BOJANALA PLATINUM DISTRICT MUNICIPALITY
Financial statements
for the year ended 30 June 2017
Auditor General of South Africa

## General Information

| | | |
|---|---|---|
| **Legal form of entity** | District Municipality | |
| **Mayoral committee** | | |
| Executive Mayor | Cllr MF MOKATI | |
| Councillors | Cllr MA Molekwa | : Speaker |
| | Cllr S Klass | : Chief Whip |
| | Cllr S Davids | : MPAC Chairperson |
| | Cllr TL Madiba | : MMC Technical Support |
| | Cllr RB Mantsho | : MMC Budget & Treasury |
| | Cllr NE Gwegwe | : MMC Special Projects |
| | Cllr VO Moche | : MMC Arts & Culture |
| | Cllr VK Maluleka | : MMC Health & Environment |
| | Cllr DR Tlabyane | : MMC Rural & Agricultural Development |
| | Cllr NR Rakolle | : MMC IDP, PMS, Monitoring & Evaluation |
| | Cllr PM Papa | : MMC Corporate Support |
| | Cllr JJ Kgarimetsa | : MMC Community Development Services |
| | Cllr LL Moate | : MMC Local Economic Development |
| | Cllr K Kgaswe | |
| | Cllr VM Lefyine | |
| | Cllr MD Kodisang | |
| | Cllr MR Seema | |
| | Cllr NP Bogatsu | |
| | Cllr G Makhanya | |
| | Cllr L Mabula | |
| | Cllr MD Malane | |
| | Cllr MM Modise | |
| | Cllr DM Rakgatlha | |
| | Cllr GT Mogale | |
| | Cllr LA Ratlou | |
| | Cllr PR Zwede | |
| | Cllr PE Hendricks | |
| | Cllr DMN Ngadi | |
| | Cllr TS Bogale | |
| | Cllr ML Makgale | |
| | Cllr JMS Mosito | |
| | Cllr HT Phalwane | |
| | Cllr E Van Der Schyfe | |
| | Cllr MM Sekgothe | |
| | Cllr MW Motlhasedi | |
| | Cllr KS Komape | |
| | Cllr JT Moabi | |
| | Cllr OD Marapyane | |
| | Cllr MZ Banda | |
| | Cllr EE Tanke | |
| | Cllr K Seanego | |
| | Cllr N Mollo | |
| | Cllr MN Nkotswe | |
| | Cllr E Matshereng | |
| | Cllr MZ Motsoenyane | |
| | Cllr BW Baloyi | |

## General Information

| | |
|---|---|
| | Cllr LM Letebele<br>Cllr CM Shai<br>Cllr TG Naledi<br>Cllr JM Radiokana<br>Cllr J Makhubela<br>Cllr RS Magalefa<br>Cllr JC Van Rhyn<br>Cllr BJ Mpolokeng<br>Cllr AD Malla<br>Cllr J Motshwane<br>Cllr MR Rantho<br>Cllr M Coetzee<br>Cllr I Edwards<br>Cllr NV Mqanqeni<br>Cllr JL Sephai<br>Cllr EN Mjekula<br>Cllr LP Mokwele<br>Cllr FL Setshoane<br>Cllr ABP Mnisi<br>Cllr PA Tlhapi<br>Cllr AS Habi<br>Cllr RP Molatlhegi<br>Cllr CN Mmolotsi |
| **Grading of local authority** | 5 |
| **Chief Finance Officer (CFO)** | A Tolo |
| **Accounting Officer** | T Lenake |
| **Business address** | Cnr. Beyers Naude and Fatima Bhayat Drive<br>Rustenburg<br>0300 |
| **Postal address** | P.O.Box 1993<br>Rustenburg<br>0300 |
| **Bankers** | ABSA Bank Limited |
| **Auditors** | Auditor General of South Africa |

# Index

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



**Abbreviations**

| | |
|---|---|
| GRAP | Generally Recognised Accounting Practice |
| MFMA | Municipal Finance Management Act |

# Accounting Officer's Responsibilities and Approval

The accounting officer is required by the MFMA No 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 financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

Although the accounting officers are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

**T Lenake**
**Acting Municipal Manager**

# Accounting Officer's Report

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

### 1. Review of activities

**Main business and operations**

The municipality is engaged in the provision of services to communities in a sustainable manner within the boundaries of the Bojanala District and operates principally in South Africa .
The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Bojanala Platinum District Municipality is a Category C municipality situated in the north-eastern part of North West Province.

### 2. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the entity. The entity will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act.

### 3. Subsequent events

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

### 4. Accounting Officer's interest in contracts

None have been identified.

### 5. Accounting policies

The financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

# Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Receivables from exchange transactions | 6 | 253,745 | 1,368,805 |
| VAT receivable | 7 | 5,759,575 | 3,845,722 |
| Cash and cash equivalents | 8 | 762,378 | 2,581,785 |
| | | **6,775,698** | **7,796,312** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 2 | 43,418,909 | 37,477,811 |
| Intangible assets | 3 | 1,382,344 | 6,090 |
| | | **44,801,253** | **37,483,901** |
| **Total Assets** | | **51,576,951** | **45,280,213** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 10 | 7,130,669 | 2,452,201 |
| Payables from exchange transactions | 13 | 37,904,436 | 44,506,330 |
| Employee benefit obligation | 4 | 268,000 | 265,000 |
| Provisions | 12 | 738,000 | 5,699,000 |
| | | **46,041,105** | **52,922,531** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 10 | 8,183,822 | 3,652,293 |
| Employee benefit obligation | 4 | 13,148,000 | 11,249,000 |
| Provisions | 12 | 19,582,000 | 14,793,000 |
| | | **40,913,822** | **29,694,293** |
| **Total Liabilities** | | **86,954,927** | **82,616,824** |
| **Net Assets** | | **(35,377,976)** | **(37,336,611)** |
| Reserves | | | |
| Revaluation reserve | 9 | 2,626,340 | 2,626,340 |
| Accumulated surplus | | (38,004,316) | (39,962,951) |
| **Total Net Assets** | | **(35,377,976)** | **(37,336,611)** |

# Statement of Financial Performance

| | | | |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Other Income | | 4,155,646 | 1,918,775 |
| Interest received - investment | 16 | 2,590,763 | 2,637,041 |
| **Total revenue from exchange transactions** | | **6,746,409** | **4,555,816** |
| **Revenue from non-exchange transactions** | | | |
| Government grants & subsidies | 18 | 317,473,583 | 306,593,383 |
| **Expenditure** | | | |
| Employee related costs | 19 | (154,837,592) | (143,397,898) |
| Remuneration of councillors | 20 | (13,666,587) | (13,720,823) |
| Depreciation and amortisation | 21 | (13,157,376) | (4,696,840) |
| Finance costs | 22 | (1,827,748) | (784,258) |
| Debt Impairment | 23 | - | (433,710) |
| Repairs and Maintenance | 24 | (1,463,859) | (1,144,451) |
| Lease Rental | 25 | (5,464,989) | (4,422,333) |
| Grants and Subsidies Paid | 17 | (67,792,571) | (93,695,862) |
| General Expenses | 26 | (64,429,092) | (53,223,182) |
| **Total expenditure** | | **(322,639,814)** | **(315,519,357)** |
| **Operating deficit** | | **(322,639,814)** | **(315,519,357)** |
| (Loss) gain on disposal of assets and liabilities | | (496) | 1,079,408 |
| **Deficit for the year** | | **(322,640,310)** | **(314,439,949)** |

## Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus | Total net assets |
|---|---|---|---|
| Opening balance as previously reported | 2,742,657 | (8,088,773) | (5,346,116) |
| Adjustments | | | |
| Correction of Errors | - | (28,583,428) | (28,583,428) |
| **Balance at 01 July 2015 as restated*** | **2,742,657** | **(36,672,201)** | **(33,929,544)** |
| Changes in net assets | | | |
| Surplus for the year | - | (3,290,750) | (3,290,750) |
| Total changes | (116,317) | (3,290,750) | (3,407,067) |
| **Balance at 01 July 2016** | **2,626,340** | **(39,583,998)** | **(36,957,658)** |
| Changes in net assets | | | |
| Surplus for the year | - | 1,579,682 | 1,579,682 |
| Total changes | - | 1,579,682 | 1,579,682 |
| **Balance at 30 June 2017** | **2,626,340** | **(38,004,316)** | **(35,377,976)** |
| Note(s) | 9 | | |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Grants | | 317,473,146 | 306,593,383 |
| Interest income | | 2,590,763 | 2,637,041 |
| | | 320,063,909 | 309,230,424 |
| **Payments** | | | |
| Employee costs | | (154,872,270) | (142,736,443) |
| Suppliers | | (154,247,029) | (145,637,028) |
| | | (309,119,299) | (288,373,471) |
| **Net cash flows from operating activities** | 27 | **10,944,610** | **20,856,953** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 2 | (19,030,831) | (22,782,156) |
| Sale of Property, plant and equipment | 2 | 7,722 | 4,342,719 |
| Purchase of other intangible assets | 3 | (1,123,157) | - |
| **Net cash flows from investing activities** | | **(20,146,266)** | **(18,439,437)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | 7,382,249 | - |
| **Net increase/(decrease) in cash and cash equivalents** | | **(1,819,407)** | **2,417,516** |
| Cash and cash equivalents at the beginning of the year | | 2,581,785 | 164,269 |
| **Cash and cash equivalents at the end of the year** | 8 | **762,378** | **2,581,785** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Other income | 400,000 | 270,000 | **670,000** | 4,155,646 | **3,485,646** | None |
| Interest received - investment | 1,000,000 | 100,000 | **1,100,000** | 2,590,763 | **1,490,763** | None |
| **Total revenue from exchange transactions** | **1,400,000** | **370,000** | **1,770,000** | **6,746,409** | **4,976,409** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 313,650,000 | 7,956,000 | **321,606,000** | 317,473,583 | **(4,132,417)** | None. |
| **Total revenue** | **315,050,000** | **8,326,000** | **323,376,000** | **324,219,992** | **843,992** | |
| **Expenditure** | | | | | | |
| Personnel | (161,677,000) | 5,538,000 | **(156,139,000)** | (154,837,592) | **1,301,408** | None |
| Remuneration of councillors | (17,137,000) | 10,000 | **(17,127,000)** | (13,666,587) | **3,460,413** | |
| Depreciation and amortisation | (5,000,000) | 1,000,000 | **(4,000,000)** | (13,157,376) | **(9,157,376)** | Refer to Note 41.1 |
| Finance costs | (250,000) | - | **(250,000)** | (1,827,748) | **(1,577,748)** | Refer to Note 41.2 |
| Bulk purchases | (1,600,000) | (770,000) | **(2,370,000)** | (1,463,859) | **906,141** | None |
| Contracted Services | (17,036,000) | (57,267,000) | **(74,303,000)** | (5,464,989) | **68,838,011** | None. |
| Grants and Subsidies paid | (24,802,000) | 21,802,000 | **(3,000,000)** | (67,792,571) | **(64,792,571)** | Refer to Note 41.3 |
| General Expenses | (71,298,000) | 8,077,000 | **(63,221,000)** | (64,429,092) | **(1,208,092)** | Not material variance. |
| **Total expenditure** | **(298,800,000)** | **(21,610,000)** | **(320,410,000)** | **(322,639,814)** | **(2,229,814)** | |
| **Operating surplus** | **16,250,000** | **(13,284,000)** | **2,966,000** | **1,580,178** | **(1,385,822)** | |
| Loss on disposal of assets and liabilities | - | - | **-** | (496) | **(496)** | |
| **Surplus before taxation** | **16,250,000** | **(13,284,000)** | **2,966,000** | **1,579,682** | **(1,386,318)** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **16,250,000** | **(13,284,000)** | **2,966,000** | **1,579,682** | **(1,386,318)** | |

# 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 MFMA No 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.
GRAP 1: Presentation of financial statements
GRAP 2: Cash flow statement
GRAP 3: Accounting policies,changes in accounting estimates and errors
GRAP 4: The effects of changes in foreign exchange transactions
GRAP 5: Borrowing costs
GRAP 6: Consolidated and separate financial statements
GRAP 7: Investments in Associates
GRAP 8: Interest in joint ventures
GRAP 9: Revenue from Exchange transactions
GRAP 10: Financial reporting in hyperinflationery economies
GRAP 11: Construction Contracts
GRAP 12: Inventories
GRAP 13: Leases
GRAP 14: Events after reporting date
GRAP 16: Investments property
GRAP 17: Property, plant and equipment
GRAP 18: Segment reporting
GRAP 19: Provisions,contingent liabilities and contingent assets
GRAP 21: Impairment of non-cash generating assets
GRAP 23: Revenue from non-exchange transactions(taxes and transfers)
GRAP 24: Presentation of budget information
GRAP 25: Employee related cost
GRAP 26: Impairment of cash generating assets
GRAP 100: Non-current assets held for for sale and discontinued operations
GRAP 101: Agriculture
GRAP 102: Intangible assets
GRAP 103: Heritage assets
GRAP 104: Financial instruments
GRAP 105: Transfers of functions between entities under common control
GRAP 106: Transfers of functions between entities not under commom control
GRAP 107: Mergers
IGRAP 11: Consolidation special purpose entties
IGRAP 12: Jointly controlled entities - non monetary contributions by ventures

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 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. Significant judgements include:

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

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

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

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

**Impairment testing**

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions. Provisions are measured using managements best estimates of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effects are material. Reliance was based on expert knowledge.

### 1.3 Significant judgements and sources of estimation uncertainty (continued)

**Useful lives of waste and water network and other assets**

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

**Allowance for doubtful debts**

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

**Cash and cash equivalent**

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

### 1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

### 1.4 Property, plant and equipment (continued)

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 and buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed every 5 years by registered valuators for every class separately.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Buildings | Straight line | 7-15 years |
| Plant and Machinery | Straight line | 5-15 years |
| Furniture and fixtures | Straight line | 3-30 years |
| Motor vehicles | Straight line | 3-30 years |

**1.4 Property, plant and equipment (continued)**

| | | |
|---|---|---|
| Office equipment | Straight line | 4-30 years |
| Leased Equipment | Straight line | 3-8 years |
| Emergency equipment | Straight line | 2-15 years |

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

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

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

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

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

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

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

**1.5 Intangible assets**

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

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

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

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

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

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

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

### 1.5 Intangible assets (continued)

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Useful life |
| --- | --- |
| Computer software, other | 3 years |

### 1.6 Financial instruments

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

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

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

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

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

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

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

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

# Accounting Policies

**1.6 Financial instruments (continued)**

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the entity.

**1.6 Financial instruments (continued)**

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

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

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

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

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

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

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

### 1.6 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

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

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

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

**Fair value measurement considerations**

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

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

**Reclassification**

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

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

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

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

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

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

### 1.6 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

**Presentation**

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

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

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

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

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

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

### 1.7 Tax

**Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.8 Leases

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

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

### 1.8 Leases (continued)

**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 .

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

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

**Operating leases - lessor**

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

**Operating leases - lessee**

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

### 1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

### 1.9 Impairment of cash-generating assets (continued)

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

### 1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### 1.11 Share capital / contributed capital

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

### 1.12 Employee benefits

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

### 1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

**Post-employment benefits**

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

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

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

**Post-employment benefits: Defined contribution plans**

Defined contribution 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 recognise the contribution payable to a defined contribution plan in exchange for that service:

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

### 1.12 Employee benefits (continued)

**Post-employment benefits: Defined benefit plans**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Accounting Policies

### 1.12 Employee benefits (continued)

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

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

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

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

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

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

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

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

### 1.12 Employee benefits (continued)

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

### 1.13 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

### 1.13 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

### 1.14 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.

### 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.

**Interest, royalties and dividends**

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

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

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

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

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

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

### 1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

### 1.16 Revenue from non-exchange transactions (continued)

**Recognition**

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

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

**Measurement**

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

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

**Transfers**

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

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

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

### 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 Unauthorised expenditure

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

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

### 1.20 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.

### 1.21 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.

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.

### 1.22 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.23 Budget information

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

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

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

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

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

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 Statement of comparison of budget and actual amounts.

### 1.24 Related parties

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

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

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

### 1.24 Related parties (continued)

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

### 1.25 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.

### 1.26 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

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 2. Property, plant and equipment

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 11,200,000 | - | 11,200,000 | 11,200,000 | - | 11,200,000 |
| Buildings | 4,860,869 | (3,253,666) | 1,607,203 | 4,860,869 | (2,532,131) | 2,328,738 |
| Plant and machinery | 2,347,098 | (1,082,227) | 1,264,871 | 1,177,198 | (772,675) | 404,523 |
| Furniture and fixtures | 5,304,182 | (3,565,354) | 1,738,828 | 5,178,501 | (2,950,381) | 2,228,120 |
| Motor vehicles | 20,275,717 | (12,138,060) | 8,137,657 | 20,275,717 | (10,304,946) | 9,970,771 |
| Office equipment | 12,083,853 | (8,056,577) | 4,027,276 | 10,215,916 | (6,393,761) | 3,822,155 |
| Leased Equipment | 22,802,368 | (8,992,457) | 13,809,911 | 7,164,539 | (1,274,198) | 5,890,341 |
| Work In Progress | 1,021,713 | - | 1,021,713 | 1,021,713 | - | 1,021,713 |
| Emergency Equipment | 1,256,740 | (645,290) | 611,450 | 1,256,740 | (645,290) | 611,450 |
| **Total** | **81,152,540** | **(37,733,631)** | **43,418,909** | **62,351,193** | **(24,873,382)** | **37,477,811** |

## Notes to the Financial Statements

Figures in Rand

**2. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2017**

| | Opening balance | Additions | Disposals | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 11,200,000 | - | - | - | 11,200,000 |
| Buildings | 2,328,738 | - | - | (721,535) | 1,607,203 |
| Plant and machinery | 404,523 | 1,017,303 | - | (156,955) | 1,264,871 |
| Furniture and fixtures | 2,228,120 | 129,453 | (496) | (618,249) | 1,738,828 |
| Motor vehicles | 9,970,771 | - | - | (1,833,114) | 8,137,657 |
| Office equipment | 3,822,155 | 2,093,932 | (7,722) | (1,881,089) | 4,027,276 |
| Leased Equipment | 5,890,341 | 15,686,865 | - | (7,767,295) | 13,809,911 |
| Work In Progress | 1,021,713 | - | - | - | 1,021,713 |
| Emergency Equipment | 611,450 | 103,278 | - | - | 611,450 |
| | **37,477,811** | **19,030,831** | **(8,218)** | **(12,978,237)** | **43,418,909** |

**Reconciliation of property, plant and equipment - 2016**

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 11,795,695 | - | - | - | (595,695) | - | 11,200,000 |
| Buildings | 1,849,359 | - | - | - | 1,367,733 | (888,354) | 2,328,738 |
| Plant and machinery | 607,441 | - | - | - | - | (202,918) | 404,523 |
| Furniture and fixtures | 2,768,900 | 109,216 | - | - | - | (649,996) | 2,228,120 |
| Motor vehicles | 8,093,128 | 6,727,089 | (3,248,592) | - | - | (1,600,854) | 9,970,771 |
| Office equipment | 4,501,368 | 806,268 | (5,899) | - | - | (1,479,582) | 3,822,155 |
| Leased Equipment | 1,765,363 | 2,929,525 | - | - | 3,424,844 | (2,229,391) | 5,890,341 |
| Work In Progress | 12,924,868 | 11,929,541 | - | (23,832,696) | - | - | 1,021,713 |
| Emergency Equipment | 339,779 | 280,517 | (8,820) | - | - | (9,607) | 611,450 |
| | **44,645,901** | **22,782,156** | **(3,263,311)** | **(23,832,696)** | **4,196,882** | **(7,060,702)** | **37,477,811** |

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.

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 3. Intangible assets

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 1,389,540 | (7,196) | 1,382,344 | 26,383 | (20,293) | 6,090 |

**Reconciliation of intangible assets - 2017**

| | Opening balance | Additions | Amortisation | Impairment loss | Total |
|---|---|---|---|---|---|
| Computer software, other | 6,090 | 1,123,157 | (177,477) | (1,661) | 950,109 |

**Reconciliation of intangible assets - 2016**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software, other | 10,146 | (4,056) | 6,090 |

### 4. Employee benefit obligations

**Defined benefit plan**

**Post-retirement Health Care Benefits Liability**

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

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr Niel Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method

| | 2017 | 2016 |
|---|---|---|
| **The members of the Post-employment Health Care Benefit Plan are made up as follows:** | | |
| In-service Members (Employees) | 239 | 237 |
| Continuation Members (Retirees, widowers and orphans) | 6 | 6 |
| | **245** | **243** |

| | 2017 | 2016 |
|---|---|---|
| **The liability in respect of past** | | |
| In-service Members | 10,343,000 | 8,447,000 |
| Continuation Members | 3,073,000 | 3,067,000 |
| | **13,416,000** | **11,514,000** |

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:
- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

### 4. Employee benefit obligations (continued)

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

| | | |
| --- | --- | --- |
| **Carrying value** | | |
| Present value of the defined benefit obligation unfunded | (13,416,000) | (11,514,000) |
| | | |
| Non-current liabilities | (13,148,000) | (11,249,000) |
| Current liabilities | (268,000) | (265,000) |
| | **(13,416,000)** | **(11,514,000)** |

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

| | | |
| --- | --- | --- |
| Opening balance | 11,514,000 | 9,772,000 |
| Benefits paid | (241,000) | (237,000) |
| Net expense recognised in the statement of financial performance | 2,143,000 | 1,979,000 |
| | **13,416,000** | **11,514,000** |

**Net expense recognised in the statement of financial performance**

| | | |
| --- | --- | --- |
| Current service cost | 765,000 | 728,000 |
| Interest cost | 1,199,000 | 1,022,000 |
| Actuarial (gains) losses | 179,000 | 229,000 |
| | **2,143,000** | **1,979,000** |

**Key assumptions used**

Assumptions used at the reporting date:

The basis on which the discount rate has been determined is as follow:
GRAP25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the postemployment liabilities should be used.

We used the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations.

### 5. Multi-Employer Retirement Benefit Information

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds are described below.

These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

The Municipal Councillors Funds and the Municipal Gratuity Fund are defined contribution plans. All of these afore-mentioned funds are multi-employer plans. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons: -

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each partcipating employer.

Municipal Councillors Pension Fund:

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 5. Multi-Employer Retirement Benefit Information (continued)

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13.75%) and Council (15%) is sufficient to fund the benefits accruing from the fund in the future.

**Municipal Joint Pension Fund:**
Municipal Joint Pension Fund operates as a defined contribution scheme. The contribution rate paidby the members (7.75%) and Council (22,00%) is sufficient to fund the benefits accruing from the fund in the future.

**National Fund for Municipal Workers - Pension Fund:**
National Fund for Municipal Workers operates as a defined contribution scheme. The contribution rate paid by the members (7.5%) and Council (22,00%) is sufficient to fund the benefits accruising from the fund in the future.

**Municipal Employees Pension Fund:**
The Municipal Employees Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (7,5%) and Council (22,00%) is sufficient to fund the benefits accruing from the fund in the future.

### 6. Receivables from exchange transactions

| | | |
|---|---|---|
| Sundry Debtors | 253,745 | 1,368,805 |

### 7. VAT receivable

| | | |
|---|---|---|
| VAT | 5,759,575 | 3,845,722 |

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 762,378 | 2,581,785 |

The municipality had the following bank accounts:

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2017 | 30 June 2016 | 30 June 2015 |
| ABSA 11-3150-0277 | 760,174 | 2,579,582 | 161,132 | 760,174 | 12,054,590 | 11,285,780 |
| ABSA 11-2000-0272 | 2,000 | 2,000 | 1,977 | (10,068) | 2,000 | 2,000 |
| ABSA 90-8451-8967 | 2,203 | 2,203 | 1,160 | 2,203 | 1,160 | 1,160 |
| **Total** | **764,377** | **2,583,785** | **164,269** | **752,309** | **12,057,750** | **11,288,940** |

Call investment deposits are investments with a maturity period of less than 3 months and earn interest rates varying from day to day.
Management of the municipality is of the opinion that the carrying value of the bank balance and cash recorded at amortised cost in the financial statements approximate their fair values.
The fair value of bank balance and cash were determined after considering the standard terms and conditions of agreements entered into betweeen the municipality and the financial institutions.

### 9. Revaluation reserve

| | | |
|---|---|---|
| Opening balance | 2,626,340 | 2,742,657 |
| Change during the year | - | (116,317) |
| | **2,626,340** | **2,626,340** |

DDP Valuers. This valuation has been prepared in accordance with the International Valuation Standards Committee requirements and as adopted by the South African Council for the Property Valuers Profession and the South African Institute of Valuers.

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

## 10. Finance lease obligation

| | | |
| --- | --- | --- |
| **Minimum lease payments due** | | |
| - within one year | 7,130,669 | 2,452,201 |
| - in second to fifth year inclusive | 8,183,822 | 3,652,293 |
| **Present value of minimum lease payments** | **15,314,491** | **6,104,494** |

| | | |
| --- | --- | --- |
| Non-current liabilities | 8,183,822 | 3,652,293 |
| Current liabilities | 7,130,669 | 2,452,201 |
| | **15,314,491** | **6,104,494** |

The finance lease is secured over photocopying machines worth R7 615 022 and telephone lease worth R15 686 866 included in property, plant and equipment. The finance lease is over 36 month, with a minimum lease payments of R243 931.61 for machines and R448 119.84 for telephone rentals at an effective interest rate of 9.5% and 9.75% respectively.

## 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 12. Provisions

**Reconciliation of provisions - 2017**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Long service award | 20,492,000 | (172,000) | 20,320,000 |

**Reconciliation of provisions - 2016**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Long service award | 18,565,000 | 1,927,000 | 20,492,000 |

| | | |
|---|---|---|
| Non-current liabilities | 19,582,000 | 14,793,000 |
| Current liabilities | 738,000 | 5,699,000 |
| | **20,320,000** | **20,492,000** |

**Long Service Awards**

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2017 by Mr Niel Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows for the year ended 30 June 2017:

Discount rate - 8,63%
General salary inflation - 7,28%
Net discount rate - 1,26%

The basis on which the discount rate has been determined is as follow:
GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the postemployment liabilities should be used.

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

| | | |
|---|---|---|
| Expected Retirement Age - Females | 63 | 63 |
| Expected Retirement Age - Males | 63 | 63 |
| | **126** | **126** |

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

| | | |
|---|---|---|
| Balance at the beginning of the year | 20,492,000 | 18,565,000 |
| Current service cost | 1,518,000 | 1,393,000 |
| Interest costs | 2,056,000 | 1,961,000 |
| Benefits paid | (4,457,000) | (2,160,000) |
| Actuarial losses / (gains) | 711,000 | 733,000 |
| | **20,320,000** | **20,492,000** |

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 12. Provisions (continued)

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

| | | |
|---|---|---|
| Present value of unfunded obligations | 17,455,000 | 19,250,000 |

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

| | | |
|---|---|---|
| Current service cost | 1,388,000 | 1,393,000 |
| Interest cost | 1,929,000 | 1,961,000 |
| Actuarial losses / (gains) | 185,000 | 733,000 |
| **Total Benefit included in Employee** | **3,502,000** | **4,087,000** |

## 13. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | (5,145,884) | 9,348,925 |
| Retention | 1,144,044 | 3,061,260 |
| Provision for Leave | 13,278,053 | 16,577,248 |
| Other payables | 1,224,868 | 1,282,894 |
| Provision for 13th Cheque | 3,391,363 | 3,371,485 |
| Outstanding payments - bank reconciliation | 24,011,992 | 10,864,518 |
| | **37,904,436** | **44,506,330** |

## 14. Revenue

| | | |
|---|---|---|
| Other income | 4,155,646 | 1,918,775 |
| Interest received - investment | 2,590,763 | 2,637,041 |
| Government grants & subsidies | 317,473,583 | 306,593,383 |
| | **324,219,992** | **311,149,199** |

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

| | | |
|---|---|---|
| Other income | 4,155,646 | 1,918,775 |
| Interest received - investment | 2,590,763 | 2,637,041 |
| | **6,746,409** | **4,555,816** |

## 15. Other revenue

| | | |
|---|---|---|
| Other income | 4,155,646 | 1,918,775 |

## 16. Investment revenue

**Interest revenue**

| | | |
|---|---|---|
| Interest | 2,590,763 | 2,637,041 |

## 17. Grants and subsidies paid

**Other subsidies**

| | | |
|---|---|---|
| Expenditure on regional projects and facilities | 61,563,173 | 67,352,384 |
| Imbizo | 1,445,540 | 5,056,861 |
| Borole Ext 4 Sewerage | 11 | 14,585,129 |
| Agricultural Support | 1,953,879 | 2,654,215 |
| Internship Training | 1,267,928 | 891,049 |
| Councillor's Training | 439,125 | 1,887,425 |
| Bursary Scheme | 1,122,915 | 1,268,799 |
| | **67,792,571** | **93,695,862** |

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 18. Government grants and subsidies

**Operating grants**

| | | |
|---|---|---|
| Equitable share | 302,943,000 | 301,137,000 |
| Disaster Grant | 718,720 | - |
| Rural Assets Management Grant | 2,175,000 | 2,010,000 |
| Expanded Public Works Programme | 1,557,000 | 1,041,000 |
| Municipal System Improvement Grant | - | 930,000 |
| Financial Management Grant | 1,250,000 | 1,256,000 |
| SETA Skills Development | 4,261,302 | 219,383 |
| Energy Efficiency Grant | 4,568,561 | - |
| | **317,473,583** | **306,593,383** |

**Municipal System Improvement Grant**

| | | |
|---|---|---|
| Current-year receipts | - | 930,000 |
| Conditions met - transferred to revenue | - | (930,000) |
| | - | - |

**Expandable Public Works Programme Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,557,000 | - |
| Conditions met - transferred to revenue | (1,557,000) | - |
| | - | - |

**Financial Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 1,250,000 | 1,256,000 |
| Conditions met - transferred to revenue | (1,250,000) | (1,256,000) |
| | - | - |

**Rural Asset Management Grant**

| | | |
|---|---|---|
| Current-year receipts | 2,174,563 | 2,010,000 |
| Conditions met - transferred to revenue | (2,174,563) | (2,010,000) |
| | - | - |

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 19. Employee related costs

| | | |
|---|---|---|
| Basic | 95,594,555 | 88,109,556 |
| Medical aid - company contributions | 10,422,317 | 9,503,524 |
| UIF | 575,222 | 586,022 |
| SDL | 1,367,625 | 1,536,821 |
| Defined contribution plans | 1,730,000 | 3,669,000 |
| Overtime payments | 429,099 | 1,242,800 |
| Acting allowances | - | 18,247 |
| Car allowance | 12,726,822 | 12,532,476 |
| Housing benefits and allowances | 3,711,182 | 4,410,595 |
| Holiday Bonus | 7,673,397 | 6,183,132 |
| Contributions | 31,987 | 28,834 |
| Performance Bonus and Provision Staff Leave | - | (4,577,143) |
| Other Allowances | 5,583,803 | 6,052,635 |
| Contribution to Pension and Provident Fund | 14,185,486 | 13,237,756 |
| Cellphone Allowance | 806,097 | 863,643 |
| | **154,837,592** | **143,397,898** |

**Acting Municipal Manager: Mr TG Lenake**

| | | |
|---|---|---|
| Annual Remuneration | 853,162 | - |
| Car Allowance | 267,120 | - |
| Cellphone Allowance | 18,000 | - |
| Acting Allowance | 43,752 | - |
| Other | - | - |
| | **1,182,034** | **-** |

Acting position from 10 April 2017 to date

**Acting Municipal Manager: Ms MM Jansen**

| | | |
|---|---|---|
| Salary | 992,105 | - |
| Travel Allowance | 226,840 | - |
| Cell Allowance | 18,000 | - |
| Acting Allowance | 121,084 | - |
| Housing Allowance | 110,321 | - |
| Other | 11,675 | - |
| | **1,480,025** | **-** |

Acting position from 01 November 2016 to 09 April 2017

**Municipal Manager: KI Sirovha**

| | | |
|---|---|---|
| Annual remuneration | 234,586 | 663,924 |
| Car Allowance | 63,600 | 180,000 |
| Cell Allowance | 8,000 | 24,000 |
| Other | 289,380 | 16,422 |
| Housing Allowance | 214,404 | 819,000 |
| | **809,970** | **1,703,346** |

The contract of the Municipal Manager ended on the 31st October 2016

**Remuneration of chief finance officer: Ms MM Jansen**

| | | |
|---|---|---|
| Annual Remuneration | - | 935,948 |
| Car Allowance | - | 214,000 |
| Cell Allowance | - | 18,000 |
| Acting Allowance | - | 104,076 |

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

**19. Employee related costs (continued)**

| | | |
| --- | --- | --- |
| Other | - | 12,994 |
| | **-** | **1,285,018** |

The CFO acted in the MM position from 01 Nov 2016 to 09 April 2017, see above for her curent year remuneration disclosure. The remuneration disclosure includes her remuneration during as CFO from 1 July to 31 October 2016.

**Acting Chief Financial Officer: Ms A Tolo**

| | | |
| --- | --- | --- |
| Annual remuneration | 537,665 | - |
| Cell Allowance | 6,000 | - |
| Bonus | 44,805 | - |
| Car Allowance | 128,451 | - |
| Housing subsidy | 8,904 | - |
| Other | 176,280 | - |
| | **902,105** | **-** |

Acting position from 10 April 2017 to date

**Remuneration of Director Corporate Services**

| | | |
| --- | --- | --- |
| Annual Remuneration | 416,622 | 393,040 |
| Car Allowance | 127,200 | 120,000 |
| Cell Allowance | 18,000 | 18,000 |
| Housing | 534,240 | 504,000 |
| Other | - | 11,982 |
| | **1,096,062** | **1,047,022** |

Contract ended 31 March 2017.

**Remuneration of Director - LED**

| | | |
| --- | --- | --- |
| Annual Remuneration | 516,557 | 487,318 |
| Car Allowance | 127,200 | 120,000 |
| Cell Allowance | 18,000 | 18,000 |
| Housing Allowance | 414,036 | 390,600 |
| Other | 30,038 | 11,791 |
| | **1,105,831** | **1,027,709** |

**Remuneration of Director - Community Development Services**

| | | |
| --- | --- | --- |
| Annual Remuneration | 629,070 | 791,283 |
| Car Allowance | 114,480 | 144,000 |
| Cell Allowance | 18,000 | 24,000 |
| Housing | 150,255 | 189,000 |
| Other | 178,861 | 13,066 |
| | **1,090,666** | **1,161,349** |

**Remuneration of Director - Technical Services**

| | | |
| --- | --- | --- |
| Annual Remuneration | 424,852 | 400,804 |
| Car Allowance | 318,000 | 300,000 |
| Cell phone Allowance | 18,000 | 18,000 |
| Housing Allowance | 27,971 | 504,000 |
| Other | 534,240 | 12,317 |
| | **1,323,063** | **1,235,121** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
| --- | --- | --- |

### 19. Employee related costs (continued)

**Remuneration of Director - Community Environment**

| | | |
| --- | --- | --- |
| Annual Remuneration | - | 487,319 |
| Car Allowance | - | 120,000 |
| Cell Phone | - | 18,000 |
| Housing | - | 390,600 |
| Other | - | 11,000 |
| | **-** | **1,026,919** |

### 20. Remuneration of councillors

| | | |
| --- | --- | --- |
| Executive Mayor | 860,926 | 871,841 |
| Speaker | 738,804 | 689,524 |
| Councillors | 12,121,093 | 12,580,340 |
| | **13,720,823** | **14,141,705** |

### 21. Depreciation and amortisation

| | | |
| --- | --- | --- |
| Property, plant and equipment | 13,157,376 | 4,696,840 |

### 22. Finance costs

| | | |
| --- | --- | --- |
| Finance leases | 1,827,748 | 784,258 |

### 23. Impairment Loss

| | | |
| --- | --- | --- |
| Debt impairment | - | 433,710 |

### 24. Repairs and Maintenance

| | | |
| --- | --- | --- |
| Repairs and Maintenance | 1,463,859 | 1,144,451 |

### 25. Lease Rental

| | | |
| --- | --- | --- |
| Rental of Office Building | 5,464,989 | 4,422,333 |

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

## 26. General expenses

| | | |
|---|---|---|
| Audit fees | 3,749,190 | 3,103,184 |
| Advertising | 1,375,790 | 382,067 |
| Bank charges | 284,043 | 101,105 |
| Computer expenses | 3,489,559 | 4,452,640 |
| Entertainment | 1,529,504 | 2,163,923 |
| Insurance | 1,052,395 | 772,599 |
| IT expenses | 2,926,132 | 993,562 |
| Workshops and Conferences | 145,235 | 136,567 |
| Bulk Purchases | 182,080 | 647,910 |
| Fuel and oil | 1,909,646 | 1,946,977 |
| Printing and stationery | 7,654,514 | 6,617,272 |
| Protective clothing | 262,279 | 158,277 |
| Audit Committee fees | 267,162 | 720,716 |
| Subscriptions and membership fees | 157,489 | 1,823,286 |
| Telephone and fax | 8,394,269 | 5,760,705 |
| Travel - local | 15,437,501 | 6,232,206 |
| Utilities - Water & Electricity | 1,370,435 | 1,159,027 |
| Uniforms | 513,480 | 345,520 |
| Tourism development | 130,495 | 306,276 |
| Educational Awarreness | 331,123 | 545,162 |
| Accommodation | - | 276,347 |
| Burial of Paupers | 113,767 | - |
| Consulting and Professional Fees | 3,224,848 | 5,547,338 |
| Other expenses | 3,046,469 | 3,445,844 |
| | **57,547,405** | **47,638,510** |

## 27. Cash generated from operations

| | | |
|---|---|---|
| Surplus (deficit) | 1,579,682 | (3,290,750) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 13,157,376 | 4,696,840 |
| Gain (loss) on sale of assets and liabilities | 496 | (1,079,408) |
| Finance costs - Finance leases | 1,827,748 | 784,258 |
| Impairment Loss | - | 433,710 |
| Movements in retirement benefit assets and liabilities | 1,902,000 | 11,514,000 |
| Movements in provisions | (172,000) | 12,664,178 |
| **Changes in working capital:** | | |
| Receivables from exchange transactions | 1,115,060 | (1,010,436) |
| Staff debtors | 49,995 | (433,710) |
| Payables from exchange transactions | (6,601,894) | (1,715,243) |
| VAT | (1,913,853) | (1,706,486) |
| | **10,944,610** | **20,856,953** |

## 28. Financial instruments disclosure

**Categories of financial instruments**

**2017**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 253,745 | 253,745 |
| Cash and cash equivalents | 762,378 | 762,378 |
| | **1,016,123** | **1,016,123** |

## Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

**. Financial instruments disclosure (continued)**

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 37,904,436 | 37,904,436 |

**2016**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Trade and other receivables from exchange transactions | 1,368,805 | 1,368,805 |
| Cash and cash equivalents | 2,581,785 | 2,581,785 |
| | **3,950,590** | **3,950,590** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Trade and other payables from exchange transactions | 44,506,330 | 44,506,330 |

### 29. Commitments

**Authorised capital expenditure**

| | 2017 | 2016 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 643,262 | 15,399,554 |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 643,262 | 15,399,554 |

**Operating leases - as lessee (expense)**

| | 2017 | 2016 |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 5,733,935 | 5,291,155 |
| - in second to fifth year inclusive | 15,393,151 | 15,904,378 |
| | **21,127,086** | **21,195,533** |

Operating lease payments represent rentals payable by the municipality for certain of its office properties (Head Office, Heystek office and Brits Office). Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

# Notes to the Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|---|---|

### 30. Contingencies

**Contingent liabilities**

| | | |
|---|---|---|
| 30.1 Case Number 3926/17 in the Rustenburg Magistrates Court: Claimed amount R 72 878-54 plus costs for vehicle damage due to pothole in Bethanie road. Setshesh Makgale Attorneys in Rustenburg are handling this matter on behalf of BPDM | 72,879 | - |
| 30.2 Case Number 742/17 in the Brits Magistrate Court: Claimed amount ± R 80 000-00 plus costs for vehicle damage due to pothole in Bethanie road. Malatji Attorneys in Brits are handling this matter on behalf of BPDM | 80,000 | - |
| The municipality entered into a contract with Taupedi securities in May 2009. On or about the 31 March 2014, a letter was sent to Taupedi securities from the municipality informing them that the agreement will expire on the 31 May 2014. In breach of of the agreement, the municipality has failed, alternatively neglected to send the 90 days termination notice to Taupedi security before the expiry of the agreement. As a results of the breach, Taupedi suffered damages on the form of loss of 10% statutory increase for two years from 31 May 2014 to 31 May 2016. The Taupedi security's loss of monthly income or profit margin in terms of the contract for two years is R16 512 000. | 16,512,000 | - |
| | **16,664,879** | **-** |

### 31. Related parties

**Related party transactions**

| | | |
|---|---|---|
| **Rent paid to related parties** | | |
| Rustenburg Local Municipality (rental of office building) | 723,114 | 508,926 |
| | - | - |

### 32. Prior period errors

**The following Prior period error corrections were done for the 2016 financial year as reflected in below tables:**

**Employee Benefit Obligation**

Employee benefit obligation was not provided for in the prior year as no valuation was determined by the actuaries. We have determined the provision for post-employment medical benefit for the current year and prior year which resulted in an increase to prior year liabilities by R11 514 000 and employee related cost with same amount.

**Long Service Award**

Long service award provision was determined for prior year which resulted in an increase in Provision and Eployee related costs by R19 250 000

**Finance Lease Assets and Obligation**

Finance lease assets and obligation were not accounted for in the prior year. In order to address this prior year error, we have accounted for the finance lease assets and obligation which resulted in an increase in both property, plant and equipment and liabilities by R6 104 494.

**Property, plant and equipment**

Movable asset register was revised to ensure that it is complete and accurate which resulted in a decrease of R10 008 131.

Accounting for the finance lease assets and obligation resulted in an increase to depreciation by R1 274 198 resulting from leased assets.

| **Statement of Financial Position** | As previously reported as at 30 June 2016 | Correction or error | Restated |
|---|---|---|---|
| Receivables from exchange transactions | 1,368,805 | 1,009,616 | 2,378,421 |
| VAT receivable | 3,677,160 | 40,783 | 3,717,943 |
| Cash and cash equivalent | 2,583,786 | 321,594 | 2,905,380 |
| Property, plant and equipment | 47,485,942 | 5,841,306 | 53,327,248 |
| Finance lease obligation - Non-current liabilities | - | (3,652,293) | (3,652,293) |
| Finance lease obligation - Current liabilities | - | (2,452,201) | (2,452,201) |
| Employee benefit obligation - Non-current liabilities | - | (11,273,000) | (11,273,000) |
| Employee benefit obligation - Current liabilities | - | (241,000) | (241,000) |
| Payables from exchange transactions | (29,593,352) | (14,838,537) | (44,431,889) |
| Unspent conditional grants | - | (1,260,383) | (1,260,383) |
| Provisions - Non-current liabilities | - | (13,953,000) | (13,953,000) |
| Provisions - current liailities | (19,948,732) | 13,085,084 | (6,863,648) |
| **Net Assets** | **5,573,609** | **(27,372,031)** | **(21,798,422)** |

| **Statement of Financial Performance** | As previously reported - 30 June 2016 | Correction of error | Restated |
|---|---|---|---|
| Other Income | 1,942,977 | (24,202) | 1,918,775 |
| Employee related costs | - | 30,764,000 | 30,764,000 |
| Depreciation and amortisation | - | 1,274,198 | 1,274,198 |
| **Surplus for the year** | **1,942,977** | **32,013,996** | **33,956,973** |

### 33. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

**Statement of financial position - extract**

| | Reclassification | After reclassification |
|---|---|---|
| Finance Lease Obligation | (1,306,122) | (1,306,122) |

**Statement of financial performance - extract**

| | Comparative figures previously reported | Reclassification | After reclassification |
|---|---|---|---|
| Lease rentals | (6,312,027) | 6,312,027 | - |
| General expenses | - | (5,005,905) | (5,005,905) |
| **Total** | **(6,312,027)** | **1,306,122** | **(5,005,905)** |

# Notes to the Financial Statements



## 34. Risk management

**Financial risk management**

Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of Cash and Cash Equivalents and Net assets comprising Reserves and Accumulated Surplus as disclosed in the Statement of Changes in Net Assets.

Financial Risk Management Objectives

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

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

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

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

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

Significant Risks

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

The municipality has exposure to the following risks from its operations in Financial Instruments:
' - Credit Risk;
' - Liquidity Risk; and
' - Market Risk.

Risks and exposures are disclosed as follows:

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

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

### 34. Risk management (continued)

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

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

Investments/Bank, Cash and Cash Equivalents

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

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

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank, Investec and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality’s maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

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

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

| Financial instrument | | |
| --- | --- | --- |
| Cash and cash equivalents | 764,377 | 2,583,786 |

**Market risk**

### 34. Risk management (continued)

**Detail**

The municipality’s activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.
• interest rate swaps to mitigate the risk of rising interest rates

Market risk exposures are measured using value-at-risk (VaR) and are supplemented by sensitivity analysis.

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

There has been no change to the municipality’s exposure to market risks or the manner in which it manages and measures the risk.

**Interest rate risk**

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

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

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with wellestablished financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made.

The municipality has interest significant interest bearing investments, the municipality's interest income is dependent on changes in market interest rates.

The municipality’s exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

**Foreign exchange risk**

The municipality undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The municipality’s activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

**Price risk**

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

### 35. Going concern

We draw attention to the fact that at 30 June 2017, the municipality current liabilities exceeds its current asset by R (38,004,316).

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

### 35. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. Although certain going concern ratios may appearunfavourable, the entity will continue to receive funding from the government as evident from equitable share allocation in terms of the Division of Revenue Act.

### 36. Events after the reporting date

There were no events identified after reporting date which would have adjusting and non-adjusting impact.

### 37. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 80,539,355 | 75,115,106 |
| Add: Unauthorised expenditure - current year | 76,735,787 | 5,424,249 |
| | **157,275,142** | **80,539,355** |

Unauthorised expenditure disclosed in the current and that of prior year had not been investigated at the date of submission of the financial statement.

### 38. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 637,047 | 553,506 |
| Add: Fruitless and wasteful expenditure identified in the current year relating to prior year | - | 83,541 |
| Add: Fruitless and wasteful expenditure - current year | 275,087 | - |
| | **912,134** | **637,047** |

Expenditure incurred during the year resulted from interest and penalties paid on late payments of suppliers. The matters are currently under investigation, no disciplinary steps taken to date.

### 39. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 168,103,870 | 63,640,484 |
| Add: Irregular Expenditure - current year | 44,054,982 | 104,463,386 |
| | **212,158,852** | **168,103,870** |

**Details of irregular expenditure – current year**

| | Status of investigation and diciplinary hearings | |
|---|---|---|
| Non Adherence to 3 written price qoutations | Cases for 2016/17 have not yet been investigated. No disciplinary actions have been taken against any official | 4,143,952 |
| Non-adherence to SCM process - 100% of the contract ceded to third party | Cases for 2016/17 have not yet been investigated. No disciplinary actions have been taken against any official | 408,949 |
| Non Adherence to Section 116(3), MFMA No 56 of 2003 | Cases for 2016 have not yet been investigated. No disciplinary actions have been taken against any official | 8,938,195 |
| Competitive bidding process not followed | | 30,563,886 |
| | | **44,054,982** |

### 39. Irregular expenditure (continued)

**Details of irregular expenditure - prior year**

| | Status of investigation and diciplinary hearings | |
|---|---|---|
| Competitive bidding process not followed | Cases for 2015/16 have not yet been investigated. No disciplinary actions have been taken against any official | 66,125,392 |
| Non-adherence to SCM process - 100% of the contract ceded to third party | Cases for 2015/16 have not yet been investigated. No disciplinary actions have been taken against any official | 33,537,177 |
| Non Adherence to Section 116(3), MFMA No 56 of 2003 | Cases for 2015/16 have not yet been investigated. No disciplinary actions have been taken against any official | 4,796,827 |
| Service provider in the employ of state | | 3,990 |
| | | **104,463,386** |

### 40. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | | |
|---|---|---|
| Current year subscription / fee | 72,568 | 1,306,541 |
| Amount paid - current year | (72,373) | (1,306,541) |
| | **195** | **-** |

**Audit fees**

| | | |
|---|---|---|
| Current year subscription / fee | 3,749,190 | 3,103,184 |
| Amount paid - current year | (3,749,190) | (3,103,184) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 28,214,414 | 27,338,948 |
| Amount paid - current year | (28,481,433) | (27,338,948) |
| | **(267,019)** | **-** |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 36,539,844 | 37,413,494 |
| Amount paid - current year | (37,527,429) | (37,413,494) |
| | **(987,585)** | **-** |

### 41. Budget differences

**Material differences between budget and actual amounts**

41.1 Depreciation resulted in overspending due to additional depreciation resulting from capitalised leased assets and the revision of the asset register.

41.2 Finance cost overspend due to finance cost resulting from the finance lease obligation which was not anticipated due to incorrect treatment of lease in the prior year

41.3 Grants and subsidies overspend due to shifting of budget from this vote to contracted services.

**Changes from the approved budget to the final budget**

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to page 9, Budget Statement.