings	60,446,664	(2,592,664)	57,854,000	-	-	-
Furniture and fixtures	3,585,755	(584,500)	3,001,255	-	-	-
Motor vehicles	77,592,915	(6,404,916)	71,187,999	-	-	-
Office equipment	2,182,502	(306,978)	1,875,524	-	-	-
IT equipment	2,612,896	(538,637)	2,074,259	-	-	-
Electricity	185,083,461	(7,046,276)	178,037,185	-	-	-
Roads and storm water	497,755,034	(23,013,868)	474,741,166	-	-	-
Other property, plant and equipment	345,818	(94,754)	251,064	-	-	-
Other equipment	2,435,311	(398,975)	2,036,336	-	-	-
Landfill site	21,620,547	(453,560)	21,166,987	-	-	-
Work in progress	29,847,986	-	29,847,986	-	-	-
Community assets	217,090,326	(6,226,654)	210,863,672	-	-	-
Total	**1,212,649,605**	**(47,661,782)**	**1,164,987,823**	**-**	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Take on balance	Adjustments	Additions	Newly identified assets at fair value	Assets under contruction capitalised/released (Transfer)	Disposals
Land	-	112,096,384	(45,994)	-	-	-	
Buildings	-	192,087,872	(134,648,314)	-	-	3,007,106	
Furniture and fixtures	-	3,594,373	142,858	234,964	70,392	-	(376,91
Motor vehicles	-	75,534,836	(627,450)	9,749,705	788,843	-	(7,194,43
Office equipment	-	1,947,921	267,273	65,556	100,382	-	(162,11
IT equipment	-	2,072,261	489,248	463,333	79,817	-	(382,87
Electricity	-	163,968,119	5,916,864	-	-	15,198,478	
Roads and storm water	-	497,260,245	(17,719,947)	-	-	18,214,736	
Leases	-	350,302	-	-	-	-	(3,09
Other equipment	-	2,590,564	293,875	125,905	235,273	-	(654,01
Landfill site	-	15,344,645	5,629,652	-	-	646,250	
Work in progress	-	30,770,981	13,454,717	57,398,355	-	(71,776,067)	
Community	-	44,249,761	138,131,068	-	-	34,709,497	
	-	**1,141,868,264**	**11,283,850**	**68,037,818**	**1,274,707**	**-**	**(8,773,43**

Pledged as security

No property,plant and equipment pledged as security.

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance through transfer of function/mergers	29,847,986	29,847,986

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.

9. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	971,088	(684,455)	286,633	-	-	-

Reconciliation of intangible assets - 2017

	Opening balance	Opening balance take on	Adjustments to take on balance	Additions	Amortisation	Total
Intangible assets	-	235,824	108,271	69,006	(126,468)	286,633

9. Intangible assets (continued)

Pledged as security

No Intangible assets pledged as security.

10. Heritage assets

	2017			2016		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art collections, antiquities and exhibits	1,087,370	-	1,087,370	-	-	-

Reconciliation of heritage assets 2017

	Opening balance	Take on balance	Adjustment to take on balance	Total
Art collections, antiquities and exhibits	-	1,049,100	38,270	1,087,370

Pledged as security

No herirage assets pledged as security.

11. Other financial assets

	2017	2016
At amortised cost		
Fixed Deposits Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 3.55% to 5.35% per annum. (2012 - 5.39% to 6.02%) with an accredited financial services institution (ABSA).	343,800	-
	-	-
	-	-
	343,800	-
Non-current assets		
At amortised cost	343,800	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

11. Other financial assets (continued)

Financial assets at amortised cost

Fixed deposits consists out of the following accounts from ABSA:

Account number 20-4601-2562	12,059	-
Account number 20-5423-8637	18,094	-
Account number 20-5441-0158	8,091	-
Account number 20-5487-1867	7,382	-
Account number 20-5488-0953	7,382	-
Account number 20-5533-9377	10,610	-
Account number 20-5759-5270	14,500	-
Account number 20-5775-0882	24,644	-
Account number 20-5868-1438	17,054	-
Account number 20-5874-5343	14,177	-
Account number 20-5874-5458	10,935	-
Account number 20-5874-5521	8,266	-
Account number 20-5923-6583	12,400	-
Account number 20-5923-6672	27,737	-
Account number 20-6066-7315	7,148	-
Account number 20-6068-1577	57,483	-
Account number 20-6068-1802	51,484	-
Account number 20-6014-3854	34,354	-
	343,800	**-**

12. Finance lease obligation

Non-current liabilities	3,591	-
Current liabilities	181,783	-
	185,374	**-**

13. Payables from exchange transactions

Trade payables	33,374,430	-
Payments received in advanced	10,213,639	-
Other payables	8,740,728	-
	52,328,797	**-**

14. Consumer deposits

Electricity	10,304,752	-

Consumer deposits are made of deposits from customers for the electricity connections, for those making use of the conventional electricity.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

15. Employee benefit obligations

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

Carrying value		
Non-current portion of Post retirement benefits	(84,703,000)	-
Non-current portion of Long term services	(11,278,000)	-
Current portion of Post retirement benefits	(2,197,000)	-
Current portion of Long term services	(2,027,000)	-
Accrual for bonuses	(5,317,344)	-
Accrual for leave gratuity	(22,964,839)	-
	(128,487,183)	**-**

Non-current liabilities	(94,493,274)	-
Current liabilities	(33,993,909)	-
	(128,487,183)	**-**

Net expense recognised in the statement of financial performance

Current service cost	6,605,000	-
Interest cost	9,940,000	-
	16,545,000	**-**

Key assumptions used

Assumptions used at the reporting date:

Medical health gross discount rate	10.00 %	- %
Maximum subsidy increase rate	6.90 %	- %
Health care cost inflation	8.90 %	- %
Medical health care net discount rate	1.01 %	- %
Long service award gross discount rate	8.50 %	- %
Long service award CPI Inflation	5.30 %	- %
Long service award salary inflation rate	7.30 %	- %
Long service award net discount rate	1.12 %	- %

Other assumptions

Assumptions used as follows:

- Pre retirement mortality SA 85-90 L
- Post retirement mortality PA (90)-1
- Normal retirement age 63 years
- Spouse age differences (male older than female) 3 years
- AIDS No assumptions made

Defined contribution plan

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

EPW	(34,768)	-
FMG	1,619	-
INEG	417,765	-
ISDG	1,694,006	-
MIG	24,385,727	-
MSIG	(76,888)	-
Municipal Demarcation Grant - Provincial	3,000,000	-
Other grants	1,913,168	-
Unspent conditional grants and receipts		
Other Provincial Grants	8,108,110	-
	39,408,739	**-**

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

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

17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions through transfer of functions / mergers	Total
Provision	-	36,022,032	36,022,032

Non-current liabilities	35,523,836	-
Current liabilities	498,196	-
	36,022,032	**-**

18. Service charges

Sale of electricity	199,350,177	-
Refuse removal	33,440,423	-
	232,790,600	**-**

19. Rental of facilities and equipment

Garages and parking		
Rental of carports	2,430	-
Facilities and equipment		
Rental of facilities	171,071	-
Rental of container	17,148	-
Rental of municipal property	2,163,629	-
	2,351,848	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Rental of facilities and equipment (continued)

Premises	-	-
Garages and parking	2,430	-
Facilities and equipment	2,351,848	-
	2,354,278	**-**

20. Other income

Advert costs	526	-
Burial fees	830,613	-
Commission	44,603	-
Contract disbursement	215,083	-
Gate Monies	55,508	-
Hunting	211,945	-
Lost books	360	-
Other income	2,163,507	-
Photocopies	66,302	-
Pound fees	1,289,327	-
Roadworthy certificates	231,878	-
Sale of plants and erven	11,106	-
Sundry revenue	963,170	-
	6,083,928	**-**

21. Investment revenue

Interest revenue		
Bank	833,728	-
Investment	4,540,340	-
	5,374,068	**-**
	-	-
	5,374,068	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

22. Property rates

Rates received

Property rates	96,283,480	-
Less: Income forgone	(11,126,580)	-
	85,156,900	**-**

Valuations

Agricultural	3,034,678,653	-
Business	2,271,792,787	-
Church	8,935,335	-
Education	538,658,419	-
Vacant Land	249,930,175	-
Government	257,910,798	-
Industrial	29,350,350	-
Municipal	488,283,341	-
Residential	6,617,843,717	-
Other	147,748,342	-
	13,645,131,917	**-**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Rebates were granted on land with buildings used for dwellings purposes as follows: Residential - The first R15 000 on the valuation is exempted.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies

Operating grants		
Equitable share	126,494,836	-
MDT Grant	18,875,301	-
Government grant operating	10,532,179	-
Provincial government grant	5,250,000	-
	161,152,316	**-**
Capital grants		
MIG grant	36,111,214	-
	161,152,316	-
	36,111,214	-
	197,263,530	**-**

FMG

Current-year receipts	5,460,000	-
Conditions met - tranferred to revenue	(5,458,381)	-
	1,619	**-**

EPWP

Balance through transfer of function/mergers	17,224	-
Current-year receipts	4,079,000	-
Conditions met - transferred to revenue	(4,130,992)	-
	(34,768)	**-**

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

ISDG

Balance through transfer of function/mergers	240,414	-
Current-year receipts	2,800,000	-
Conditions met - transferred to revenue	(1,346,408)	-
	1,694,006	**-**

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

INEG

Balance through transfer of function/mergers	529,000	-
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(5,111,235)	-
	417,765	**-**

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

MIG

Balance through transfer of function/mergers	8,200,000	-
Current-year receipts	56,668,000	-
Conditions met - transferred to revenue	(40,482,273)	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

	24,385,727	**-**

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

24. Revenue

Service charges	232,790,600	-
Rental of facilities and equipment	2,354,278	-
Interest received - debtors	20,095,895	-
Agency services	4,673,941	-
Other income	6,083,928	-
Interest received - investment	5,374,068	-
Property rates	85,156,900	-
Government grants & subsidies	197,263,530	-
Fines, Penalties and Forfeits	324,143	-
	554,117,283	**-**

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

Service charges	232,790,600	-
Rental of facilities and equipment	2,354,278	-
Interest received on debtors	20,095,895	-
Agency services	4,673,941	-
Other income on debtors	6,083,928	-
Interest received - investment	5,374,068	-
	271,372,710	**-**

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

Taxation revenue		
Property rates	85,156,900	-
Transfer revenue		
Government grants & subsidies	197,263,530	-
Fines, Penalties and Forfeits	324,143	-
	282,744,573	**-**

Figures in Rand	2017	2016

25. Employee related costs

Basic	119,039,930	-
Bonus	534,237	-
Casual labour	4,161,448	-
Contract workers	8,373,604	-
Group life insurance	661,198	-
Housing benefits and allowances	1,356,728	-
Leave pay provision charge	37,601,227	-
Medical aid - company contributions	27,764,557	-
Night shift services	196,128	-
Other short term costs	27,447	-
Overtime payments	8,064,430	-
Pension contribution	19,680,361	-
Telephone allowance	76,423	-
Transport allowances	6,088,549	-
UIF	1,098,272	-
WCA	1,254,496	-
	235,979,035	**-**

Remuneration of Municipal Manager

Annual Remuneration	593,696	-
Backpay	14,356	-
Acting Allowance	55,323	-
Housing subsidy	60,000	-
Contributions to UIF, Medical and Pension Funds	72,892	-
Other allowances and contributions	25,790	-
	822,057	**-**

Remuneration of Chief Finance Officer

Annual Remuneration	631,498	-
Backpay	12,840	-
Acting Allowance	50,624	-
Structured Bonuses	100,000	-
Contributions to UIF, Medical and Pension Funds	69,190	-
Leave payout	402,867	-
Other Allowances and contributions	140,023	-
	1,407,042	**-**

Remuneration of the Director: Technical Services

Annual Remuneration	532,565	-
Acting Allowance	118,804	-
Backpay	207,042	-
Contributions to UIF, Medical and Pension Funds	8,288	-
	866,699	**-**

Remuneration of the Director: Community and Social Services

Annual Remuneration	537,007	-
Acting Allowance	65,690	-
Bonuses	48,819	-
Contributions to UIF, Medical and Pension Funds	9,274	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

25. Employee related costs (continued)

Other Allowances	171,994	-
	832,784	**-**

Remuneration of the Director: Corporate and Support Services

Annual Remuneration	799,988	-
Backpay	9,184	-
Contributions to UIF, Medical and Pension Funds	190,005	-
Other Allowances and contributions	64,005	-
	1,063,182	**-**

Remenuration of the Director: Human Settlement

Annual Remuneration	625,376	-
Acting Allowance	62,374	-
Contributions to UIF, Medical and Pension Funds	130,935	-
Other Allowances and contributions	81,434	-
	900,119	**-**

Remuneration of the Director: Strategic Executive

Annual Remuneration	758,966	-
Backpay	9,717	-
Bonuses	100,000	-
Contributions to UIF, Medical and Pension Funds	201,171	-
Other Allowances and contributions	92,838	-
	1,162,692	**-**

Remuneration of the Director: IPED

Annual Remuneration	690,715	-
Acting Allowance	34,656	-
Contributions to UIF, Medical and Pension Funds	176,955	-
Other Allowances and contributions	165,536	-
	1,067,862	**-**

Remuneration of the Director: Safety

Annual Remuneration	1,123,407	-
Backpay	11,736	-
Acting Allowance	110,342	-
Contributions to UIF, Medical and Pension Funds	1,636	-
Other Allowances and contributions	11,436	-
	1,258,557	**-**

Remuneration of the Director: Legal Services

Annual Remuneration	622,227	-
Acting Allowance	21,806	-
Contributions to UIF, Medical and Pension Funds	130,935	-
Other	81,494	-
	856,462	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

26. Remuneration of councillors

Honourable Mayor	717,539	-
M-PAC	515,654	-
Chief Whip	547,488	-
Speaker	578,505	-
Councillors salaries	16,090,335	-
Ward Committee Members	2,380,782	-
Executive Committee Members	4,286,997	-
	25,117,300	**-**

27. Finance costs

Other interest paid	45,306	-

28. Repairs and Maintenance

Land and Buildings	1,913,918	-
Electricity	5,327,697	-
Machinery and Equipment	762,263	-
Plant and Machinery	3,268,729	-
Roads	1,736,243	-
	13,008,850	**-**

29. Bulk purchases

Electricity	188,015,205	-

30. Contracted services

Other Contractors	13,787,667	-

31. Grants and subsidies paid

Other subsidies		
Other	21,920,916	-

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

32. General expenses

Accomodation	2,589,514	-
Advertising	1,493,380	-
Assets expensed	488,195	-
Auditors remuneration	10,860,549	-
Bank charges	24,991,552	-
Capital expenditure	1,736,760	-
Chemical and laboratory services	91,953	-
Conferences and seminars	75,895	-
Consulting and professional fees	2,299,813	-
Consumables	1,031,768	-
Donations	137,500	-
Entertainment	883,427	-
Fuel and oil	7,607,706	-
Insurance	2,112,936	-
Levies	5,708,454	-
Medical expenses	9,692	-
Other expenditure	4,990,802	-
Postage and courier	561,944	-
Printing and stationery	1,241,742	-
Promotions	865,893	-
Protective clothing	347,128	-
Relocation costs	1,518,356	-
Rentals	2,747,673	-
Subscriptions and membership fees	19,015	-
Telephone and fax	5,265,222	-
Training	2,022,454	-
Travel - local	1,468,880	-
Utilities	1,456,779	-
Vehicle licenses	1,698,406	-
	86,323,388	**-**

33. Auditors' remuneration

Fees	10,860,549	-

34. Cash used in operations

Deficit	(550,590,568)	-
Adjustments for:		
Depreciation and amortisation	48,568,824	-
Gain on sale of assets and liabilities	8,864,209	-
Heritage assets adjustment	(38,270)	-
Fair value adjustments	(499,200)	-
Debt impairment	466,658,673	-
Changes in working capital:		
Decrease/(Increase) in Receivables from exchange transactions	(465,487,384)	-
Decrease/(Increase) in Receivables from non-exchange transactions	80,381,534	-
Decrease/(Increase) in VAT receivable	3,979,967	-
Increase/(decrease) in Trade and other payables	5,250,854	-
Decrease/(Increase in Unspent conditional grants and receipts	15,807,821	-
Increase/(decrease) in Consumer deposits	395,009	-
Increase/(decrease) in Employee benefit	50,777,826	-
	(335,930,705)	**-**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

35. Mergers

Mergers occurring during the current reporting period

On 06 August 2016 a merger between Tsolwana Local Municipality, Inkwanca Local Municipality and Lukhanji Local Municipality took place establishing a new combining entity called Enoch Mgijima Local Municipality. This was due to new legislation which determined that Tsolwana Local Municipality, Inkwanca Local Municipality and Lukhanji Local Municipality's assets and liabilities should be combined. No acquirer could be identified.

The results of the merger are included in the 2017 financial statements of the combined entities.

There is no comparative disclosure required as the combined entity only formed/existed in 2017.

Value of assets acquired and liabilities assumed

Assets acquired		
Property, plant and equipment	1,141,868,264	-
Investment property	291,608,199	-
Intangible assets	235,824	-
Heritage assets	1,049,100	-
Biological assets	5,651,900	-
Other financial assets	329,505	-
Cash and cash equivalents	117,266,393	-
Inventory	473,171	-
Receivables from exchange transactions	91,577,457	-
Receivables from non-exchange transactions	120,344,308	-
VAT receivables	20,466,029	-
	1,790,870,150	**-**
Liabilities assumed		
Finance lease obligation	185,374	-
Payables from exchange transactions	47,077,943	-
Consumer deposit	9,909,743	-
Provisions	36,022,032	-
Employee benefit obligation	77,709,357	-
Unspent conditional grants and receipts	23,600,918	-
	194,505,367	**-**
Accumulated surplus	**1,596,364,783**	**-**

On 06 August 2016 a merger between Tsolwana Local Municipality, Inkwanca Local Municipality and Lukhanji Local Municipality took place establishing a new combining entity called Enoch Mgijima Local Municipality. This was due to new legislation which determined that Tsolwana Local Municipality, Inkwanca Local Municipality and Lukhanji Local Municipality's assets and liabilities should be combined. No acquirer could be identified.

The results of the merger are included in the 2017 financial statements of the combined entities.

Comparative information is not required to be restated or adjusted.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	80,468,097	-
Total capital commitments		
Already contracted for but not provided for	80,468,097	-

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

37. Contingencies

The list of contingent liabilities is as follows:

- Lukhanji Municipality vs. Sikweyiya TS/ Blekiwe M, R100 000
- Lukhanji Municipality vs. Botha A, R30 000
- Lukhanji Municioality vs. Jan Draghoender, R1 042 926
- Lukhanji Municipality vs. Kali MH, R30 000
- Lukhanji Municipality vs. Malongwe KS, R30 000
- Lukhanji Municipaity vs. Mayat MY, R30 000
- Lukhanji Municipality vs. Motile A, R94 814
- Lukhanji Municipality vs. Das P&K, R30 000
- Lukhanji Municipality vs. SAMWU, R125 000
- Lukhanji Municipality vs. Siyahlutha Developers, R1 724 288
- Lukhanji Municipality vs. Luyolo Siyongwana, R100 000
- Lukhanji Municipality vs. Tyatyeka AN, R25 000
- Lukhanji Municipality vs. Tyaliti Family Trust, R50 000
- Lukhanji Municipaity vs. Van Heerden, R30 000
- Enoch Mgijima Municipality vs. Madlavu Phumla, R1 500 000
- Inkwanca/Enoch Mgijima Municipality vs. SAMWU obo Dywili, R933 165.56

Contingent assets

The list of contingent assets is as follows:

- Lukhanji Municipality vs. Bright Ideas Project (Mr & Mrs Yaka), R112 196.55

38. Related parties

Refer to note 27 and 28 for the disclosure of the remuneration of key management and members of councillors.

No councillors or staff disclosed that they were members of entities which were listed on the approved supplier database.

39. Risk management

Financial risk management

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

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

The Department of Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. There has not been any reviews conducted during the year which exposed the municipality to high financial risks. Further quantitative disclosures are included throughout these Annual Financial Statements.

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.

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

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

39. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. the municipality's exposure of its counterparties are monitored regularly.

Potential concetrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

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

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial assets in Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The maximum credit risk exposure inrespect of the relevant financial instruments is as follows::

Financial instrument	2017	2016
Receivables from exchange transactions	90,406,168	-
Receivables from non-exchange transactions	39,962,774	-
Cash and cash equivalents	42,999,666	-

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest charges. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penallty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

40. Events after the reporting date

There were no discloseable events after reporting date.

41. Unauthorised expenditure

Opening balance through transfer of functions/mergers	152,634,281	-
Unauthorised expenditure - current year	323,293,375	-
	475,927,656	**-**

The opening balance is brought forward from Lukhanji, Inkwanca and Tsolwana Municipality.

42. Fruitless and wasteful expenditure

Opening balance through transfer of functions/mergers	2,811,069	-
Fruitlesss and wasteful expenditure - current year	518,887	-
	3,329,956	**-**

The opening balance is brought forward from Lukhanji, Inkwanca and Tsolwana Municipality.

43. Irregular expenditure

Opening balance through transfer of functions/mergers	412,067,360	-
Add: Irregular Expenditure - current year	32,924,466	-
	444,991,826	**-**

The opening balance is brought forward from Lukhanji, Inkwanca and Tsolwana Municipality. All the irregular expenditure is under investigation, the expenditure was not condoned during the current year.

44. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Electricity losses	40,219,358	-

Audit fees

Current year subscription / fee	10,682,836	-
Amount paid - current year	(10,682,836)	-
	-	**-**

PAYE and UIF

Current year subscription / fee	25,645,571	-
Amount paid - current year	(25,645,571)	-
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	31,822,928	-
Amount paid - current year	(31,822,928)	-
	-	**-**

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

VAT

	2017	2016
VAT receivable	16,486,062	-

VAT output payables and VAT input receivables are shown in note 5.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor L.Nondyola	932	8,980	9,912
Councillor MS Hokolo	398	923	1,321
Councillor BG Rani	470	-	470
Councillor EN Tsotetsi	233	-	233
Councillor XP Mbasana	424	-	424
Councillor A.Seyisi	425	1,872	2,297
Councillor AV Bokuva	360	711	1,071
Councillor ZNE Ralane	148	8,969	9,117
	3,390	**21,455**	**24,845**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

46. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At amortised cost	Total

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

46. Financial instruments disclosure (continued)

Trade and other receivables from non-exchange transactions	90,406,168	90,406,168
Trade and other receivables from exchange transactions	39,962,774	39,962,774
Cash and cash equivalents	42,999,666	42,999,666
	173,368,608	**173,368,608**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	57,967,188	57,967,188
Consumer deposits	10,304,752	10,304,752
Unspent conditional grants and receipts	39,408,739	39,408,739
Finance leases	185,374	185,374
	107,866,053	**107,866,053**

47. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

Service Charges - The under collection on service charges is due to low revenue collection particularly during the first 2 months of the year due to strike

Rental of facilities and Equipment - Under collection is due to tenants owing the municipality in terms of their rental agreements

Interest received on debtors - The decrease is due to the recovery of some old debts through REVCO and also write off of indigent debtst

Agency Services - The small variance was due to the under recovery after the strike action

Other income - The big variance was due to insufficient funds in the surplus account of the municipality that was budgeted to be used in the budget.

Interest earned on Investment - The negative variance is due to a smaller amount placed investment than budgeted throughout the year

Property Rates - The small negative variances is due to the integration of the three billing systems of the former three entities

Licences & Permits - The small negative variance was due to the closure of the licence office for two months due to the strike action

Government Grants & Subsidies - The variance is due to grants not received such as MSIG, Provincial Department of Roads and Chris Hani small Town Revitalisation

Fines and Penalties - The positive variance is due to the collection of traffic fines in the second half of the year

Employee Related Costs - The negative variance on the employee related cost was due to Back Pay that was paid to employees

Remuneration of Councillors - The positive variance was due to the less councillors than expected after the amalgamation of the three former entities

Finance Costs - These are lease payments that have been capitalised

Notes to the Annual Financial Statements

47. Budget differences (continued)

Repairs & Maintenance - Repairs & Maintenance has been added to General expenditure in the budget hence only actuals is shown here

Bulk Purchases - Bulk Electricity Purchases reflects the actual usage and is a reflection of what was used . It shows that we have consumed less than anticipated

Contracted Services - Contracted services were overspent because of Red Guard Security who has to do extra guarding at times because of the strike action. Also BCX, the system administrators have to do extra work leading to the implementation of the m SCOA programme

Transfers & Subsidies paid - The big variance in the grants spent was due to the department of roads grant that was not received and hence was not spent

General Expenditure - The big variance was partly due to the inclusion of repairs and maintenance in the budget and the exclusion of same from the actuals as it has been reflected separately as actual above. Also some of the programmes planned for the year could not be executed because of shortage funds

Debt Impairments - The three former entities' all had debt that did not exist and needed to be written off, combining all this data caused these accounts to accumulated interest and become active causing an overstated debt.