MPOFANA MUNICIPALITY

Annual Financial Statements

for the year ended 30 June 2017

General Information

Nature of business and principal activities	Providing Municipal Services
Member of Council	
Mayor	XM Duma
Councillors	L Shabalala
	L Mkhize
	N Ndaba
	Z Ismail
	B Khumalo
	N Ndlovu
	N Mthalane
	ME Majola
Acting Chief Financial Officer (CFO)	Pitso Molefe
Registered office	10 Claughton Terrace Mooi River 3300
Municipal contact details	033 263 1221/7700 Mooi River 3300
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank
Auditors	The Auditor General of South Africa

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

Abbreviations

EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
INEP	Integrated National Electrification Programme
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Services
VAT	Value-Added Tax

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 were 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 on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the 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 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, but not absolute, assurance against material misstatement or deficit.

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

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of funding of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the the municipality's external auditors.

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

The financial statements set out on pages 5 to 51, which have been prepared on the going concern basis, were approved by the Council on 30 August 2017 and were signed on its behalf by:

Accounting Officer
M Moyo

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 51, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 31 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these Annual Financial Statements in accordance with Generally Recognised Accounting Practice (GRAP) in a manner required by local government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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.

Accounting Officer
M Moyo

Statement of Financial Position as at 30 June 2017

	Notes	2017 R	2016 R Restated
Assets			
Current Assets			
Inventories	2	230 831	261 035
VAT receivable	3	2 529 178	-
Other receivables	4	2 776 888	2 872 850
Receivables from non-exchange transactions	5	13 455 195	12 342 982
Loan receivable	6	399 638	399 638
Receivables from exchange transactions	7	25 371 984	19 172 146
Cash and cash equivalents	8	496 505	4 944 201
		45 260 219	39 992 852
Non-Current Assets			
Investment property	9	15 490 912	14 614 561
Property, plant and equipment	10	155 388 840	128 195 156
Intangible assets	11	1 122 689	3 469
Heritage assets	12	107 500	107 500
		172 109 941	142 920 686
Total Assets		217 370 160	182 913 538
Liabilities			
Current Liabilities			
Finance lease obligation	13	4 290 989	3 325 382
Payables from exchange transactions	14	64 744 470	26 134 902
Payables from non-exchange transactions	15	3 460 071	2 654 658
VAT payable	3	-	612 846
Consumer deposits	16	320 508	285 177
Employee benefit obligation	17	469 000	348 000
Unspent conditional grants and receipts	18	17 428 905	18 992 178
Provision	19	208 814	139 325
Current portion of long term liabilities	20	-	15 240
		90 922 757	52 507 708
Non-Current Liabilities			
Finance leases obligation	13	19 513 726	2 045 508
Employee benefit obligation	17	12 098 000	11 278 000
Provision	19	6 505 449	6 826 949
		38 117 175	20 150 457
Total Liabilities		129 039 932	72 658 165
Net Assets		88 330 228	110 255 373
Net Assets			
Accumulated surplus		88 330 228	110 255 373

MPOFANA MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

	Notes	2017 R	2016 R
Revenue			
Service charges	22	52 611 137	49 791 792
Rental of facilities and equipment	23	212 701	446 649
Licences and permits		3 201 926	1 484 236
Other income	24	902 786	1 864 642
Interest received	25	2 992 995	2 550 490
Property rates	27	11 009 083	10 646 915
Property rates - penalties imposed	27	2 672 640	2 406 165
Donations received		324 925	-
Government grants and subsidies	28	54 841 058	56 296 486
Fines, penalties and forfeits		7 078 495	8 691 200
Total revenue		135 847 746	134 178 575
Expenditure			
Employee related costs	30	(33 459 209)	(31 171 087)
Remuneration of councillors	31	(2 717 560)	(2 485 785)
Depreciation and amortisation	32	(12 941 504)	(9 574 154)
Impairment loss / Reversal of impairments	29	(112 443)	(81 554)
Finance costs	26	(385 413)	(248 829)
Debt impairment	33	(16 237 359)	(14 650 694)
Repairs and maintenance	52	(392 104)	(1 547 808)
Bulk purchases	34	(57 467 820)	(52 919 745)
Contracted services	35	(7 132 004)	(14 644 148)
Bank charges		(163 127)	(136 739)
Contributions to provisions	17,19	(251 989)	-
Loss on disposal of assets		(818 046)	(70 854)
General expenses	36	(29 724 966)	(17 787 620)
Total expenditure		(161 803 544)	(145 319 017)
Operating (deficit) surplus		(25 955 798)	(11 140 442)
Fair value adjustments		1 460 949	1 206 250
(Deficit) Surplus for the year		(24 494 849)	(9 934 192)

Statement of Changes in Net Assets

	Notes	Accumulated surplus R	Total net assets R
Accumulated Surplus		49 176 234	49 176 234
Revaluation Reserve		8 581 605	8 581 605
Restated Balance at 30 June 2014		57 757 839	57 757 839
Transfer from Revaluation Reserve		(8 581 605)	(8 581 605)
Surplus (Deficit) for the year		12 612 823	12 612 823
Investment property / Revaluation Reserve		4 068 467	4 068 467
Balance at 30 June 2015		65 857 524	65 857 524
Prior year adjustments:			
Statement of financial position		6 406 418	6 406 418
Investment property / Revaluation reserve adjustment		9 089 084	9 089 084
Restated Balance at 30 June 2015		81 353 026	81 353 026
Surplus (Deficit) for the year		(9 934 192)	(9 934 192)
Balance at 30 June 2016		71 418 834	71 418 834
Prior year adjustments:			
Statement of financial position	42	38 836 539	38 836 539
Restated Balance at 30 June 2016		110 255 373	110 255 373
Surplus (Deficit) for the year		(24 494 849)	(24 494 849)
Prior year adjustments:		2 569 704	2 569 704
Balance at 30 June 2017		88 330 228	88 330 228

Cash Flow Statement

	Notes	2017 R	2016 R Restated
Cash flows from operating activities			
Receipts			
Service charges		40 405 877	35 731 373
Property rates and penalties		11 457 302	18 527 499
Grants		53 277 785	57 726 000
Fines and penalties		909 525	7 106 583
Rentals and other income		4 180 352	4 119 926
Interest income		275 260	306 059
		110 506 100	123 517 440
Payments			
Employee costs		(31 384 254)	(30 438 142)
Remuneration of councillors		(2 717 560)	(2 485 785)
Suppliers		(57 284 855)	(71 161 928)
Finance costs		(385 413)	(248 829)
		(91 772 082)	(104 334 684)
Net cash flows from operating activities	39	18 734 018	19 182 756
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(40 400 298)	(27 401 897)
PPE prior year adjustments	10		(3 871 730)
Additions to heritage assets	12	-	(8 650)
Additions to intangible assets	11	(1 200 000)	
Net cash flows from investing activities		(41 600 298)	(31 282 277)
Cash flows from financing activities			
Receipt (Repayment) of long term liabilities		(15 240)	(51 984)
Receipt (Repayment) of finance leases obligations		18 433 825	4 920 772
Net cash flows from financing activities		18 418 585	4 868 788
Net increase/(decrease) in cash and cash equivalents		(4 447 695)	(7 230 733)
Cash and cash equivalents at the beginning of the year		4 944 201	12 174 934
Cash and cash equivalents at the end of the year	8	496 506	4 944 201

Statement of Comparison of Budget and Actual Amounts

(Budget prepared on a Cash Basis)

	Approved Budget	Adjustments Note	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Explanation of variances
	R	R	R	R	R	
Statement of Financial Performance						
Revenue by Source						
Property rates	11 109 000	483 000	11 592 000	11 009 083	(582 917)	Outdated information for farmers and increase debt for Government debt
Property rates - penalties & collection charges	2 309 000	422 000	2 731 000	2 672 640	(58 360)	Revenue strategies did not materialise
Service charges - electricity revenue	51 941 000	2 067 000	54 008 000	49 470 410	(4 537 590)	Electricty Losses due to illegal connections
Service charges - refuse revenue	3 127 000	0	3 127 000	3 140 727	13 727	Not significant
Rental of facilities and equipment	697 000	(460 000)	237 000	212 701	(24 299)	Hostel dwellers who occupied the town hall led to a substantial decrease in the rental collected
Interest earned - external investments	2 000	371 000	373 000	275 260	(97 740)	Withdrawal on investments accounts for operatonal use
Interest earned - outstanding debtors	2 222 000	501 000	2 723 000	2 717 736	(5 264)	Revenue strategies did not materialise
Fines	7 724 000	0	7 724 000	7 078 495	(645 505)	Mobile camera was not working for two months
Licences and permits	3 400 000	300 000	3 700 000	3 201 926	(498 074)	Vacant position at testing and licencing department
Transfers recognised - operating	39 640 000	0	39 640 000	41 364 474	1 724 474	Operating grants not gazzetted on DORA provided by Department of A&C, Public Works
Other revenue	5 686 000	(100 000)	5 586 000	14 704 295	9 118 295	Increase in rates clearances revenue and testing ground revenue since it was closed the previous year
Revenue excluding capital transfers	127 857 000	3 584 000	131 441 000	135 847 746	4 406 746	
Expenditure by Type						
Employee related costs	(32 908 000)	0	(32 908 000)	(33 459 209)	551 209	Increase in overtime because of vacancies. Acting allowance not budgeted for.
Remuneration of councillors	(2 449 000)	(586 000)	(3 035 000)	(2 717 560)	(317 440)	MEC Cogta did not approve increase of councilllers as per determination of upper limits
Debt impairment	(25 947 000)	0	(25 947 000)	(16 237 359)	(9 709 641)	Over budgeted as it was anticipated that more impairments would occur - however this was not the case
Depreciation and asset impairment	(6 304 000)	(8 000)	(6 312 000)	(13 053 947)	6 741 947	On preparation of budget depreciation was not estimated correctly
Finance charges	(677 000)	0	(677 000)	(385 413)	(291 587)	DBSA loan was paid up in the current year
Bulk purchases	(55 934 000)	(10 251 000)	(66 185 000)	(57 467 820)	(8 717 180)	Electricity revenue is low due to transmission losses and increase in electricity theft.
Contracted services	(3 400 000)	(2 580 000)	(5 980 000)	(7 132 004)	1 152 004	Termination of the ABSA Fleet services and New Fleet services appointement led to two services running concurrently for a number of months.
Other expenditure	(6 308 000)	(4 826 000)	(11 134 000)	(31 350 232)	20 216 232	Increase in hiring of equipment and in grant expenditure
Total expenditure	(133 927 000)	(18 251 000)	(152 178 000)	(161 803 544)	9 625 544	
Operating surplus (deficit)	(6 070 000)	(14 667 000)	(20 737 000)	(25 955 798)	14 032 290	
Transfers recognised - capital	18 680 000	0	18 680 000	11 680 000	(7 000 000)	No additional MIG allocation was received in the current year
Surplus / (Deficit) for the year	12 610 000	(14 667 000)	(2 057 000)	(14 275 798)	7 032 290	

Note

Adjustments to the original approved budget were necessary because it had not been prepared accurately.

Accounting Policies

1. Presentation of Financial Statements

The 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 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 financial statements, are disclosed below.

1.1 Presentation currency

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

1.2 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements.
Components include:
Debt impairments
PPE impairments

Accounting Policies

1.4 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.
Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.
Investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.
Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property.
If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.
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 measurement

Investment property is measured the fair value model and shall measure all of its property at fair value.
The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale.
An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

Derecognition

Aninvestment property will be derecognised (eliminated from the Statement of Financial Position) 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.
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 drecognised.

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Average useful life
Buildings	5 - 25 years
Infrastructure	3 - 60 years
Leased assets	3 - 5 years
Other property, plant & equipment	3 - 10 years

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

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property,plant and equipment. Such obligations are referred to as "decommissioning, restoration and similar liabilities". The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either hen the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of the asset, the municipality considers whether this is anindication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amountor recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

The municipality has a landfill site which it is obligated to rehabilitate at the end of its useful life.

1.7 Intangible assets

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.
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.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the the amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, internally generated	2 years
Computer software, other	2 years

Intangible assets are initially recognised at cost, and are carried at cost less any accumulated amortisation and any impairment losses.
An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable the asset will flow to the municipality, and the cost can be measured reliably.
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 is the difference between the net disposal proceeds, if any, and the carrying amount., and is recognised in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

A heritage asset is defined as an asset that has a cultural, environmental,historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.
Heritage assets are considered to be indefinite assets and are therefore not depreciated.

Initial recognition
The cost of an item of heritage assets is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.
Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of an asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable

1.8 Heritage assets (continued)

to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality.
Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.
Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.
The cost of an item of heritage assets acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident.
If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent measurement
Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequently all heritage assets are measured at cost, less accumulated impairment losses or fair value if the initial cost cannot be measured reliably.

Derecognition
The carrying amount of an item of heritage assets is 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 derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

1.9 Financial instruments

Classification
The municipality classifies financial assets and financial liabilities into the following categories:
• Held-to-maturity investment financial assets
• Loans and receivables financial assets
• Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Recognition
Financial assets and financial liabilities are initially recognized on the statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

Measurement
When a financial asset or financial liability is recognized initially, the municipality measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal business considerations.

Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.
If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs.
It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Accounting Policies

1.9 Financial instruments (continued)

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the municipality applies the following to determine the amount of any impairment loss:

Financial assets carried at amortized cost: If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortized 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 (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in surplus or deficit.

Financial assets carried at cost: If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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.

Available-for-sale financial assets: When a decline in the fair value of an available-for-sale financial asset has been recognized in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognized.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the municipality has the positive intention and ability to hold to maturity.
Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized 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, the municipality estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.
Loans and receivables are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized 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, the municipality estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Available-for-sale financial assets
Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.
Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognized in accumulated surplus.
Impairment losses, interest income and dividend income are reported in surplus or deficit.

Other financial liabilities
Other financial liabilities are subsequently measured at amortized cost using the effective interest method.
The effective interest method is a method of calculating the amortized 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, the municipality estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

1.9 Financial instruments (continued)

De-recognition

Financial assets

A financial asset is de-recognized where the contractual rights to receive cash flow from the asset have expired, or the municipality has transferred the asset and the transfer qualifies for de-recognition. A transfer qualifying for de-recognition occurs when the municipality transfers the contractual rights to receive the cash flows of the financial asset. Where the municipality has transferred its rights to the cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the municipality's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Categorization

The municipality has various types of financial instruments and these can be broadly categorized as either financial assets or financial liabilities.
A financial asset is any asset that is:
cash;
a contractual right to receive cash or to receive another financial asset from another entity;
a contractual right to exchange financial instruments on potentially favorable terms;
an equity instrument of another entity;
a contract that may or will be settled in the entity's own equity instruments (subject to certain conditions).
The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:
Loans and receivables
Consumer debtors
Other receivables
Call investment deposits
The financial assets of the municipality are classified as follows into one of the four categories allowed by this standard:

Type of financial asset	Classification in terms of GRAP 104
Loans and receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other receivables	Loans and receivables
Call investment deposits	Available for sale

A financial liability is any liability that is:
- a contractual obligation to deliver cash or to deliver another financial asset;
- a contractual obligation to exchange financial instruments on potentially unfavorable terms;

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
Long term liabilities
Trade and other payables
Consumer deposits
Unspent conditional grants
Bank overdraft

There are two main categories of financial liabilities, classified based on how they are measured.
Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.
The financial liabilities of the municipality are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

Type of financial liability	Classification in terms of GRAP 104
Long term liabilities	Financial liability that is not measured at fair value through profit or loss
Trade and other payables	Financial liability that is not measured at fair value through profit or loss
Consumer deposits	Financial liability that is not measured at fair value through profit or loss
Unspent conditional grants	Financial liability that is not measured at fair value through profit or loss
Bank overdraft	Financial liability that is not measured at fair value through profit or loss

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.
When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.
The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.
Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

1.10 Leases (continued)

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.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.
Subsequently inventories are measured at the lower of cost and net realisable value.
Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.
Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.
Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.
The cost of inventories comprises 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.
Ehen 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.

1.12 Impairment of cash-generating assets
Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.
Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).
Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

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

Identification

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

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.

Basis for estimates of future cash flows

In measuring value in use the municipality:
bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows

Discount rate

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

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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.

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.
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.
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.

1.13 Impairment of non-cash-generating assets
Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.
Non-cash-generating assets are assets other than cash-generating assets.
Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).
Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.
Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.
Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)
Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
Useful life is either:
(a)the period of time over which an asset is expected to be used by the municipality; or
(b)the number of production or similar units expected to be obtained from the asset by the municipality.

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

Recognition and measurement
If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.
An impairment loss is recognised immediately in surplus or deficit.
When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.
After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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

1.14 Provisions and contingencies

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

1.14 Provisions and contingencies (continued)

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The 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.

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised.

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

1.15 Revenue from exchange transactions (continued)

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

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

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

Service 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.

1.16 Revenue from non-exchange transactions
Non-exchange transactions are defined as transactions where the municipality receives value from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualidies for recognition as an asset and there is no liability to repay the amount.
Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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

1.18 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.

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

1.20 Unauthorised expenditure
Unauthorised expenditure means:
overspending of a vote or a main division within a vote

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

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

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

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

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

1.22 Irregular expenditure (continued)

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

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

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

1.23 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. Sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Investments

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

1.25 Conditional grants and receipts

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

1.26 Budget information

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

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

The 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 financial statements.

1.27 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.
Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.
Key management personnel - their costs are disclosed in note 30.

1.28 Employee benefits

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

Retirement Funds

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi-employer funds

Defined Contribution Funds

Where an employee has rendered services to the municipality during the year, the municipality recognizes the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

Defined Benefit Plans

The municipality does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.
To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

The municipality provides post-retirement benefits by subsidizing the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

Defined contribution plans

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.
Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.
Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortized on a straight line basis over the average period until the amended benefits become vested.
To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.
Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the municipality is demonstrably committed to curtailment or settlement.
When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.
The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduces by the fair value of plan assets.
Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Accounting Policies

1.28 Employee benefits (continued)

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognize:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

Post-employment benefits: Defined contribution plans

Defined benefit plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (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 entity during a reporting period, the entity recognises 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 entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash fund; 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.

1.29 Prior period error accounting

Prior period errors are omssions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, available reliable information.

Unless it is impracticable to determine the effects of the error, the municipality corrects material prior period errors retrospectively by restating the comparative amounts for the prior period.

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 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

1.31 Commitments (continued)
Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity –therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

2. New standards and interpretations
2.1 Standards and interpretations effective and adopted in the current year
In the current year, the municipality has adopted standards and interpretations that are effective for the current financial year and that are relevant to its operations:
2.2 Standards and interpretations issued, but not yet effective
The municipality has not applied standards and interpretations which have been published and are only mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:
GRAP 20 - Related Party Disclosures
GRAP 32 - Service Concession Arrangements : Grantor
GRAP 108 - Statutory Receivables
GRAP 109 - Accounting by Principals and Agents

Notes to the Financial Statements

	2017 R	2016 R Restated

2. Inventories

Consumable stores	230 831	261 035

3. VAT receivable (payable)

South African Revenue Service	2 529 178	(612 846)

VAT is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

4. Other receivables

Fines	28 086 228	21 917 258
Sundry debtors	352 841	215 780
Allowance for impairment - fines	(25 662 181)	(19 260 188)
Allowance for impairment - sundry debtors		
	2 776 888	2 872 850

5. Receivables from non-exchange transactions

Gross balances		
Rates	26 910 384	24 685 963
Less: Allowance for impairment		
Rates	(13 455 189)	(12 342 982)
Net balance		
Rates	13 455 195	12 342 981
Rates		
Current (0 -30 days)	1 409 243	1 295 447
31 - 60 days	462 862	471 278
61 - 90 days	416 674	386 106
91 - 120 days	24 621 605	22 533 132
	26 910 384	24 685 963

Reconciliation of allowance for impairment

Balance at beginning of the year	(12 342 982)	(13 713 492)
Contributions to allowance	(1 112 213)	1 370 510
Balance at end of the year	(13 455 195)	(12 342 982)

Notes to the Financial Statements

	2017 R	2016 R
6. Loan receivable		
uMgungundlovu District Municipality	399 638	399 638
7. Receivables from exchange transactions		
Gross balances		
Electricity	8 719 543	5 273 578
Refuse	15 366 886	12 560 175
Sundry debtors	45 954 293	37 283 973
	70 040 722	55 117 726
Less: Allowance for impairment		
Electricity	(1 743 908)	(1 054 676)
Refuse	(10 756 820)	(8 792 123)
Sundry debtors	(32 168 010)	(26 098 781)
	(44 668 738)	(35 945 580)
Net balance		
Electricity	6 975 635	4 218 902
Refuse	4 610 066	3 768 052
Sundry debtors	13 786 283	11 185 192
	25 371 984	19 172 146
Electricity		
Current (0 -30 days)	2 910 742	1 787 691
31 - 60 days	474 240	322 607
61 - 90 days	411 662	182 563
91 - 120 days	4 922 899	2 980 717
	8 719 543	5 273 578
Refuse		
Current (0 -30 days)	559 880	567 720
31 - 60 days	262 712	262 604
61 - 90 days	259 217	260 946
91 - 120 days	14 285 077	11 468 904
	15 366 886	12 560 174
Sundry debtors		
Current (0 -30 days)	1 066 851	909 169
31 - 60 days	525 910	437 310
61 - 90 days	504 125	432 901
91 - 120 days	43 857 407	35 504 593
	45 954 293	37 283 973
Reconciliation of allowance for impairment		
Balance at beginning of the year	(35 945 580)	(26 620 308)
Contributions to allowance	(8 723 158)	(9 325 272)
Balance at end of the year	(44 668 738)	(35 945 580)

Notes to the Financial Statements

8. Cash and cash equivalents

	2017 R	2016 R Restated
Cash and cash equivalents consist of:		
Cash on hand	-	-
Bank balances	496 505	4 944 201
	496 505	4 944 201

The municipality had the following bank accounts:

Account number / description	Bank Statement balance R	General Ledger balance R
30 June 2017		
First National Bank - Current account - 53050399907	357 892	362 866
First National Bank - Current account - 62101108034	24 856	24 856
First National Bank - Call account - 62187203957	19 326	19 326
First National Bank - Call account - 62237621760	449	449
First National Bank - Investment - 74630870406	16 018	16 018
First National Bank - Call account - 62172488085	36 856	36 856
First National Bank - Call account - 62141712001	1 376	1 376
First National Bank - Call account - 62172498183	16 169	16 168
First National Bank - Call account - 62134172890	4 345	4 345
First National Bank - Call account - 62172493935	1 181	1 181
First National Bank - Call account - 62036716746	215	215
First National Bank - Call account - 62173946040	5 278	5 278
First National Bank - Call account - 62066847553	7 571	7 571
Total	491 532	496 505
30 June 2016		
First National Bank - Current account - 53050399907	2 096 789	2 096 789
First National Bank - Current account - 62101108034	70 807	70 807
First National Bank - Call account - 62187203957	18 664	18 664
First National Bank - Call account - 62237621760	449	449
ABSA Bank - Investment - 6303799366	962 256	962 256
First National Bank - Call account - 62172488085	510 311	510 311
First National Bank - Call account - 62141712001	1 376	1 376
First National Bank - Call account - 62172498183	205 493	205 493
First National Bank - Call account - 62134172890	4 345	4 345
First National Bank - Call account - 62172493935	1 181	1 181
First National Bank - Call account - 62036716746	215	215
First National Bank - Call account - 62173946040	5 095	5 095
First National Bank - Call account - 62066847553	1 067 220	1 067 220
Total	4 944 201	4 944 201

Notes to the Financial Statements

9. Investment property

	2017 Cost	2017 Accumulated depreciation and accumulated impairment	2017 Carrying value	2016 Cost	2016 Accumulated depreciation and accumulated impairment	2016 Carrying value
Investment property	15 490 912	0	15 490 912	14 614 561	0	14 614 561

Reconciliation of investment property - 2017

	Opening balance	Additions	Adjustment	Total
Investment property	14 614 561		876 351	15 490 912

Reconciliation of investment property - 2016

	Opening balance	Transfers	Adjustment	Total
Investment property	19 995 750	(6 587 439)	1 206 250	14 614 561

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.
The municipality recognises Investment Property initially at cost and subsequently measures it at fair value.
The fair valuation was performed by the Professional Independent Valuers (Mills Fitchet) as at 30 June 2017.
The valuation is based on the market evidence as per the report available at the registered office of the municipality.
Repairs and maintenance on the investment properties are done by the lessees.

10. Property, plant and equipment

	2017 Cost	2017 Accumulated depreciation and accumulated impairment	2017 Carrying value	2016 Cost	2016 Accumulated depreciation and accumulated impairment	2016 Carrying value
Land	4 742 716	(110 000)	4 632 716	4 742 716	-	4 742 716
Buildings	9 984 654	(5 534 132)	4 450 522	8 807 370	(5 252 721)	3 554 649
Buildings held at fair value	7 172 037	-	7 172 037	6 587 439	-	6 587 439
Infrastructure	194 290 822	(90 206 284)	104 084 538	169 988 277	(81 014 645)	88 973 632
Other property, plant and equipment	10 265 900	(6 514 619)	3 751 281	9 003 889	(5 689 757)	3 314 132
Capital work in progress	7 144 695	-	7 144 695	15 447 810	-	15 447 810
Finance lease assets	27 095 971	(4 395 754)	22 700 217	10 561 918	(6 986 205)	3 575 713
Landfill site	8 194 036	(6 741 202)	1 452 834	8 194 036	(6 194 971)	1 999 065
Total	268 890 831	(113 501 991)	155 388 840	233 333 455	(105 138 299)	128 195 156

Buildings held at fair value
As described, these are stated at fair value.
Some years ago Council resolved to transfer certain houses to the occupants thereof.
The buildings stated above are houses which have not yet been transferred to the occupants.

Notes to the Financial Statements

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Expenditure on uncompleted projects	Depreciation	Impairment loss	Total
Land	4 742 716						(110 000)	4 632 716
Buildings	3 554 649	803 235		374 049		(261 960)	(19 451)	4 450 522
Buildings held at fair value	6 587 439						584 598	7 172 037
Infrastructure	88 973 632			24 302 546		(9 208 648)	17 008	104 084 538
Other property, plant and equipment	3 314 132	1 464 376	(6 978)			(1 020 249)		3 751 281
Capital work in progress	15 447 810	16 373 480		(24 676 595)				7 144 695
Finance lease assets	3 575 713	21 759 207	(811 067)			(1 823 636)		22 700 217
Landfill site	1 999 065					(546 231)		1 452 834
Total	128 195 156	40 400 298	(818 045)	-	0	(12 860 724)	472 155	155 388 840

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Prior year adjustments	Depreciation	Impairment loss	Total
Land	3 318 590	-	(77 814)	-	1 501 940	-	-	4 742 716
Buildings	1 143 618	47 223	(2 934)	2 585 948		(219 206)	-	3 554 649
Buildings held at fair value	-			6 587 439				6 587 439
Infrastructure	37 564 882	516 518	(373)	17 173 850	37 792 456	(4 004 676)	(69 025)	88 973 632
Other property, plant and equipment	3 901 298	653 550			26 304	(1 254 490)	(12 530)	3 314 132
Capital work in progress	11 458 928	23 748 680		(19 759 798)		-	-	15 447 810
Finance lease assets	2 929 002	1 251 372			607 141	(1 211 802)	-	3 575 713
Landfill site	916 325	1 184 554				(101 814)	-	1 999 065
Total	61 232 643	27 401 897	(81 121)	6 587 439	39 927 841	(6 791 988)	(81 555)	128 195 156

11. Intangible assets

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Computer software	1 272 258	(149 569)	1 122 689	72 258	(68 789)	3 469

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Depreciation Impairment	Total
Computer software	3 469	1 200 000	(80 780)	1 122 689

Reconciliation of intangible assets - 2016

	Opening balance	Corrections	Impairment loss	Total
Computer software	5 209		(1 740)	3 469

Notes to the Financial Statements

12. Heritage assets

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Mayoral chain	107 500	-	107 500	107 500	-	107 500

Reconciliation of heritage assets - 2017

	Opening balance	Corrections	Revaluation increase	Total
Mayoral chain	107 500			107 500

Reconciliation of heritage assets - 2016

	Opening balance	Additions	Revaluation increase	Total
Mayoral chain	98 850	-	8 650	107 500

Notes to the Financial Statements

	2017 R	2016 R Restated

13. Finance leases obligation

Minimum lease payments due		
- within one year	6 436 204	3 704 901
- in second to fifth year inclusive	23 274 193	2 360 804
	29 710 397	6 065 705
Less: Future finance charges and maintenance	(5 905 682)	(694 815)
Present value of minimum lease payments	23 804 715	5 370 890
Present value of minimum lease payments due		
- within one year	4 290 989	3 325 382
- in second to fifth year inclusive	19 513 726	2 045 508
	23 804 715	5 370 890
Non-current liabilities	19 513 726	2 045 508
Current liabilities	4 290 989	3 325 382
	23 804 715	5 370 890

The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date.

14. Payables from exchange transactions

Trade payables	55 538 980	22 645 681
Sundry creditors	1 316 217	281 740
Debtor payments received in advance	4 343 696	1 787 949
Retentions	3 475 357	1 419 532
Unallocated receipts	70 220	-
	64 744 470	26 134 902

15. Payables from non-exchange transactions

Leave pay provision	3 460 071	2 654 658

<u>Reconciliation</u>

Opening balance	2 654 658	2 236 713
Additions	805 413	417 945
Encashed	-	-
Closing balance	3 460 071	2 654 658

The provision is for the obligation for leave due to staff members at year end, based on staff salaries and days leave due.
The timing and amounts of any resulting outflows of economic benefits cannot be estimated.

16. Consumer deposits

Electricity	312 719	276 638
Other	7 789	8 539
	320 508	285 177

17. Employee benefit obligations

Defined benefit plan

<u>Post retirement medical aid plan</u>
The Council operates a defined medical aid benefit scheme for the benefit of employees.
Post-retirement medical aid benefits are offered to qualifying employees by subsidising a portion of the medical aid contribution after retirement.
The municipality is committed to pay subsidies broadly as follows:
- 60% to current employees
- 60% /100% to current continuation retirees
- widow(er)s and orphans of current employees are entitled to continue at 60% or 100%, the subsidy upon the death of the pensioner.

	2017	2016
	R	R

17. Employee benefit obligations (continued)

Long service bonus awards
The long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service. This obligation represents a liability to the municipality and the value is represented by the present value of the total long service bonus awards expected to become payable under the municipality's current policy.
The municipality offers bonuses for every five years of completed service from ten to forty five years. Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed.
It has been assumed in all cases that employees choose to exercise the option to wholly convert their accumulated leave days bonus into cash.

The most recent actuarial valuation was performed for the above mentioned obligations on 30 June 2017 by One Pangaea Financial using the Projected Unit Credit Method.
The full obligation has been recognised as at the date of the Statement of Financial Position.
The aggregate amounts recognised in the Statement of Financial Position are as follows:

Carrying value	2017	2016
Opening balance	(11 626 000)	(11 223 000)
Current service cost	(812 000)	(724 000)
Interest cost	(1 087 000)	(1 020 000)
Benefit payment	348 000	439 000
Actuarial gain/loss	610 000	902 000
	(12 567 000)	(11 626 000)

17.1 Post-retirement medical aid	2017	2016
Opening balance	(10 159 000)	(9 962 000)
Current service cost	(627 000)	(570 000)
Interest cost	(956 000)	(917 000)
Benefit payment	302 000	344 000
Actuarial gain/loss	777 000	946 000
	(10 663 000)	(10 159 000)

17.2 Long service bonus awards	2017	2016
Opening balance	(1 467 000)	(1 261 000)
Current service cost	(185 000)	(154 000)
Interest cost	(131 000)	(103 000)
Benefit payment	46 000	95 000
Actuarial gain/loss	(167 000)	(44 000)
	(1 904 000)	(1 467 000)

Non current	2017	2016
Post-retirement medical aid	10 282 000	9 857 000
Long service bonus awards	1 816 000	1 421 000
Total	12 098 000	11 278 000

Current	2017	2016
Post-retirement medical aid	381 000	302 000
Long service bonus awards	88 000	46 000
Total	469 000	348 000

Notes to the Financial Statements

17. Employee benefit obligations (continued)	2017 R	2016 R
Assumptions used at the reporting date:		
Discount rate used	11.11%	9.55%
Health care cost inflation	8.04%	7.06%
Consumer price index	9.54%	8.56%
Retirement age		
Female	63	63
Male	63	63
Number of eligible members	126	120
Number of pensioners	9	9

Other assumptions - post retirement medical aid
It is assumed that healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit.

Other assumptions - long service bonus awards
The valuation bases assumed that the salary inflation rate (which manifests itself as an annual increase in employees' salaries which determine the bonuses payable) will be 0,09% less than the corresponding discount rate in the long term.

Defined contribution plan
Certain Councillors and Certain employees belong to defined benefit plan of the Natal Joint Superannuation and Retirement funds, and the Municipal Councillors' Pension Fund. Employees of Mpofana make up less than 1 % of the total members of the funds. Mpofana's liability in these funds could not be determined owing mainly to the the assets not being allocated to each Municipality and one set of financials being prepared for each fund and not per municipality. These funds are subject to a triennial acturial valuation. The last statutory valuation was performed in March 2015 on the Retirement and Provident Funds and in March 2014 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2015.

SUPERANNUATION FUND
The actuarial value of total assets was R10 113.227 million at the acturial date.
1. surplus of R 0.00 million in respect of pensioners (funding level 100.0%)
2. surplus of R 0.00 million in respect of members (funding level 100 %)
3. the fund was thus 100,0% funded
4. the fund did not hold an investment reserve.
5. the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future service by 1,41% of member's pensionable emoluments
6. An additional contribution by way of a surcharge amounting to 9.5% of salaries is currently in place to fund the deficit.This surcharge will build up the Solvency Reserve.

RETIREMENT FUND
The actuarial value of total assets was R3 650.776 million at the actuarial valuation date.
1. surplus of R 0.00 in respect of pensioners (funding level 100,0%)
2. deficit of R 148.694 million in respect of members (funding level 91.1%)
3. the fund was thus 96.1 funded
4. the fund did not hold an investment reserve
5. the total contirbution rate payable will include a surcharge of 17.5% payable to reduce the deficit in the fund.

PROVIDENT FUND
The actuarial value of total assets was R2 636.064 million at the actuarial valuation date.
1. surplus/deficit of R 0.00 and the funding level is 107.4%
2. the fund was thus 107.4 funded
3. the fund did not hold an investment reserve

Notes to the Financial Statements

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2017 R	2016 R Restated
Craigieburn Housing Project Grant	5 840 388	5 840 388
Municipal Assistance Grant -Small Town Grant	3 186 725	4 983 309
Townview Housing Project Grant	8 168 481	8 168 481
Learnership Awareness Programme Grant	211 900	-
Library subsidy	21 411	-
	17 428 905	18 992 178

See note 28 for income recognised and more information.

	2017 R	2016 R Restated
Municipal Systems Improvement Grant		
Balance at the beginning of the year	-	-
Additions during the year	-	934 000
Income recognised during the year	-	(934 000)
Balance at the end of the year	0	0
Municipal Assistance Small Town Grant		
Balance at the beginning of the year	4 983 309	5 000 000
Additions during the year	-	3 000 000
Prior year adjustment	-	(716 866)
Income recognised during the year	(1 796 584)	(2 299 825)
Balance at the end of the year	3 186 725	4 983 309
Townview Housing Project Grant		
Balance at the beginning of the year	8 168 481	8 168 481
Additions during the year	-	-
Income recognised during the year	-	-
Balance at the end of the year	8 168 481	8 168 481
Craigieburn Housing Project Grant		
Balance at the beginning of the year	5 840 388	5 840 388
Additions during the year	-	-
Income recognised during the year	-	-
Balance at the end of the year	5 840 388	5 840 388
Financial Management Grant		
Balance at the beginning of the year	-	-
Additions during the year	1 825 000	1 800 000
Income recognised during the year	(1 825 000)	(1 800 000)
Balance at the end of the year	0	-
Library Grant		
Balance at the beginning of the year	-	-
Additions during the year	947 000	928 000
Income recognised during the year	(925 589)	(928 000)
Balance at the end of the year	21 411	-
Municipal Infrastructure Grant		
Balance at the beginning of the year	-	-
Additions during the year	11 680 000	16 295 000
Income recognised during the year	(11 680 000)	(16 295 000)
Balance at the end of the year	0	-
Integrated National Electrification Programme		
Balance at the beginning of the year	-	-
Additions during the year	8 000 000	6 000 000
Income recognised during the year	(8 000 000)	(6 000 000)
Balance at the end of the year	0	-

	2017	2016
	R	R
18. Unspent conditional grants and receipts (continued)		
Museum Grant		
Balance at the beginning of the year	-	-
Additions during the year	175 000	166 000
Income recognised during the year	(175 000)	(166 000)
Balance at the end of the year	0	-
Expanded Public Works Programme Grant		
Balance at the beginning of the year	-	120 941
Additions during the year	1 000 000	1 000 000
Income recognised during the year	(1 000 000)	(1 120 941)
Balance at the end of the year	0	-
Learnership Awareness Programme Grant		
Balance at the beginning of the year	-	-
Additions during the year	1 931 653	-
Income recognised during the year	(1 719 753)	-
Balance at the end of the year	211 900	-
Skills Development Grant		
Balance at the beginning of the year	-	-
Additions during the year	26 132	-
Income recognised during the year	(26 132)	-
Balance at the end of the year	0	-

19. Provisions

Reconciliation of provisions

	2017	2016
Provision for landfill site		
Balance at the beginning of the year	6 966 274	5 676 869
Additions during the year	(252 011)	1 289 405
Utilised during the year	-	-
Balance at the end of the year	6 714 263	6 966 274
Non current	6 505 449	6 826 949
Current	208 814	139 325
	6 714 263	6 966 274

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be the case soon.
A discounting factor based on prime interest and adjustment for municipal specific risk was applied.

20. Annuity loan

	2017	2016
Balance at year end	-	15 239
Less: Current portion transferred to current liabilities	-	(15 239)
Long term portion	-	-

The municipality received five loans from the Development Bank Of Southern Africa (DBSA) to fund water,electricity and sewage expenditure. The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however all the loans have different fixed interest rates. The interest rates are between 15.50% and 16.32% per annum, payable every six months.
Three of the five loans received were recoverable from the uMgungundlovu District Municipality as the water and sanitation functions were ceded to the uMgungundlovu District Municipality.

21. Revenue

	2017	2016
Fines, penalties and forfeits	7 078 495	8 691 200
Government grants and subsidies	54 841 057	56 296 486
Interest received - investments	275 260	306 059
Interest received - late payment	2 717 736	2 244 431
Licences and permits	3 201 926	1 484 236
Other income	902 786	1 864 642
Property rates	11 009 083	10 646 915
Property rates - penalties imposed	2 672 640	2 406 165
Rental of facilities and equipment	212 701	446 649
Donations received	324 925	-
Service charges	52 611 137	49 791 792
	135 847 745	134 178 575

Notes to the Financial Statements

	2017 R	2016 R
21. Revenue (continued)		
The amounts included in revenue arising from exchanges of goods and services are as follows:		
Interest received - investments	2 992 995	2 550 490
Licences and permits	3 201 926	1 484 236
Other income	902 786	1 864 642
Rental of facilities and equipment	212 701	446 649
Service charges	52 611 137	49 791 792
	59 921 546	56 137 809
The amounts included in revenue arising from non-exchanges of goods and services are as follows:		
Donations received	324 925	-
Property rates - penalties imposed	2 672 640	2 406 165
Property rates	11 009 083	10 646 915
Government grants and subsidies	54 841 057	56 296 486
Fines, penalties and forfeits	7 078 495	8 691 200
	75 926 200	78 040 766

22. Service charges

	2017 R	2016 R
Refuse removal	3 140 727	3 243 384
Sale of electricity	49 470 410	46 548 408
	52 611 137	49 791 792

23. Rental of facilities and equipment

	2017 R	2016 R
Premises	207 438	437 801
Venue hire	5 263	8 848
	212 701	446 649

24. Other income

	2017 R	2016 R
Sundry income	243 074	1 085 122
Income from N3TC	659 712	779 520
	902 786	1 864 642

25. Interest received

	2017 R	2016 R
<u>Interest</u>		
Banks	275 260	209 230
Consumer debtors	2 717 736	2 244 431
Other	-	96 829
	2 992 995	2 550 490

Notes to the Financial Statements

26. Finance costs

	2017 R	2016 R
Finance leases and external loan	385 413	139 527
Bank overdraft	-	4 451
Provision for landfill site (unwinding)	-	104 851
	385 413	248 829

27. Property rates

	2017 R	2016 R
Rates raised		
Commercial	2 744 515	2 485 968
Communal property land	(60 970)	209 099
Hospitality and tourism	1 059 148	1 069 339
Agricultural	6 866 907	6 405 700
Public benefit organisation	742 366	661 321
Residential	8 523 723	7 840 698
State	283 056	286 309
Less: Income forgone (rate rebate)	(9 149 662)	(8 311 519)
	11 009 083	10 646 915
Property rates - penalties imposed	2 672 640	2 406 165
	13 681 723	13 053 080

Valuations

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 01 July 2012.

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties, 30% on public service infrastructure and 20% on public benefit organisations.

Rates are levied on a monthly basis.

27. Property rates (continued)

Rates were levied on the following properties as per the valuation roll:

Property valuations

	2017 R	2016 R
Agricultural	1 845 126 000	1 845 126 000
Agricultural and smallholding	149 550 000	149 550 000
Business and commercial	193 645 000	193 645 000
Communal property and land reform	70 820 000	70 820 000
Industrial	2 260 000	2 260 000
Municipal	12 739 000	12 739 000
Place of worship	24 850 000	24 850 000
Public benefit organisation	121 945 000	121 945 000
Public service infrastructure	23 753 000	23 753 000
Residential and residential hospitality	907 896 700	907 896 700
Sectional title - Commercial	2 200 000	2 200 000
Sectional title - Residential	8 030 000	8 030 000
State - protected area	91 100 000	91 100 000
State owned	75 297 000	75 297 000
Tourism and hospitality	121 385 000	121 385 000
	3 650 596 700	3 650 596 700

28. Government grants and subsidies included in revenue

	2017 R	2016 R
Operating grants		
Environmental Affairs subsidy	-	191 769
Equitable share	27 693 000	27 603 000
Finance management grant (FMG)	1 825 000	1 800 000
Integrated national electrification programme (INEP)	8 000 000	6 000 000
Subsidy - other	-	1 161 776
Grants - MPA	-	100 000
Provincial library subsidy	925 589	928 000
Municipal systems improvement grant (MSIG)	-	930 000
Museum grant	175 000	166 000
Extended public works programme grant	1 000 000	1 120 941
Learnership awareness programme grant	1 719 753	-
Skills development grant	26 132	-
	41 364 474	40 001 486
Capital grants		
Municipal infrastructure grant	11 680 000	16 295 000
Subsidy - other	1 796 584	-
	54 841 058	56 296 486

Equitable share
In terms of Section 227 of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The equitable share grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

Museum subsidy
This subsidy has been granted to the municipality for operational upkeep of the museum.

Municipal infrastructure grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

	2017	2016
	R	R

28. Government grants and subsidies included in revenue (continued)

Expanded public works programme (EPWP)
This subsidy is provided by the Department of Public Works to assist with the alleviation of poverty in the municipal area by providing temporary employment for the unemployed.

Small town grant
This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perform feasability studies with a view to developing the town by improving its economic state and attracting investment.

Learnership awareness programme grant
This grant is provided by Seta to employ unemployed learners in the municipal area - 100 learners for business administration work and 100 learners for cleaning and hygiene work.

29. Impairment of assets

	2017 R	2016 R
Property, plant and equipment	112 443	81 554

Impairment losses are calculated based on the result of a physical verification conducted, during which a condition assessment is performed.

Notes to the Financial Statements

30. Employee related costs

	2017 R	2016 R
Acting allowances	902 458	321 113
Basic	19 502 414	19 339 363
Bonus	1 442 296	1 399 560
Cellphone allowances	14 500	22 200
Defined contribution plans	4 162 231	3 737 138
Housing benefits and allowances	314254	304 630
Leave pay provision charge	805 413	417 945
Long service awards	437 000	315 000
13th Cheque accrual	832 542	-
Medical aid - company contributions	1 610 522	1 520 267
Other payroll levies	11 305	10 717
Overtime payments	1 778 362	1 475 361
Redemption of leave	130 509	297 164
SDL	252 039	235 154
Travel, motor car, accommodation, subsistence and other allowances	1 043 965	1 587 002
UIF	187 399	170 473
Other allowances	32 000	18 000
	33 459 209	31 171 087

Remuneration of Municipal Manager

	2017 R	2016 R
Annual Remuneration	753 360	800 800
Car, travel accommodation allowance and other	195 962	132 000
	949 322	932 800

Remuneration of Acting Chief Financial Officer

	2017 R	2016 R
Annual Remuneration	281 581	403 541
Car, travel accommodation allowance and other	142 210	229 193
Leave pay	-	79 448
	423 791	712 182

The Acting CFO started acting on 06 June 2016

Remuneration of Acting Director Corporate Services

	2017 R	2016 R
Annual Remuneration	401 857	-
Car, travel accommodation allowance and other	186 207	-
	588 064	-

Remuneration of Director Technical Services

	2017 R	2016 R
Annual Remuneration	481 500	476 250
Car, travel accommodation allowance and other	147 056	171 271
	628 556	647 521

Notes to the Financial Statements

30. Employee related costs (continued)

Remuneration of Director Social Services

	2017 R	2016 R
Annual Remuneration	337 050	333 375
Car, travel accommodation allowance and other	345 381	339 996
	682 431	673 371

31. Remuneration of councillors

	2017 R	2016 R
Mayor	638 331	584 466
Councillors	1 292 723	1 087 113
Councillors' pension contribution	106 722	250 737
Councillors' allowances	679 784	563 469
	2 717 560	2 485 785

32. Depreciation and amortisation

	2017 R	2016 R
Property, plant and equipment	12 860 724	9 572 414
Intangible assets	80 780	1 740
	12 941 504	9 574 154

33. Debt impairment

	2017 R	2016 R
Contributions to debt impairment provisions	16 237 359	14 650 694

34. Bulk purchases

	2017 R	2016 R
Electricity	57 467 820	52 919 745

35. Contracted services

	2017 R	2016 R
Contracted services	7 132 004	14 644 148

Notes to the Financial Statements

	2017 R	2016 R
36. General expenses		
Advertising	589 357	202 262
Auditors remuneration	1 306 664	1 012 086
Cleaning	5 131	1 715
Computer expenses		110 217
Consulting and professional fees	2 047 387	9 444
Consumables	50 851	(39 182)
Deeds transfers	9 450	12 238
Entertainment	109 100	127 700
Pauper burials	-	(2 400)
Hire costs	4 277 087	903 061
Insurance	259 582	177 375
Conferences and seminars	2 085	1 510 055
Valuation expenses	-	-
Medical expenses	-	987 484
Motor vehicle expenses	31 001	18 328
Pensioners medical aid	190 643	235 730
Fuel and oil	1 253 000	705 986
Postage and courier	100 445	56 836
Printing and stationery	312 156	122 702
Sundry costs	316 532	72 034
Software expenses	222 124	956
Ward committee support	66 000	-
Subscriptions and membership fees	-	2 000
Telephone and fax	1 156 422	202 323
Transport and freight	9 908	24 000
Training	740 678	983 837
Travel - local	438 273	42 206
Service connections	316 685	826 977
Small tools and equipment	311 921	733 039
Electricity	440 278	563 912
Uniforms	295 534	310 360
Legal fees	380 342	602 615
Public participation	1 030 900	304 999
Grant expenditure - electricity reticulation costs	8 751 630	5 855 016
Publications	-	22 524
Other expenses	540 367	378 883
Restructuring	-	710 302
Grant expenditure - EPWP casuals	959 104	-
Grant expenditure - Learnership Awareness Programme	1 719 753	-
Penalties and interest	1 484 577	-
	29 724 966	17 787 620

37. Auditors' remuneration

Auditor General	1 306 664	1 012 086

38. Operating leases

The municipality has no outstanding commitments relating to operating leases:

Payable:		
Within one year	-	-
In the second to fifth year	-	-
	-	-

Notes to the Financial Statements

39. Cash generated from operations

	2017 R	2016 R Restated
(Deficit) Surplus for the year	(24 494 849)	(7 153 764)
Adjustments for:		
Depreciation : Property plant and equipment	12 941 504	6 793 728
Fair value adjustments : Investment property and buildings at fair value	(1 460 949)	(1 206 250)
Impairment : Property, plant and equipment	112 443	81 555
Loss on disposal of property, plant and equipment	818 046	81 121
Changes in net assets relating to prior year	2 569 704	9 089 084
Changes in working capital:		
Receivables from non-exchange transactions	(1 112 213)	4 103 908
VAT receivable / payable	(3 142 024)	(1 617 666)
Other receivables	95 962	(57 950)
Loan receivable	-	62 895
Receivables from exchange transactions	(6 199 838)	(6 979 578)
Inventory	30 204	(184 905)
Payables from exchange transactions	38 609 568	14 260 449
Payables from non- exchange transactions	805 413	417 945
Consumer deposits	35 331	37 411
Employee benefit obligation	941 000	403 000
Movements in provisions	(252 011)	1 289 405
Unspent conditional grants and receipts	(1 563 273)	(237 632)
Cash generated from (used in) operations	18 734 018	19 182 756

40. Commitments

Capital expenditure approved and contracted for	2017	2016
Mooi River Rehabilitation Programme	686 726	3 200 176
Sthembiso Access Road	2 474 764	-
Phumlaas Road	784 246	-
Nyamvubu Community Hall	1 324 111	-
Bruntville Main Road	-	2 037 456
Mooi River Upper Town	-	1 029 761
Nkomba Gravel Road	-	649 578
	5 269 847	6 916 971

41. Contingencies

Litigation is in process against the municipality relating to the following matters:	Esimated financial exposure
Occupation of the town hall	250 000
Mpofana/Big Five municipalities and Bird	20 000
	270 000

Notes to the Financial Statements

	2017 R	2016 R Restated

42. Prior period errors

The adjustment of prior year errors resulted from incorrect and incomplete accounting.
Adjustment for errors in the prior year is as follows:

Statement of Financial Position	Previously reported R	Restated R	Accumulated Surplus Increase (Decrease) R
Current liabilities - Trade payables and accruals			
Incorrect accounting - the stated balances were overstated by R4 966 282	(27 611 944)	(22 645 662)	4 966 282
Current assets - VAT receivable			
Incorrect accounting - stated balances were not substantiated - misstatement R3 286 095	2 673 249	(612 846)	(3 286 095)
Current assets - Other receivables - sundry debtors			
Three balances were were not substantiated - misstatement R704 791	920 571	215 780	(704 791)
Current liabilities - Sundry creditors			
Incorrect accounting - six balances not substantiated and were misstated	(331 660)	-	331 660
Current liabilities - PAYE control account			
Incorrect accounting - misstatement of R47 334	(234 406)	(281 740)	(47 334)
Current liabilities - Consumer deposits			
Incorrect accounting - balance not substantiated and was understated	(263 758)	(285 177)	(21 419)
Property, plant and equipment			
Incorrect accounting - various balances misstated	81 679 876	81 679 860	(16)
Cash and cash equivalents			
The traffic bank balance was misstated by R9 514	4 934 687	4 944 201	9 514
Unspent conditional grants and receipts			
Capital expenditure not grant-funded - misstatement of R716 866	(19 709 044)	(18 992 178)	716 866
Finance leases liability			
The liability was understated by R4 616 393	(754 497)	(5 370 890)	(4 616 393)
Employee benefit obligation			
The liability was understated by R1 220 000	(8 939 000)	(10 159 000)	(1 220 000)
Land			
Correcting a prior year adjustment of R1 501 940	3 240 776	4 742 716	1 501 940
Leased assets cost	9 847 634	10 561 918	714 284
Leased assets accumulated depreciation	(6 879 062)	(6 986 205)	(107 143)
Accounting for leased assets not recognised in the previos year			
Roads infrastructure not accounted for	-	37 416 746	37 416 746
Computer not accounted for	-	26 300	26 300
Solid Waste accumulated depreciation			
Depreciation not recognised on glass crusher	-	(8 639)	(8 639)
Roads accumulated depreciation			
Accounting for prior year depreciation on roads	(25 187 647)	(25 839 102)	(651 455)
Electrical infrastructure cost	8 853 393	15 245 175	6 391 782
Electrical infrastructure accumulated depreciation	(2 183 498)	(7 539 476)	(5 355 978)
Assets found and not accounted for in prior year			
Investment property	21 202 000	14 614 561	(6 587 439)
Adjustments for buildings held at air value			
Buildings held at air value	-	6 587 439	6 587 439
Adjustments for buildings held at air value			
Depreciation in Statement of Financial Performance	6 793 726	9 574 154	2 780 428
	48 051 396	86 887 935	38 836 539
Accumulated surplus	74 199 262	113 035 801	38 836 539

NOTE
All the restatements were necessary because of incorrect and incomplete accounting in previous years.

Notes to the Financial Statements	2017 R	2016 R

43. Events after the reporting date

At the time of completion of the financial statements there were no events after the reporting date affecting these annual financial statements.

44. Unauthorised expenditure

	2017	2016
Balance at the beginning of the year	44 665 640	16 632 918
During the year	50 985 495	28 032 722
Condoned	-	-
Balance at the end of the year	95 651 135	44 665 640
Unauthorised per grant		
EPWP Grant	-	17 308
FMG Grant	-	20 177
MIG Grant	-	5 762 413
INEP Grant	-	1 816 110
Craigieburn Housing Project Grant	5 840 388	-
Municipal Assistance Grant -Small Town Grant	3 186 725	-
Townview Housing Project Grant	7 904 687	-
Environment Grant	-	48 102
	16 931 800	7 664 110
Unauthorised expenditure per vote		
MM's office	-	773 720
Corporate Services	7 758 041	1 839 280
Technical	6 282 531	2 249 641
Finance	15 687 147	1 431 153
Social services	2 039 494	2 967 921
	31 767 213	9 261 715
Unauthorised expenditure on capital projects	2 286 482	11 106 897

45. Irregular expenditure

	2017	2016
Opening balance	26 425 633	23 466 847
Add: Irregular Expenditure - current year - inadequate or no quotations	6 074 653	2 958 786
Less: Amounts condoned	-	-
	32 500 286	26 425 633

Analysis of expenditure awaiting condonation (under investigation)

	2017	2016
Current year	6 074 653	2 958 786
Prior years	26 425 633	23 466 847
	32 500 286	26 425 633

Details of irregular expenditure condoned

	2017	2016
Exceptional cases, single provider and some emergencies	-	-
Acting Allowance payments	-	-
	-	-

Details of irregular expenditure recoverable (not condoned)

	2017	2016
None	-	-

Deviations from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to council.

<u>Deviations</u>	2017	2016
Deviations for the current year	698 734	970 667

Notes to the Financial Statements

	2017 R	2016 R

46. Fruitless and wasteful expenditure

	2017 R	2016 R
Balance at the beginning of the year	1 171 547	116 373
During the year	1 523 331	1 055 174
Condoned	-	-
Balance at the end of the year	2 694 878	1 171 547

Interest and penalty charges were incurred for the late payments to the Aditor General, Eskom for electricity bulk purchases, to Telkom and to SARS for late payments of employees' tax and VAT.

47. Risk management

Capital risk management

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 13 and 20, cash and cash equivalents disclosed in note 8, and equity as disclosed in the statement of financial position.
Consistent with others in localgovernment, the municipality monitors capital on the basis of the gearing ratio.
This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.
There are no externally imposed capital requirements.

	2017 R	2016 R
Total borrowings		
Finance lease obligation	23 804 715	754 497
Other financial liabilities	-	15 239
	23 804 715	769 736
Less: Cash and cash equivalents	(496 505)	(4 944 201)
	23 308 210	(4 174 465)
Total equity	88 330 228	110 255 373
Total capital	111 638 438	106 080 908

Liquidity risk

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

Interest rate risk

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

Credit risk

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

48. Electricity losses

	2017 R	2016 R
Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased from Eskom	57 977 594	64 615 839
Electricity units (kWh) sold	(51 547 500)	(42 838 682)
	6 430 094	21 777 157

Electricity losses for the financial year are 11.09 % (2016: 33.70%).
The Rand value of the electricity losses for the financial year total R6 000 796 (2016: R22 897 043)

These losses are a combination of line losses within the network infrastructure and theft.

Notes to the Financial Statements

	2017	2016
	R	R

49. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash-backed.
While the municipality had an accumulated surplus of R88 330 228 , the current liabilities exceeded the current assets by R45 662 538 and the available cash resources did not cover the commitments for unspent conditional grants with an amount of R16 932 400 being uncovered.

The municipality is not able to meet its liabilities as they fall due.

The lack of sufficient funds also means that it is unable to meet its consumer deposits and landfill site provision obligations.

Despite these reservations, the financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that both Provincial and National government have neither the intention nor the need to liquidate or curtail materially the scale of funding of the municipality.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017	2016
Current year subscription / fee	-	-
Amount paid - current year	-	-
	-	-

Audit fees

	2017	2016
Current year subscription / fee	1 311 034	1 012 086
Amount paid - current year	(159 589)	(1 012 086)
	1 151 445	-

PAYE and UIF

	2017	2016
Current year subscription / fee	3 603 364	3 509 479
Amount paid - current year	(3 603 364)	(3 509 479)
	-	-

Pension and Medical Aid Deductions

	2017	2016
Current year subscription / fee	5 772 753	5 257 405
Amount paid - current year	(5 772 753)	(5 257 405)
	-	-

Notes to the Financial Statements

51. Services in-kind

During the year Provincial Treasury assigned resources to the municipality to provide financial management support, which support included preparation of the financial statements.
This was in accordance with Provincial Treasury's mandate to assist and support municipalities in strengthening and building their financial management capacity.
These services in-kind are not considered significant to the municipality's operations and/or service delivery objectives.

52. Repairs and maintenance

Repairs and maintenance incurred to maintain Property, Plant and Equipment is represented as follows:

	2017 R	2016 R
Buildings	65 325	276 948
Computer installations	99 000	31 330
Machinery and equipment	67 893	348 728
Street lights	27 109	-
Roads	132 777	890 802
	392 104	1 547 808

53. Related parties

Related parties are the key management personnel.
Their titles and remunerations are disclosed in note 30.