Siyathemba Local Municipality
(Registration number NC077)
Annual financial statements
for the year ended 30/06/2016

Index

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30/06/2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer 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 annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page .

The annual financial statements set out on pages 3 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 31/08/2016 and were signed on its behalf by:

IWJ Stadhouer
Acting Municipal Manager

Accounting Officer's Report

The accounting officer submits his report for the year ended 30/06/2016.

1. Incorporation

Siyathemba Local Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996).

2. Review of activities

Main business and operations

The municipality is engaged in category B local municipality as envisaged in section 155(1)(b) of the constitution and operates principally in South Africa.

Net deficit of the municipality was R 24 057 726 (2015: deficit R 12 933 883).

3. Going concern

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

4. Subsequent events

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

5. Accounting policies

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

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
IWJ Stadhouer	RSA

7. Bankers

ABSA Bank
Prieska
8940

8. Auditors

Office of the Auditor General will continue in office for the next financial period.

9. Jurisdiction

Siyathemba Local Municipality includes the following areas:

Prieska

Niekerkshoop

Marydale

Statement of Financial Position as at 30/06/2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	3 364 291	575 495
Other financial assets	4	2 856	2 482
Operating lease asset	5	30 053	31 363
Receivables from non-exchange transactions	6	683 148	597 884
Consumer debtors	7	8 829 395	7 519 159
Cash and cash equivalents	8	6 294 517	2 910 224
		19 204 260	**11 636 607**
Non-Current Assets			
Investment property	9	22 598 000	25 584 000
Property, plant and equipment	10	421 350 413	435 008 763
Intangible assets	11	1 429 738	1 408 258
Heritage assets	12	1 226 200	1 226 200
Other financial assets	4	18 251	21 107
		446 622 602	**463 248 328**
Total Assets		**465 826 862**	**474 884 935**
Liabilities			
Current Liabilities			
Finance lease obligation	13	356 239	421 476
Payables from exchange transactions	14	45 381 339	28 672 073
VAT payable	15	2 032 796	3 031 940
Consumer deposits	16	712 072	646 825
Employee benefit obligation	17	866 307	757 362
Unspent conditional grants and receipts	18	4 600 043	50 128
Provisions	19	730 831	-
		54 679 627	**33 579 804**
Non-Current Liabilities			
Finance lease obligation	13	734 797	1 091 036
Employee benefit obligation	17	12 503 436	11 650 769
Provisions	19	4 779 852	5 662 820
		18 018 085	**18 404 625**
Total Liabilities		**72 697 712**	**51 984 429**
Net Assets		**393 129 150**	**422 900 506**
Accumulated surplus		393 129 150	422 900 506

* See Note 44

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	30 463 030	27 373 694
Rental of facilities and equipment	22	866 198	791 772
Agency services		1 180 960	1 084 920
Licences and permits		200	450
Other income	24	518 860	832 577
Interest received - investment	25	1 491 210	1 311 182
Total revenue from exchange transactions		**34 520 458**	**31 394 595**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	9 194 595	7 960 250
Transfer revenue			
Government grants & subsidies	27	44 066 388	39 071 411
Public contributions and donations	28	-	439
Fines, Penalties and Forfeits		93 722	33 591
Total revenue from non-exchange transactions		**53 354 705**	**47 065 691**
Total revenue	20	**87 875 163**	**78 460 286**
Expenditure			
Employee related costs	29	(35 591 423)	(31 988 158)
Remuneration of councillors	30	(3 169 774)	(1 969 274)
Depreciation and amortisation	31	(25 036 813)	(22 421 639)
Finance costs	32	(1 590 049)	(503 020)
Debt Impairment	33	(8 928 913)	(6 544 289)
Collection costs		(138 231)	(359 575)
Repairs and maintenance		(2 830 397)	(2 308 769)
Bulk purchases	34	(22 564 219)	(14 622 647)
Contracted services	35	(4 001 078)	(3 228 441)
General Expenses	36	(8 793 872)	(7 997 858)
Total expenditure		**(112 644 769)**	**(91 943 670)**
Operating deficit	38	**(24 769 606)**	**(13 483 384)**
Actuarial gains/losses	17	711 880	549 501
Deficit for the year		**(24 057 726)**	**(12 933 883)**

* See Note 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	436 139 970	436 139 970
Adjustments		
Correction of errors	(305 581)	(305 581)
Balance at 01/07/2014 as restated*	**435 834 389**	**435 834 389**
Changes in net assets		
Surplus for the year	(12 933 883)	(12 933 883)
Total changes	(12 933 883)	(12 933 883)
Opening balance as previously reported	428 231 560	428 231 560
Adjustments		
Correction of errors	(5 331 054)	(5 331 054)
Restated* Balance at 01/07/2015 as restated*	**422 900 506**	**422 900 506**
Changes in net assets		
Surplus for the year	(24 057 726)	(24 057 726)
Correction of DWA Creditor	(2 913 392)	(2 913 392)
Correction of current year Audit fees	(2 852 204)	(2 852 204)
Opening balance correction	51 966	51 966
Total changes	(29 771 356)	(29 771 356)
Balance at 30/06/2016	**393 129 150**	**393 129 150**

Note(s)

* See Note 44

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Ratepayers and other		40 267 496	34 876 460
Grants		48 616 303	38 707 361
Interest income		398 955	99 103
		89 282 754	73 682 924
Payments			
Employee costs		(36 375 825)	(31 876 246)
Suppliers		(37 177 208)	(24 749 610)
Finance costs		(1 165 721)	(218 089)
		(74 718 754)	(56 843 945)
Net cash flows from operating activities	39	**14 564 000**	**16 838 979**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(10 794 846)	(12 799 626)
Purchase of other intangible assets	11	(28 632)	-
Net cash flows from investing activities		**(10 823 478)**	**(12 799 626)**
Cash flows from financing activities			
Increase in consumer deposits		65 247	45 410
Finance lease payments		(421 476)	(570 347)
Net cash flows from financing activities		**(356 229)**	**(524 937)**
Net increase/(decrease) in cash and cash equivalents		**3 384 293**	**3 514 417**
Cash and cash equivalents at the beginning of the year		2 910 224	(604 193)
Cash and cash equivalents at the end of the year	8	**6 294 517**	**2 910 224**

* See Note 44

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	37 295 000	(8 893 558)	**28 401 442**	30 463 030	**2 061 588**	54
Rental of facilities and equipment	813 400	(813 400)	**-**	866 198	**866 198**	54
Agency services	1 104 000	(1 104 000)	**-**	1 180 960	**1 180 960**	54
Licences and permits	429 700	(429 700)	**-**	200	**200**	54
Other income - (rollup)	5 360 000	(1 310 624)	**4 049 376**	518 860	**(3 530 516)**	54
Interest received - investment	1 904 200	(196 799)	**1 707 401**	1 491 210	**(216 191)**	54
Total revenue from exchange transactions	**46 906 300**	**(12 748 081)**	**34 158 219**	**34 520 458**	**362 239**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	13 000 000	(21 717)	**12 978 283**	9 194 595	**(3 783 688)**	54
Transfer revenue						
Government grants & subsidies	39 049 000	(3 319 640)	**35 729 360**	44 066 388	**8 337 028**	54
Fines, Penalties and Forfeits	-	-	**-**	93 722	**93 722**	54
Total revenue from non-exchange transactions	**52 049 000**	**(3 341 357)**	**48 707 643**	**53 354 705**	**4 647 062**	
Total revenue	**98 955 300**	**(16 089 438)**	**82 865 862**	**87 875 163**	**5 009 301**	
Expenditure						
Employee related costs	(41 756 000)	13 485 463	**(28 270 537)**	(35 591 423)	**(7 320 886)**	54
Remuneration of councillors	(2 740 000)	537 009	**(2 202 991)**	(3 169 774)	**(966 783)**	54
Depreciation and amortisation	(11 547 000)	(413)	**(11 547 413)**	(25 036 813)	**(13 489 400)**	54
Finance costs	(792 000)	44 541	**(747 459)**	(1 590 049)	**(842 590)**	54
Bad debts written off	(3 542 000)	(383)	**(3 542 383)**	(8 928 913)	**(5 386 530)**	54
Collection costs	-	-	**-**	(138 231)	**(138 231)**	54
Repairs and maintenance	-	-	**-**	(2 830 397)	**(2 830 397)**	54
Bulk purchases	(15 203 000)	(2 108 300)	**(17 311 300)**	(22 564 219)	**(5 252 919)**	54
Contracted Services	(2 140 000)	(2 500 923)	**(4 640 923)**	(4 001 078)	**639 845**	54
General Expenses	(16 286 317)	1 186 724	**(15 099 593)**	(8 793 872)	**6 305 721**	54
Total expenditure	**(94 006 317)**	**10 643 718**	**(83 362 599)**	**(112 644 769)**	**(29 282 170)**	
Operating deficit	**4 948 983**	**(5 445 720)**	**(496 737)**	**(24 769 606)**	**(24 272 869)**	
Actuarial gains/losses	-	-	**-**	711 880	**711 880**	54
Deficit before taxation	**4 948 983**	**(5 445 720)**	**(496 737)**	**(24 057 726)**	**(23 560 989)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**4 948 983**	**(5 445 720)**	**(496 737)**	**(24 057 726)**	**(23 560 989)**	

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 Position						
Assets						
Current Assets						
Inventories	400 000	-	**400 000**	3 364 291	**2 964 291**	54
Other financial assets	25 000	-	**25 000**	2 856	**(22 144)**	54
Operating lease asset	-	-	**-**	30 053	**30 053**	54
Receivables from non-exchange transactions	4 000 000	-	**4 000 000**	683 148	**(3 316 852)**	54
Consumer debtors	3 382 000	-	**3 382 000**	8 829 395	**5 447 395**	54
Cash and cash equivalents	1 000 000	-	**1 000 000**	6 294 517	**5 294 517**	54
	8 807 000	**-**	**8 807 000**	**19 204 260**	**10 397 260**	
Non-Current Assets						
Investment property	-	-	**-**	22 598 000	**22 598 000**	54
Property, plant and equipment	437 953 208	-	**437 953 208**	421 350 413	**(16 602 795)**	54
Intangible assets	-	-	**-**	1 429 738	**1 429 738**	54
Heritage assets	-	-	**-**	1 226 200	**1 226 200**	54
Other financial assets	70 000	-	**70 000**	18 251	**(51 749)**	54
	438 023 208	**-**	**438 023 208**	**446 622 602**	**8 599 394**	
Total Assets	**446 830 208**	**-**	**446 830 208**	**465 826 862**	**18 996 654**	
Liabilities						
Current Liabilities						
Finance lease obligation	478 000	-	**478 000**	356 239	**(121 761)**	54
Payables from exchange transactions	11 000 000	-	**11 000 000**	45 381 339	**34 381 339**	54
VAT payable	-	-	**-**	2 032 796	**2 032 796**	54
Consumer deposits	500 000	-	**500 000**	712 072	**212 072**	54
Employee benefit obligation	-	-	**-**	866 307	**866 307**	54
Unspent conditional grants and receipts	-	-	**-**	4 600 043	**4 600 043**	54
Provisions	3 019 141	-	**3 019 141**	730 831	**(2 288 310)**	54
	14 997 141	**-**	**14 997 141**	**54 679 627**	**39 682 486**	
Non-Current Liabilities						
Finance lease obligation	942 000	-	**942 000**	734 797	**(207 203)**	54
Employee benefit obligation	-	-	**-**	12 503 436	**12 503 436**	54
Provisions	15 204 000	-	**15 204 000**	4 779 852	**(10 424 148)**	54
	16 146 000	**-**	**16 146 000**	**18 018 085**	**1 872 085**	
Total Liabilities	**31 143 141**	**-**	**31 143 141**	**72 697 712**	**41 554 571**	
Net Assets	**415 687 067**	**-**	**415 687 067**	**393 129 150**	**(22 557 917)**	

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
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	415 687 067	-	**415 687 067**	393 129 150	**(22 557 917)**	54

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
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and other	44 032 000	(1 390 908)	**42 641 092**	40 267 496	**(2 373 596)**	54
Grants	39 049 000	(3 319 640)	**35 729 360**	48 616 303	**12 886 943**	54
Interest income	1 904 200	(196 799)	**1 707 401**	398 955	**(1 308 446)**	54
	84 985 200	**(4 907 347)**	**80 077 853**	**89 282 754**	**9 204 901**	
Payments						
Suppliers and employees	(78 112 000)	10 586 656	**(67 525 344)**	(73 553 033)	**(6 027 689)**	54
Finance costs	(792 000)	44 541	**(747 459)**	(1 165 721)	**(418 262)**	54
	(78 904 000)	**10 631 197**	**(68 272 803)**	**(74 718 754)**	**(6 445 951)**	
Net cash flows from operating activities	**6 081 200**	**5 723 850**	**11 805 050**	**14 564 000**	**2 758 950**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(9 654 000)	-	**(9 654 000)**	(10 794 846)	**(1 140 846)**	54
Purchase of other intangible assets	-	-	**-**	(28 632)	**(28 632)**	54
Net cash flows from investing activities	**(9 654 000)**	**-**	**(9 654 000)**	**(10 823 478)**	**(1 169 478)**	
Cash flows from financing activities						
Increase in consumer deposits	-	-	**-**	65 247	**65 247**	54
Repayment of borrowing	(300 000)	300 000	**-**	(421 476)	**(421 476)**	54
Net cash flows from financing activities	**(300 000)**	**300 000**	**-**	**(356 229)**	**(356 229)**	
Net increase/(decrease) in cash and cash equivalents	(3 872 800)	6 023 850	**2 151 050**	3 384 293	**1 233 243**	54
Cash and cash equivalents at the beginning of the year	(400 000)	-	**(400 000)**	2 910 224	**3 310 224**	54
Cash and cash equivalents at the end of the year	**(4 272 800)**	**6 023 850**	**1 751 050**	**6 294 517**	**4 543 467**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003)//.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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 annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

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

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

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

Impairment testing

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

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 19 - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

1.4 Investment property

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

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

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

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

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

Accounting Policies

1.4 Investment property (continued)

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

- Land held for long-term capital appreciation rather than for a Short-term sale in the ordinary course of operations;
- Land held for a currently undeternimed future use;
- A buidling owned by the municipality(or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis and a building that is vacant but is leased out under one or more operating leases on a commercial basis to external parites

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

- The municipality may hold property to earn rental and for capital appreciation or both and this will be classified as investment property. Investment property genarates cashh flows largely independently of the other assets held by an entity.
- The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows that are attributable not only to property, but also to other assets used in the production or supply process. For example, the municipality may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services and the cash flows are attributable not merely to the building, but also to other assets used in the production or supply process. The Standard of GRAP on *Property, Plant and Eqquipment* applies to owner-occupied property.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

1.5 Property, plant and equipment (continued)

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Improvements		5 - 50 Years
Infrastructure	Straight line	
• Electricity		10 - 50 Years
• Railsways		30 Years
• Roads and Paving		5 - 80 Years
• Sanitation		10 - 55 Years
Community	Straight line	
• Community Facilities		5 - 50 Years
• Recreational Facilities		10 - 40 Years
Other property, plant and equipment	Straight line	
• Computer Equipment		5 - 10 Years
• Emergency Equipment		5 - 10 Years
• Furniture and Fittings		5 - 15 Years
• Motor Vehicles		7 - 10 Years
• Office Equipment		5 - 15 Years
• Plant and Equipment		2 - 15 Years
• Specialist Vehicles		10 - 15 Years
• Other Assets		5 - 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.

1.6 Intangible assets

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

1.6 Intangible assets (continued)

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.

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.

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	4 years

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

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

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Accounting Policies

1.7 Heritage assets (continued)

Derecognition

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

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

1.8 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 an entity on terms that are not market related.

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

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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.

Accounting Policies

1.8 Financial instruments (continued)

Classification

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

Class	Category
Long term Receivables	Financial asset measured at amortised cost
Receivables from Exchange Transactions	Financial asset measured at amortised cost
Receivables from Non--Exchange Transactions	Financial asset measured at amortised cost
Cash and cash Equivalents - Notice Deposits	Financial asset measured at amortised cost
Cash and cash Equivalents - Call Deposits	Financial asset measured at amortised cost
Cash and cash Equivalents - Bank	Financial asset measured at amortised cost
Cash and cash Equivalents - Cash	Financial asset measured at amortised cost

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

Class	Category
Long-term Liabilities	Financial liability measured at amortised cost
Payables from Exchange Transactions	Financial liability measured at amortised cost
Payables from Non-exchange Transactions	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity 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.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and 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:

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.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the 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.

1.9 Leases

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

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

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 municipality's incremental borrowing rate.

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.

Accounting Policies

1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.12 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.

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

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.

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

Identification

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

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

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

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.13 Share capital / contributed capital

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

1.14 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting 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.

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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 benefits in the cost of an asset.

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

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an 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.

Accounting Policies

1.14 Employee benefits (continued)

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.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the 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.

Accounting Policies

1.14 Employee benefits (continued)

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 annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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.

1.14 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.15 Provisions and contingencies

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

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

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

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.

1.15 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 42.

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.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Accounting Policies

1.16 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.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

1.17 Revenue from exchange transactions (continued)

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.

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

1.18 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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

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

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

Accounting Policies

1.18 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.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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.

1.18 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.19 Investment income

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

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

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

1.22 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.

1.23 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.

1.24 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Accounting Policies

1.24 Irregular expenditure (continued)

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

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

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

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

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.

1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.26 Related parties

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

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

Accounting Policies

1.26 Related parties (continued)

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

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

1.27 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.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01/07/2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01/04/2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 20: Related parties	01/04/2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 32: Service Concession Arrangements: Grantor	01/04/2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 108: Statutory Receivables	01/04/2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 16 (as amended 2015): Investment Property	01/04/2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01/04/2016	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 109: Accounting by Principals and Agents	01/04/2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01/04/2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01/04/2017	The adoption of this amendment has not had a material impact on the results of the company but has resulted in more disclosure than would have previously been provided in the financial statements

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Inventories

Water	92 126	82 914
Unsold Properties Held for Resale	2 986 000	-
Stores, materials and fuels	286 165	492 581
	3 364 291	**575 495**

Inventories are held for own use and measured at the lower of Cost or Net Realisable Value

Unsold property held for resale relates to investment property not being used by council for basic service delivery. The date the decision were taken by council to dispose of the assets is the 28 June 2016. There is no active plan in place to dispose of the assets.

Inventory pledged as security

No Inventories have been pledged as security for Liabilities of the municipality

4. Other financial assets

At amortised cost		
Long term Loans	21 107	23 589
Non-current assets		
At amortised cost	18 251	21 107
Current assets		
At amortised cost	2 856	2 482

Financial assets at amortised cost

Financial assets at amortised cost past due but not impaired

Long term loans relates to housing loans financed by the municipality.

As from 01 January 2006 no loan agreement are entered into for the sale of houses. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into.

The Municipality does not hold deposits or any other security for its Long - term receivables.

No Long - term receivables have been pledged as security for the municipality`s financial liabilites.

Summary of Long - term receivables is as follows:

Net Carrying Value	56 801	57 702
Provision for impairment	(35 694)	(34 113)
	21 107	**23 589**

Reconciliation of provision for impairment of financial assets at amortised cost

Long term Receivables		
Opening balance	34 112	32 297
Provision for impairment	1 581	1 815
	35 693	**34 112**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Operating lease asset (accrual)

Non-current assets	-	-
Current assets	30 053	31 363
Non-current liabilities	-	-
Current liabilities	-	-
	30 053	**31 363**

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Operating lease assets relates to investment property rented out to the employees of the municipality and residents of Prieska.

6. Receivables from non-exchange transactions

Consumer debtors - Other sundry debtors	683 148	597 884

The municipality does not hold deposits of other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The carrying amount of other receivables from non-exchange transactions are denominated in the following currencies:

Rand	683 148	597 884

7. Consumer debtors

Gross balances		
Rates	14 794 099	13 244 759
Electricity	4 388 648	3 573 525
Water	27 834 739	22 436 564
Sewerage	9 724 561	8 977 613
Refuse	3 253 651	2 849 831
Other (Consumer Debtors)	2 841 916	1 987 350
	62 837 614	**53 069 642**
Less: Allowance for impairment		
Rates	(12 802 247)	(11 378 519)
Electricity	(2 485 897)	(1 884 376)
Water	(25 542 716)	(20 552 175)
Sewerage	(8 172 447)	(7 538 817)
Refuse	(2 756 746)	(2 383 116)
Other (Consumer Debtors)	(2 248 166)	(1 813 480)
	(54 008 219)	**(45 550 483)**
Net balance		
Rates	1 991 852	1 866 240
Electricity	1 902 751	1 689 149
Water	2 292 023	1 884 389
Sewerage	1 552 114	1 438 796
Refuse	496 905	466 715
Other (Consumer Debtors)	593 750	173 870
	8 829 395	**7 519 159**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Included in above is receivables from exchange transactions		
Electricity	1 902 751	1 689 149
Water	2 292 023	1 884 389
Sewerage	1 552 114	1 438 796
Refuse	496 905	466 715
Other (Consumer Debtors)	593 750	173 870
	6 837 543	**5 652 919**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	1 991 852	1 866 240
Net balance	**8 829 395**	**7 519 159**

Rates		
Current (0 -30 days)	83 066	339 128
31 - 60 days	102 563	93 079
61 - 90 days	87 482	71 349
90+ days	1 718 741	1 362 684
	1 991 852	**1 866 240**

Electricity		
Current (0 -30 days)	1 015 848	964 326
31 - 60 days	201 405	188 005
61 - 90 days	151 876	106 254
90+ days	533 622	430 564
	1 902 751	**1 689 149**

Water		
Current (0 -30 days)	343 541	330 925
31 - 60 days	160 519	97 720
61 - 90 days	140 753	94 678
90+ days	1 647 210	1 361 066
	2 292 023	**1 884 389**

Sewerage		
Current (0 -30 days)	216 865	202 786
31 - 60 days	93 122	79 627
61 - 90 days	67 977	52 382
90+ days	1 174 150	1 104 001
	1 552 114	**1 438 796**

Refuse		
Current (0 -30 days)	84 157	78 854
31 - 60 days	38 861	31 423
61 - 90 days	22 718	21 468
90+ days	351 169	334 970
	496 905	**466 715**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Consumer debtors (continued)

Other (Consumer Debtors)		
Current (0 -30 days)	19 031	58 463
31 - 60 days	7 728	7 444
61 - 90 days	6 407	6 724
90+ days	560 584	101 239
	593 750	**173 870**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(45 550 483)	(39 425 623)
Contributions to allowance	(8 924 948)	(6 542 474)
Amounts written off as uncollectable	467 212	417 614
	(54 008 219)	**(45 550 483)**

Consumer debtors pledged as security

None of the Receivables have been pledged as security for the municipality's financial liabilities.

Credit quality of consumer debtors

Trade receivables

Fair value of consumer debtors

Consumer debtors	8 829 395	7 519 159

Consumer debtors past due but not impaired

At 30/06/2016, R 8 829 395 (2015: R 7 519 160) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Consumer debtors impaired

As of 30/06/2016, consumer debtors of R 54 008 219 (2015: R 45 550 483) were impaired and provided for.

The amount of the provision was R 54 008 219 as of 30/06/2016 (2015: R 45 550 483).

The ageing of amounts consumer debtors impaired is as follows:

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	8 829 395	7 519 159

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(45 550 483)	(39 425 623)
Allowance for impairment	(8 924 948)	(6 542 474)
Amounts written off as uncollectible	467 212	417 614
	(54 008 219)	**(45 550 483)**

Other Receivables include outstanding debtors for various services, e.g. Arrangements, Deposits, Housing, Interest, Rentals, and Sundry Services like Garden Refuse, Sanitation Bags etc.

Consumer Debtors are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Consumer debtors (continued)

The municipality receives applications that is processes. Deposits are required to be paid for all the electricity and water accounts opened. There are no consumenrs who represent more the 5% of the total balance of Receivables.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Cash on hand	900	800
Bank balances	1 369 591	1 631 841
Short-term deposits	4 924 026	1 277 583
	6 294 517	**2 910 224**

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilites.

Credit quality of cash at bank and short term deposits, excluding cash on hand

Credit rating		
AA	6 293 617	2 909 424

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30/06/2016	**30/06/2015**	**30/06/2014**	**30/06/2016**	**30/06/2015**	**30/06/2014**
ABSA BANK - Current account - 40-5355-2997	1 336 487	1 580 133	(147 531)	1 197 662	1 499 426	(1 609 808)
ABSA BANK - Account Type - 92-8664-0859	1 047	1 004	1 002 808	1 047	1 004	1 002 808
ABSA BANK - Account Type - 92-8604-1059	1 046	1 003	1 005	1 046	1 003	1 005
ABSA BANK - Account Type - '92-0404-6778	1 378	1 306	1 003	19 854	(45 140)	(45 443)
ABSA BANK - Account Type - 20-7537-0258	-	-	-	11 307	-	-
ABSA BANK - Account Type - 20-7593-6903	3 106 365	-	-	3 106 365	-	-
ABSA BANK - Account Type - 20-7593-6864	539 920	-	-	539 920	-	-
Total	**4 986 243**	**1 583 446**	**857 285**	**4 877 201**	**1 456 293**	**(651 438)**

9. Investment property

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	22 598 000	-	22 598 000	25 584 000	-	25 584 000

Reconciliation of investment property - 2016

	Opening balance	Transfers to Property held for sale	Total
Investment property	25 584 000	(2 986 000)	22 598 000

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	25 584 000	25 584 000

Fair value of investment properties	22 598 000	25 584 000

Pledged as security

No Investment Property had been pledged as security for any liabilites of the municipality.

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.

Revenue recognised on rental on investment propery

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	769 117	745 664

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal:

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

* See Note 44

10. Property, plant and equipment

	2016			2015		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	91 884 368	(10 258 722)	81 625 646	91 884 368	(8 145 096)	83 739 272
Movables	10 120 099	(5 884 551)	4 235 548	9 724 476	(5 082 899)	4 641 577
Infrastructure	444 398 514	(109 673 742)	334 724 772	433 422 827	(87 886 347)	345 536 480
Leased Assets	3 149 933	(2 385 486)	764 447	3 149 933	(2 058 499)	1 091 434
Total	**549 552 914**	**(128 202 501)**	**421 350 413**	**538 181 604**	**(103 172 841)**	**435 008 763**

Reconciliation of property, plant and equipment - 2016

	Opening balance	**Additions**	**Depreciation**	**Impairment loss**	**Total**
Land and Buidlings	83 739 272	-	(2 113 626)	-	81 625 646
Movables	4 641 577	395 624	(663 264)	(138 389)	4 235 548
Infrastructure	345 536 480	10 975 687	(19 300 026)	(2 487 369)	334 724 772
Leased Assets	1 091 434	-	(326 987)	-	764 447
	435 008 763	**11 371 311**	**(22 403 903)**	**(2 625 758)**	**421 350 413**

Reconciliation of property, plant and equipment - 2015

	Opening balance	**Additions**	**Depreciation**	**Total**
Land and Buidlings	85 852 898	-	(2 113 626)	83 739 272
Movables	5 366 406	70 133	(794 962)	4 641 577
Infrastructure	351 874 948	12 729 493	(19 067 961)	345 536 480
Leased Assets	1 529 725	-	(438 291)	1 091 434
	444 623 977	**12 799 626**	**(22 414 840)**	**435 008 763**

Pledged as security

None of the carrying value of assets are pledger as security:

Assets subject to finance lease (Net carrying amount)

Leased Assets	764 447	1 091 434

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.

Some of the property and equipment have been fully depreciated and are still in use at 30 June 2016. The municipality has previously planned to replace these assets but failed due to budgetary constraints.

* See Note 44

11. Intangible assets

	2016			2015		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer Software	1 455 825	(26 087)	1 429 738	1 427 193	(18 935)	1 408 258

Reconciliation of intangible assets - 2016

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer Software	1 408 258	28 632	(7 152)	1 429 738

Reconciliation of intangible assets - 2015

	Opening balance	**Amortisation**	**Total**
Computer Software	1 415 056	(6 798)	1 408 258

Pledged as security

No lintangible assets had been pledged as security for any liabilites of the municipality:

Some of the Intangible assets have been fully depreciated and are still in use at 30 June 2016. THhe municipality has previously planned to replace these assets but failed due to budgetary constaints.

12. Heritage assets

	2016			2015		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	1 226 200	-	1 226 200	1 226 200	-	1 226 200

Reconciliation of heritage assets 2016

	Opening balance	**Total**
Historical buildings	1 226 200	1 226 200

Reconciliation of heritage assets 2015

	Opening balance	**Total**
Historical buildings	1 226 200	1 226 200

* See Note 44

Notes to the Annual Financial Statements

	2016	2015 Restated*

12. Heritage assets (continued)

Condition of heritage assets

Heritage assets are measured at cost less accumulated impairment. The municipality assessed the heritage assets for any impairment indicators with following guidance:

External Indicators:
The heritage assets of the municipality are unique, thus exist there no active market to determine if any indicators exist of impairment. Based on the information available will internal indicator be assessed.

Internal Indicators:
The municipality inspected the heritage assets for any physical damages or deterioration and no changes was identified from the previous financial year. The municipality has proper physical controls over the heritage assets to safeguard them and can account for the heritage assets completeness and existence.

Due to the uniqueness of the heritage assets the municipality does not have the required knowledge and experience to determine the recoverable amount and these experienced consultants are also not available through inquiry from the National Museum and Provincial Museums. The municipality are therefore not able to determine the cost subsequent too the initial recognition.

As no information are available regarding the valuation , the Municipality opted according GRAP 103 to disclose information that are useful and relevant for the relevant users as summarised below:

Class heritage assets: General Condition
Antiques and collections**:** Fair
Jewellery**:** Good
Museum exhibits**:** Fair
Public monuments: Fair/Poor
Works of art**:** Fair

Restrictions on heritage assets

No Restrictions apply to any of the Heritage Assets of the municipality.

Pledged as security

No Heritage assetshad been pledged as security for any liabilites of the municipality:

Notes to the Annual Financial Statements

	2016	2015 Restated*

13. Finance lease obligation

	2016	2015 Restated*
Minimum lease payments due		
- within one year	448 332	549 532
- in second to fifth year inclusive	802 563	1 250 895
	1 250 895	1 800 427
less: future finance charges	(159 859)	(287 915)
Present value of minimum lease payments	**1 091 036**	**1 512 512**

	2016	2015 Restated*
Present value of minimum lease payments due		
- within one year	354 090	418 671
- in second to fifth year inclusive	730 233	1 084 324
- Accrued Interest	6 713	9 517
	1 091 036	**1 512 512**

	2016	2015 Restated*
Non-current liabilities	734 797	1 091 036
Current liabilities	356 239	421 476
	1 091 036	**1 512 512**

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 5-7 years and the average effective borrowing rate was 10,5% for Nashua and Gestetner lease and Prime + 1% for the lease of motor vehicles. (2015: 10,5% and Prime +1%)

The prime rate at inception of the lease was 9%

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The final payment date for the motor leases which are linked to prime is as follows:
315SJ 4X4 Backhoe Loader - 28/02/2019
CS533E XL Vibratory Soil Compactor - 01/02/2019
Nissan 12 4X2N - 01/06/2019

14. Payables from exchange transactions

	2016	2015 Restated*
Trade payables	36 163 776	20 322 135
Payments received in advanced - contract in process	187 551	181 145
Accrued leave pay	2 560 103	1 792 762
Accrued bonus	1 138 715	955 235
Deposits received	3 000	3 000
Retentions	300 348	300 348
Creditors payments in advance	599	599
Salary Control Account	2 568 049	2 056 782
Traffic Control	2 459 198	3 060 067
	45 381 339	**28 672 073**

Staff Bonuses accrue to the staff of the municipallity on an annual basis, subject to certain conditions. The provision is an estimate iif the amount due at reporting date.

Staff leave accrues to the staff of the municpality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

* See Note 44

	2016	2015 Restated*

15. VAT payable

Tax refunds payables	2 032 796	3 031 940

The value added tax recoverable from, or payable to, the taxation authority presented in this note and the Statement of Financial Position is on the accrual basis while the municipality is registered on cash basis according to section 15 of the Value-added Tax Act, 1991 (Act 89 of 1991).

16. Consumer deposits

Electricity	712 072	646 825

17. Employee benefit obligations

Defined benefit plan

Ex-gratia Benefits

An actuarial valuation has been performed of SiyaThemba Municipality's unfunded liability in respect of ex-gratia benefits.

The ex-gratia benefits valued here are benefits that are paid by the Municipality from its revenue, i.e. they are not funded or paid from one of the Municipality's formalised benefit arrangements.

Employees who commenced service with the Municipality prior to 1994 and did not join a pension fund on appointment are entitled to receive ex-gratia benefits in respect of service accrued with the Municipality whilst not being a member of a pension fund. These benefits are paid on retirement or in the event of death or resignation before retirement.

There are ten employees that are currently entitled to ex-gratia benefits.

There is no Current-service Cost as the benefit is fully accrued for all the eligible employees.

Long Service Award liability

An actuarial valuation has been performed of SiyaThemba Municipality's unfunded liability in respect of the entitlement of employees to Long Service Awards.

There are 153 employees that are currently entitled to Long Service Awards.

The expected remaining working-lifetime of eligible employees is 18.9 years.

Post-employment Medical Aid subsidy liability

An actuarial valuation has been performed of the liability in respect of the post-employment medical aid subsidy to employees and retirees of SiyaThemba Municipality and to their registered dependants.

The valuation considers all employees, retirees and their dependants whose participation in the health care arrangements entitles them to a post-employment medical aid subsidy.

At the Valuation Date, membership of health care arrangements entitled to a post-employment medical aid subsidy was 162.

Medical Scheme Arrangements:
The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.
Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure:
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy:
Eligible employees will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement.

All continuation members and their eligible dependants receive a 70% subsidy of the contribution payable.

Upon a member's death-in-service or death-in-retirement the surviving dependants will not continue to receive a subsidy.

Notes to the Annual Financial Statements

	2016	2015 Restated*

17. Employee benefit obligations (continued)

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

Carrying value		
Present value of the Ex-gratia Benefits	(1 000 375)	(1 031 619)
Present value of the Long Service Award liability	(4 760 656)	(3 737 449)
Present value of the Post-employment Medical Aid subsidy liability	(7 608 712)	(7 639 063)
	(13 369 743)	**(12 408 131)**
Non-current liabilities	(12 503 436)	(11 650 769)
Current liabilities	(866 307)	(757 362)
	(13 369 743)	**(12 408 131)**

Net expense recognised in the statement of financial performance

Current service cost	(639 037)	(576 107)
Interest cost	(1 034 455)	(955 578)
	(1 673 492)	**(1 531 685)**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	711 880	549 501

* See Note 44

	2016	2015 Restated*

17. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used: Ex-gratia Benefits	9,01 %	8,54 %
Discount rates used: Long Service Award liability	8,50 %	7,98 %
Discount rates used: Post-employment Medical Aid subsidy liability	9,06 %	8,89 %
Expected increase in salaries: Ex-gratia Benefits	7,65 %	7,52 %
General Salary Inflation (long-term): Long Service Award liability	7,16 %	6,91 %
Health care cost inflation rate: Post-employment Medical Aid subsidy liability	8,17 %	8,05 %
Net effective discount rate: Ex-gratia Benefits	1,26 %	0,95 %
Net effective discount rate: Long Service Award liability	1,25 %	1,00 %
Net effective discount rate: Post-employment Medical Aid subsidy liability	0,83 %	0,78 %

The basis used to determine the key assumptions used with regards to Ex-gratia Benefits:

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.01% per annum has been used. The corresponding index-linked yield at this term is 1.74%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

Salary Inflation Rate: This assumption is used to calculate the estimated growth in salaries of the eligible employees. An expected inflation assumption of 6.65% was obtained from the differential between market yields on index-linked bonds (1.74%) consistent with the estimated term of the liability and those of fixed-interest bonds (9.01%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as (1+9.01%-0.50%) / (1+1.74%).

Thus, a salary increase rate of 7.65% per annum over the expected term of the liability has been assumed, which is 1.00% above the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.26%.

The basis used to determine the key assumptions used with regards to Long Service Award liability:

Discount Rate: stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.Consequently, a discount rate of 8.50% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.50% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 1.73%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee’s salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

17. Employee benefit obligations (continued)

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.16% was obtained from the differential between market yields on index-linked bonds (1.73%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.50%-0.50%)/(1+1.73%))-1.

Thus, a general salary inflation rate of 7.16% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.25%.

The basis used to determine the key assumptions used with regards to Post-employment Medical Aid subsidy liability:

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 9.06% per annum has been used. The corresponding index-linked yield at this term is 1.78%. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.17% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.67%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.83% which derives from ((1+9.06%)/(1+8.17%))-1.

The expected inflation assumption of 6.67% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (1.78%) and those of fixed interest bonds (9.06%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+9.06%-0.50%)/(1+1.78%))-1.

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2016	2015
Unspent conditional grants and receipts		
Department of Sports and Culture (Library)	234 172	50 128
Municipal Infrastructure Grant	3 495 871	-
Department Energy	870 000	-
	4 600 043	**50 128**

* See Note 44

	2016	2015 Restated*

18. Unspent conditional grants and receipts (continued)

Movement during the year

	2016	2015
Balance at the beginning of the year	50 128	414 178
Additions during the year	4 549 915	50 128
Refunded during the year	-	(414 178)
	4 600 043	**50 128**

	2016	2015
Non-current liabilities	-	-
Current liabilities	4 600 043	50 128
	4 600 043	**50 128**

See note 27 for reconciliation of grants from National/Provincial Government.

19. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Change to provision due to passage of time	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	5 662 820	424 328	(576 465)	5 510 683

	2016	2015
Non-current liabilities	4 779 852	5 662 820
Current liabilities	730 831	-
	5 510 683	**5 662 820**

Environmental rehabilitation provision

The estimated rehabilitation cost are for the landfill sites at Prieska, Marydale and Niekerkshoop. Landfill sites were revalued in the current year Engineering Aces. The reassessment of the provision lead to an decrease in the current year provision of R152 137.

The methodology to determine the 2016 provision disclosure was as follows:

- The rehabilitation costs (direct and indirect) were calculated in 2016 prices for each landfill
- The 2016 costs were escalated at CPI 6.59% (services) and CPAP 7.90% (construction items) to obtain their future values at the time they are assumed to arise
- The future costs were then discounted (at an appropriate pre-tax rate) to 2016 to obtain the long term provision for closure
- The short term provision for closure is made by ‘unwinding the discount’, i.e. it reflects the interest charge on the opening balance required in 2017 financial year

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R5 510 683 (2015: R5 662 820) to restore the sites at the end of their useful lives.

Notes to the Annual Financial Statements

	2016	2015 Restated*

20. Revenue

Service charges	30 463 030	27 373 694
Rental of facilities and equipment	866 198	791 772
Agency services	1 180 960	1 084 920
Licences and permits	200	450
Other income	518 860	832 577
Interest received - investment	1 491 210	1 311 182
Property rates	9 194 595	7 960 250
Government grants & subsidies	44 066 388	39 071 411
Public contributions and donations	-	439
Fines, Penalties and Forfeits	93 722	33 591
	87 875 163	**78 460 286**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	30 463 030	27 373 694
Rental of facilities and equipment	866 198	791 772
Agency services	1 180 960	1 084 920
Licences and permits	200	450
Other income	518 860	832 577
Interest received - investment	1 491 210	1 311 182
	34 520 458	**31 394 595**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	9 194 595	7 960 250
Transfer revenue		
Government grants & subsidies	44 066 388	39 071 411
Public contributions and donations	-	439
Fines, Penalties and Forfeits	93 722	33 591
	53 354 705	**47 065 691**

21. Service charges

Sale of electricity	6 875 173	6 206 117
Sale of water	12 768 804	11 444 889
Sewerage and sanitation charges	7 707 118	6 941 912
Refuse removal	3 111 935	2 780 776
	30 463 030	**27 373 694**

Revenue foregone amounts to R117,80 (2015: R1449,45).

22. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	866 198	791 772

23. Other revenue

Other income	518 860	832 577

* See Note 44

Notes to the Annual Financial Statements

	2016	2015 Restated*

24. Other income

Administration Fees	59 653	48 439
Building Plan Fees	37 602	22 098
Charges for Installation	70 798	56 406
Charges for Re-Installation	11 355	36 528
Garden refuse and Garbage	80 665	81 306
Internal Recoveries	33 491	20 648
Other Revenue	152 558	437 555
Seta Income	10 289	47 948
Tombfees	39 569	33 492
Valuation Certificate	22 880	47 786
Sale of Sand	-	371
	518 860	**832 577**

The amounts disclosed above for Other income are in respect of services rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

25. Investment revenue

Interest revenue		
Bank	394 395	104 364
Long-term debtors	4 560	(5 261)
Interest charged on trade and other receivables	1 092 255	1 212 079
	1 491 210	**1 311 182**

* See Note 44

Notes to the Annual Financial Statements

	2016	2015 Restated*

26. Property rates

Rates received

	2016	2015 Restated*
Residential	6 562 677	5 779 427
State	1 928 855	1 774 498
Industrial	6 948	-
Agricultural	696 233	635 904
Less: Income forgone	(118)	(229 579)
	9 194 595	**7 960 250**

Property rates are levied on the value of the land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2009. A generall valuation has been performed during the financial year and will be applied with effect 1 July 2013.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates;

Residential Properties: 2.143c (2015: 1.999c)
Commercial: 2.787c (2015: 2.5999c)
Agriculture: 0.029c (2015: 0.027c)
State: 4.287c (2015: 3.999c)
Municipal: 0c (20115:0c)

A Rebate of R15,000.00 was allowed on residenial propertoies whilst a discount of (20%) was granted on properties owned by the State and a discount of (30%) on farms

Rates are levied monthly on property owners and are payable the 15th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September,. Interest is levied at a rate determineed by council on outstanding rates amounts.

Rates are levied monthly on property owners and are payable the end each month. Interest is levied at a rate determined by council on outstanding rates amounts yearly with the budget process.

* See Note 44

Notes to the Annual Financial Statements

	2016	2015 Restated*

27. Government grants and subsidies

	2016	2015 Restated*
Operating grants		
Equitable share	24 220 409	22 443 701
Finance Municipal Grant	1 875 000	1 800 000
Municipal System Improvement Grant	930 000	934 000
Department of Sports and Culture (Library)	1 185 956	840 872
	28 211 365	**26 018 573**
Capital grants		
Department of Water Affairs	2 066 894	1 214 820
Municipal Infrastructure Grant	12 158 129	9 708 000
Department Provincial Local Goverment and Housing	-	630 018
Expanded Public Works	1 000 000	1 000 000
Department Energy	630 000	500 000
	15 855 023	**13 052 838**
	44 066 388	**39 071 411**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

	2016	2015 Restated*
Conditional grants received	19 845 979	16 627 710
Unconditional grants received	24 220 409	22 443 701
	44 066 388	**39 071 411**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Financial Management Grant

	2016	2015 Restated*
Balance unspent at beginning of year	-	-
Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Financial Management Grant is paid by National Treasury to Municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

The municipality complied wth the conditions of the grant.

Notes to the Annual Financial Statements

	2016	2015 Restated*

27. Government grants and subsidies (continued)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	-
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Municipal System Immprovement Grant is allocated to municipalities to assit in building in-house capacity to perform their fuctions and to improve and stabilise municipal systems. No funds have been withheld.

The municipality complied with the conditions of the grant.

Department of Sports and Culture (Library)

Balance unspent at beginning of year	50 128	-
Current-year receipts	1 370 000	891 000
Conditions met - transferred to revenue	(1 185 956)	(840 872)
	234 172	**50 128**

Conditions still to be met - remain liabilities (see note 18).

This grant was received for the building and maintenance of libraries in the district. No funds have been withheld.

The municipality complied with the conditions of the grant.

Department of Water Affairs

Balance unspent at beginning of year	-	-
Current-year receipts	2 066 894	1 214 820
Conditions met - transferred to revenue	(2 066 894)	(1 214 820)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used for the refurbishment of water schemes transfered from DWA to the municipality. No funds have been withheld.

The municipality complied with the conditions of the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	-
Current-year receipts	15 654 000	9 708 000
Conditions met - transferred to revenue	(12 158 129)	(9 708 000)
	3 495 871	**-**

Conditions still to be met - remain liabilities (see note 18).

Notes to the Annual Financial Statements

	2016	2015 Restated*

27. Government grants and subsidies (continued)

The Municipal Infrastructure Grant was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.No funds have been withheld.

The municipality complied with the conditions of the grant.

Department Provincial Local Government and Housing (DPLG&H)

	2016	2015
Balance unspent at beginning of year	-	-
Current-year receipts	-	630 018
Conditions met - transferred to revenue	-	(630 018)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The grant was allocated for the funding of various projects e.g LED Strategy, IDP, PMS, ect to assist in the improvement of the performance of the municipality. No funds have been withheld.

The municipality complied with the conditions of the grant.

Expanded Public Works

	2016	2015
Balance unspent at beginning of year	-	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

The Expanded Public Works Programme Grant was allocated to the municipality for enviromental and water infrastructure projects. No funds have been withheld.

The municipality complied with the conditions of the grant.

Department Energy

	2016	2015
Balance unspent at beginning of year	-	414 178
Current-year receipts	1 500 000	500 000
Conditions met - transferred to revenue	(630 000)	(500 000)
Other Adjustments/Refunds	-	(414 178)
	870 000	**-**

Conditions still to be met - remain liabilities (see note 18).

Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld.

The municipality complied with the conditions of the grant.

28. Public contributions and donations

	2016	2015
Public contributions and donations	-	439

* See Note 44

Notes to the Annual Financial Statements

	2016	2015 Restated*

29. Employee related costs

Basic	21 613 101	20 337 872
Bonus	1 760 001	1 423 745
Medical aid - company contributions	1 095 709	1 135 093
UIF	130 371	276 848
SDL	32 630	-
Leave pay provision charge	1 017 061	(112 219)
Defined contribution plans	639 037	576 147
Travel, motor car, accommodation, subsistence and other allowances	1 067 505	1 041 013
Overtime payments	1 195 281	1 309 558
Long-service awards	1 305 115	1 198 617
Acting allowances	599 496	625 074
Housing benefits and allowances	304 971	53 650
Contributions Pension funds	3 466 092	3 172 794
Industrial Council	77 094	18 155
Telephone/ Cell - Allowances	47 528	66 120
Other - Allowances	654 617	429 077
Registration Fees	438 611	286 578
Termination benefits	147 203	150 036
	35 591 423	**31 988 158**

Remuneration of acting municipal manager - IWJ Stadhouer

Acting allowance	507 570	-

IWJ Stadhouer was appointed as the acting municipal manager in the 2016 Financial year. All remuneration paid to Mr.Stadhouer was disclosed as acting allowance.

Mr Stadhouer took over from Mr Alexander in October 2015.

Remuneration of chief finance officer - H Meiring

Annual Remuneration	541 114	-
Car Allowance	98 613	-
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	115 185	-
Other (SALGA BC)	149	-
Scare Skills Allowance	62 256	-
Acting allowance (H Meiring)	-	199 241
	817 317	**199 241**

This post was vacant and acting allowance was paid to H Meiring.

H Mering was appointed as chief financial officer in the 2016 Financial year.

Notes to the Annual Financial Statements

	2016	2015 Restated*

29. Employee related costs (continued)

Remuneration of Technical Service Manager: J Basson

	2016	2015
Annual Remuneration	541 114	-
Car Allowance	98 613	-
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	50 242	-
Other (SALGA BC)	160	-
	690 129	**-**

Technical Manager J Basson was appointed in the 2016 Financial year.

Remuneration of Corporate Manager: J Badenhorst

	2016	2015
Annual Remuneration	511 500	-
Car Allowance	111 825	-
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	165 671	-
Other (SALGA BC)	160	-
	789 156	**-**

J Badenhorst was appointed as Corporate Manager in the 2016 Financial year.

Remuneration of Municipal Manager JRM Alexander

	2016	2015
Annual Remuneration	-	606 921
Car Allowance	-	112 107
Contributions to UIF, Medical and Pension Funds	-	224 018
Other (SALGA BC)	-	163
	-	**943 209**

JRM Alexander was the municipal manager for the period 01 JULY 2014 - 30 JUNE 2015.

Mr Stadhouer took over from Mr Alexander in October 2015.

30. Remuneration of councillors

	2016	2015
Major	1 075 917	600 859
Councillors	2 093 857	1 368 415
	3 169 774	**1 969 274**

31. Depreciation and amortisation

	2016	2015
Property, plant and equipment	25 029 661	22 421 639
Intangible assets	7 152	-
	25 036 813	**22 421 639**

Notes to the Annual Financial Statements

	2016	2015 Restated*

32. Finance costs

Non-current borrowings	424 328	284 931
Trade and other payables	1 037 665	36 804
Finance leases	128 056	181 285
	1 590 049	**503 020**

33. Debt impairment

Debt impairment	8 928 913	6 544 289

34. Bulk purchases

Electricity	21 813 699	14 549 826
Water	750 520	72 821
	22 564 219	**14 622 647**

35. Contracted services

Information Technology Services	1 431 473	968 303
Specialist Services	1 687 311	1 408 090
Other Contractors	882 294	852 048
	4 001 078	**3 228 441**

36. General expenses

Advertising	360 794	268 660
Auditors remuneration	1 902 397	1 752 895
Bank charges	217 853	180 889
Insurance	71	-
IT expenses	243 922	532 295
Fuel and oil	996 478	832 191
Security (Guarding of municipal property)	168 283	85 934
Travel - local	465 836	498 487
Water losses	310 094	122 507
Grant expenditure	3 227 915	2 722 943
Ward committee expenditure	213 416	187 181
Library Development Expense	118 904	27 233
Sanitation and sewerage	10 687	9 712
Other expenses	557 222	776 931
	8 793 872	**7 997 858**

The amounts discosed above for general expenses are in respect of costs incurred in the general management of the municipaliity and not direcy atttributable to a specific service or class of expense.

37. Auditors' remuneration

Expenses	1 902 397	1 752 895

Notes to the Annual Financial Statements

	2016	2015 Restated*

38. Operating deficit

Operating deficit for the year is stated after accounting for the following:

	2016	2015 Restated*
Amortisation on intangible assets	7 152	-
Depreciation on property, plant and equipment	25 029 661	22 421 639
Employee costs	38 761 197	33 957 432

39. Cash generated from operations

	2016	2015 Restated*
Deficit	(24 057 726)	(12 933 883)
Adjustments for:		
Depreciation and amortisation	25 036 813	22 421 639
Acturial gains	(711 880)	(549 501)
Finance costs	424 328	284 931
Interest income	(1 092 255)	(1 212 976)
Debt impairment	8 928 913	6 544 289
Movements in operating lease assets and accruals	(1 310)	(9 599)
Employee benefits obligation	(1 673 492)	(1 531 685)
Movements in provisions	(152 137)	284 931
Waterloss	310 094	122 507
Changes in working capital:		
Inventories	(2 788 796)	(96 061)
Consumer debtors	(9 767 972)	(10 070 865)
Other receivables from non-exchange transactions	(85 264)	1 458 967
Payables from exchange transactions	16 709 160	11 047 819
VAT	(999 144)	1 487 926
Unspent conditional grants and receipts	4 549 915	(364 050)
Consumer deposits	(65 247)	(45 410)
	14 564 000	**16 838 979**

40. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	**Total**
Long term Receivables	18 251	18 251
Trade and other receivables from non-exchange transactions	683 148	683 148
Consumer debtors	8 829 395	8 829 395
Cash and cash equivalents	6 294 517	6 294 517
Current portion of Long-term Receivables	2 856	2 856
	15 828 167	**15 828 167**

Notes to the Annual Financial Statements

	2016	2015 Restated*

. **Financial instruments disclosure (continued)**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 091 036	1 091 036
Trade and other payables from exchange transactions	45 381 339	45 381 339
	46 472 375	**46 472 375**

2015

Financial assets

	At amortised cost	Total
Long term Receivables	21 107	21 107
Other receivables from non-exchange transactions	597 884	597 884
Consumer debtors	7 519 159	7 519 159
Cash and cash equivalents	2 910 224	2 910 224
Current portion of Long-term Receivables	2 482	2 482
	11 050 856	**11 050 856**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	1 512 512	1 512 512
Trade and other payables from exchange transactions	28 672 073	28 672 073
	30 184 585	**30 184 585**

41. Commitments

Authorised capital expenditure

	2016	2015
Already contracted for but not provided for		
• Property, plant and equipment	4 766 893	8 028 323
Total capital commitments		
Already contracted for but not provided for	4 766 893	8 028 323

Authorised operational expenditure

	2016	2015
Already contracted for but not provided for		
• Operational commitments	1 230 821	-
Total operational commitments		
Already contracted for but not provided for	1 230 821	-

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

* See Note 44

Notes to the Annual Financial Statements

42. Contingencies

A Claim against the municipality was received from Mr. J Van Staden and two others to permanently employee them. The case has been won by the parties but the municipality is currently reviewing the case with the assistance of Du Toit Atttorneys to be laid before the CCMA. The amount are estimated at R150 000 (2015: R150 000).

The Municipality instituted a claim against Die Bos (Die Prieska Oranjerivier Oeweroord CC) to take back the ownership of a piece of land previously rented out for a period of 30 years. It is not clear at this stage if this matter will be opposed or not. The esstimated amount will be in the region of R50 000 (2015: R50 000) if the matter is opposed.

Landfill sites:
The Municipality have three landfill sites in Prieska, Niekerkshoop and Marydale. It has been identified that not all landfill sites are licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).
In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.
The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.

Contingent assets

A claim was instituted by the municipality against Kweza Power (Pty) Ltd for arrear rental amount. The claim has not yet been instituted yet. The amouunt are estimated at R100 000 (2015:R100 000).

	2016	2015 Restated*

43. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note 29
Members of key management	H Meiring
	J Basson
	J Badenhorst
Councillors	Refer to councillors remuneration note 30
	P. Papier
	FM. Van Wyk
	J. Molepe
	GA. Speelman
	E. Martin
	G. Macdonald
	BA. Titus

Related party balances

	2016	2015
Amounts included in Trade receivable (Trade Payable) regarding related parties		
FM. Van Wyk - Councillor	394	-
BA Titus - Councillor	-	2 324

Related party transactions

	2016	2015
Rates Charges to Councillors		
P. Papier	6 197	5 788
GP. Mackay	2 652	2 323
FM. Van Wyk	1 052	1 001
J. Molepe	-	-
GA. Speelman	-	-
E. Martin	354	360
G. Macdonald	351	327
BA. Titus	2 987	-
Service Charges to Councillors		
P. Papier	14 590	8 790
GP. Mackay	7 296	5 432
FM. Van Wyk	6 139	7 691
J. Molepe	2 313	2 323
E. Martin	7 259	1 859
G. Macdonald	7 881	6 296
BA. Titus	10 479	8 453
Rates Charges to Key Management		
JJ. Badenhorst	11 672	-
Service Charges to Key Management		
JJ. Badenhorst	30 913	29 408
JRM. Alexander	-	4 993
Sundry Charges to Key Management		
JJ. Badenhorst	-	11 936

44. Prior period errors

The municipality could not provide for reasons suspense accounts which were not cleared at year end, and no supporting documentation was provided to validate the suspense accounts at year end that are included as part of the receivables from non-exchanges transactions. The matter resulted in overstatement of Receivables form Non-exchange Transactions. The municipality also had accounts with no movements which no support could be provide for. The accounts were written off against accumulated surplus amounted to R1 911 479,56.

The Operating Lease Receivable was not processed in the general ledger or during preperation of the financial statements. The error resulted in a understatement of operating lease receivable amounting to R9 599.

The bonus provision was not processed in the general ledger or during preperation of the financial statements. The error resulted in a overstatement of bonus provision amounting to R37 715,10.

Leave registers for employees were not updated with compulsory leave taken on 29 December 2014 to 02 January 2015, which resulted in an overstatement of leave provision. The error resulted in a overstatement of leave provision amounting to R219 681,66.

Trade payables amount disclosed in the financial statements does not agree to the creditors list, which resulted in an overstatement of payables. The error reuslted in a overstatement of trade payables amounting to R11 101,83.

The municipality had trade payables with no movements which no support could be provider for. The matter resulted in overstatement of trade payables. The accounts were written off against accumulated surplus which amounted to R632 013,52.

The net effect of the accounts written off amounted to R1 279 466,04.

The municipality incorrectly recorded Equitable share under other income, which resulted Output Vat raised on the Equitable share received. The Prior year was restated by correctly account for Equitable share and reversing the Output Vat Raised. The error resulted in a understatement of equitable share amounting to R43 506,70 and a overstatement of VAT Output amounting to R5 342,93

The municipality incorrectly recorded Expense Transactions inclusive of VAT. The Prior year were restated by accounting for the VAT amounting to R36 650.

The municipaltiy captured audit fees in the incorret financial period.The error resulted in a overstatement of audit fees amounting to R913 741.73.

Difference between the Fixed asset register and financial statements. The error resulted in a overstatement of property, plant and equipment amounting to R3 964 384.

Difference between the Age analysis and the control accounts. The error resulted in a overstatement of consumer debtors amounting to R767 974.

The following symbols will be used to indicate the change in accounts:
Assets: Decrease (-) Increase (+)
Liabilities: Decrease (+) Increase (-)
Income: Decrease (+) Increase (-)
Expenses: Decrease (-) Increase (+)
Equity: Decrease (+) Increase (-)

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

The comparative amount of Contingent assets were restated amounting to R100 000 which was not disclosed in the prior year.

The comparative amount of Contingent Liability were restated amounting to R200 000 which was not disclosed in the prior year.

The comparative amount of Related Parties were restated amounting to R99 304 due to additional disclosures of related parties in the current financial year.

* See Note 44

Notes to the Annual Financial Statements

44. Prior period errors (continued)

The comparative amount of Unauthorised expenditure were restated amounting to R24 559 283 due to unauthorised being incorrectly calculated in the prior year.

The comparative amount of Fruitless and wasteful expenditure were restated amounting to R388 507 due to not all fruitless and wasteful expenditure being accounted for.

The comparative amount of Irregular expenditure were restated amounting to R7 142 767 due to procurement procedures not followed.

The comparative amount of Pension and Medical aid Deductions in terms of Municipal Finance Management Act were restated amounting to R407 754 due to a calculation error in the prior year.

The comparative amount of commitments were restated amounting to R8 028 323 due to a calculation error in the prior year.

The comparative amount of audit fees disclosed under additional disclosures in terms of the MFMA were restated amount to R2 194 470.

Statement of financial position		
Property, plant and equipment	-	(3 964 384)
Operating Lease Receivables	-	9 599
Consumer debtors	-	(769 974)
Receivables from Non-exchange Transactions	-	(1 547 851)
Payables from Exchange Transactions	-	900 512
VAT Payable	-	41 992
Employee benefit obligation	-	(100)
Accumulated Surplus	-	5 331 054
Statement of Financial Performance		
Government Grants and Subsidies Received	-	(43 507)
Rental of Facilities and Equipment	-	(9 599)
Other Revenue	-	38 163
Employee Related Costs	-	(257 396)
Remuneration of Councillors	-	(487 275)
Collection Costs	-	(11 292)
Contracted Services	-	82 200
General Expenses	-	(45 351)
Depreciation and Amortisation	-	6 369 844

45. Comparative figures

Certain comparative figures have been reclassified.

The reason for the restatement are because management is of the opinion that the reclassification present a fairer representation of the financial position of the municipality.

The effects of the reclassification are as follows:

Receivables from Exchange Transactions were renamed to Consumer debtors based on the presentation of the financial statements.

Property rates were classified from Receivables from non-exchange transactions to Consumer debtors.

Reclassification of employee benefits from provisions based on Grap 25

Reclassification of Payables from non-exchange to payables from exchange as based on Grap 25 paragraph 11.

* See Note 44

Figures in Rand	2016	2015

45. Comparative figures (continued)

Renamed Long-term liabilities to Finance leases.

Actuarial gains seperately disclosed from Employee related cost.

Reclassification of Grants and subsidies paid to General expense based on the presentatin of the financial statements.

Comparative figures are the amounts before taking into account the prior period errors as per note 44.

Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Consumer Debtors	5 890 400	2 400 108	8 290 508
Receivables from Non-exchange Transactions	4 545 843	(2 400 108)	2 145 735
Provisions	(757 262)	757 262	-
Payables from Exchange Transactions	(20 634 184)	(8 939 777)	(29 573 961)
Payables from Non-exchange Transactions	(8 939 777)	8 939 777	-
Employee benefit obligation	-	(757 262)	(757 262)
Long-term Liabilities	(1 091 036)	1 091 036	-
Finance lease liability	-	(1 091 036)	(1 091 036)
Total	**(20 986 016)**	**-**	**(20 986 016)**

Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Employee related costs	31 696 053	549 501	32 245 554
Grants and Subsidies Paid	56 187	(56 187)	-
General Expenses	9 241 766	56 187	9 297 953
Actuarial gains	-	(549 501)	(549 501)
Total	**40 994 006**	**-**	**40 994 006**

46. Risk management

Financial risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30/06/2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Finance lease liabilities	448 332	448 332	354 232	-
Payables from exchange transactions	45 381 339	-	-	-

At 30/06/2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Finance lease liabilities	549 532	448 332	802 563	-
Payables from exchange transactions	28 672 073	-	-	-

Credit risk

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

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

Market risk

Interest rate risk

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

The municipality is not exposed to credit interest rate risk as the municipality has no borrowing.

47. Going concern

We draw attention to the fact that at 30 June 2016, a material uncertainty exist regarding the Municipality's going concern.

Factors that indicate an uncertainty regarding the municipality to continue as a going concern:
- Provision for landfill site and employee benefits not cash backed;
- A net current liability position was realised at year-end;
- The municipality experienced cash flow problems during the year, which resulted in all creditors not being paid on time;
- Debtors are outstanding for 524 days (2015: 492 days) and
- Significant increase in the deficit report from the prior financial year.

Notes to the Annual Financial Statements

47. Going concern (continued)

Even though above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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 from National Treasury for the ongoing operations for the municipality..

48. Events after the reporting date

No events having financial implications disclosure occured subsequent to 30 June 2016

49. Unauthorised expenditure

Opening balance	111 763 462	87 204 179
Unauthorised Expenditure current year.	43 101 203	24 559 283
Unauthorised Expenditure awaiting authorisation	**154 864 665**	**111 763 462**

No disciplinary steps have been taken with regards to the Unauthorised expenditure occurred.

50. Fruitless and wasteful expenditure

Opening balance	11 714 587	11 326 080
Fruitless and Wasteful Expenditure Current year	1 424 553	388 507
Condoned or written off by council	-	-
Fruitless and Wasteful Expenditure awaiting condonement	**13 139 140**	**11 714 587**

No disciplinary steps have been taken with regards to the Fruitless and wasteful expenditure occurred.

No Fruitless and wasteful expenditure have been recovered or written off.

51. Irregular expenditure

Opening balance	78 737 468	71 594 701
Add: Irregular Expenditure - current year	5 926 060	7 142 767
Irregular Expenditure Awaiting condonement	**84 663 528**	**78 737 468**

Analysis of expenditure awaiting condonation per age classification

Current year	84 663 528	-
Prior years	-	78 737 468
	84 663 528	**78 737 468**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Various expenditure contrary to SCM policy	No steps taken	4 676 511
Irregular Contribution to Council (Overpayment of remuneration)	To be submitted to Council for condonement.	54 268
Overtime without approve policy	No steps taken	1 195 281
		5 926 060

51. Irregular expenditure (continued)

Details of irregular expenditure recoverable (not condoned)

Various expenditure contrary to SCM policy	4 676 511
Irregular Contribution to Council (Overpayment of remuneration)	54 268
	4 730 779

Details of irregular expenditure not recoverable (not condoned)

Overtime without approve policy	1 195 281

52. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 110 000	796 316
Current year subscription / fee	505 578	510 000
Amount paid - current year	-	(196 316)
	1 615 578	**1 110 000**

Distribution losses

Unaccounted Electricity Losses

Electricity Losses occur due to inter alia, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported. The Electricity losses is as follows.

Loss Units: 3 184 279 (2015: 3 489 651)

Tariff: 1.1477 (2015: 0.9693)

Value: R 3 654 593 (2015 R 3 382 373)

Unaccounted Water Losses

Water Losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported. The Water losses is as follows

Loss Units: 826 469 (2015: 860 556)

Tariff: 5.0 (2015: 4.5)

Value: R 4 132 345 (2015 R 3 872 502)

Notes to the Annual Financial Statements

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

Audit fees

Opening balance	3 798 043	1 969 367
Current year subscription / fee (Vat Inclusive)	2 555 619	2 194 470
Amount paid - current year	(1 420 401)	(365 794)
	4 933 261	**3 798 043**

PAYE and UIF

Opening balance	311 225	253 630
Current year Payroll Deductions	4 478 784	3 768 015
Amount paid - current year	(4 167 569)	(3 456 790)
Amount paid - previous years	(311 225)	(253 630)
	311 215	**311 225**

Pension and Medical Aid Deductions

Opening balance	407 754	533 621
Current year Payroll Deductions and Council Contributions	7 021 916	6 686 969
Amount paid - current year	(6 537 929)	(6 279 215)
Amount paid - previous years	(407 754)	(533 621)
	483 987	**407 754**

VAT

VAT payable	2 032 796	3 031 940

VAT output payables and VAT input receivables are shown in note 15.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30/06/2016:

30/06/2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
FM. Van Wyk	393	-	393

30/06/2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
BA. Titus	1 005	1 319	2 324

During the year the following Councillors' had arrear accounts outstanding for more than 60 days.

30/06/2016	Highest outstanding amount	Aging (in days)
FM. Van Wyk	393	60

30/06/2015	Highest outstanding amount	Aging (in days)
BA. Titus	1 319	90

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

Non-compliance with the Municipal Finance Management Act 56 0f 2003

The municipality did not prepare the service deliveryand budget implementation plan (SDBIP) for implementing the municipality`s delivery of municipal services and annual budget, as required by section 1 and 53(1)(c) of the MFMA.

The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA

Contracts were not extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.

The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

The contract perfomance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA

Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA

A credit control and debt collection policy was not adopted, as required by section 62(1)(f)(iii) of the MFMA

An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA

An effective system of internal control for debtors was not in place, as required by section 64(2)(f) of the MFMA

An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Allegations were not investigated, as required by Disciplinary regulations for senior managers 5(3) and section 171(4) of MFMA.

Notes to the Annual Financial Statements

Figures in Rand

53. Deviation from supply chain management regulations

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

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

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

Reason for deviation		
Sole suppliers	164 506	226 848
Impractical	33 163	31 195
	197 669	**258 043**

54. Budget differences

Material differences between budget and actual amounts

<u>Statement of Fnancial Position:</u>

Inventories
Property held for sale moved to Inventory.

Other financial assets
The municipality budget for this amount as it is immaterial.

Operating lease asset
The municipality budget for this amount as it is immaterial.

Receivables from non-exchange transactions/Consumer debtors
Lower collection rate on services charges that increased the debt impairment and derceased this amount.

Cash and cash equivalents
The municipality received extra MIG and INEP allocation at the end of the year.

Invetment Property
The municipality did not budget for investment property.

Property, plant and equipment
The depriation was higher then anticipated.

Intangible assets
The municipality did not budget for intangeble assets.

Heritage assets
The municipality did not budget for Heritage asstes.

Finance Lease Obligation
The calculation for the Finance lease was done incorrectly during the budget procces.

Payables from exchange transactions
At the time of preparing the budget the municipality did not anticipate the not payment of Eskom, AG, and Water affiars.

Notes to the Annual Financial Statements

Figures in Rand

54. Budget differences (continued)

VAT Payable
The municipality do not budget for VAT Payable as the municipality is regestered for VAT on the payment Basis.

Consumer deposits
More accounts was opened than anticipated.

Employee benefit obligation
The municipality did not budget for Employee benefit Ogbligations seperately, but under provision.

Unspent conditional grants and receipts
At the end of the financial year the minicipality received an extra allocation from MIG and INEP to the amount of R7.5M. This was not in the DoRA and the municipality did not budget to have it and thus the reason for the unspent.

Provisions
The municipality did not budget for Employee benefit Ogbligations seperately, but under provision.

Finance lease obligation
The calculation for the Finance lease was done incorrectly during the budget procces.

Employee benefit obligation
The municipality did not budget for Employee benefit Ogbligations seperately, but under provision.

Provisions
The municipality did not budget for Employee benefit Ogbligations seperately, but under provision.

Statement of Financial Performance:

Service charges
The municipality projected that the original budget would be incorrect and therefor the municipality adjusted the budget and the difference between the Adjusted budget and the actual amount is not more then 10%.

Rental of facilities and equipment
At the time of the adjustment budget these figures were zero, therefor the adjustement was made. At year end the amount was corrected, causing the difference.

Agency services
At the time of the adjustment budget these figures were zero, therefor the adjustement was made. At year end the amount was corrected, causing the difference.

Licences and permits
At the time of the adjustment budget these figures were zero, therefor the adjustement was made. At year end the amount was corrected, causing the difference.

Other income
During the year the municipality anticipated that the solar park projects will start of the comunage of the municipality. None of the projects started during the year.

Interest received - investment
The investments that the municipality made was less then expected.

Property Rates
Property Rates of solar parks not yet implemented.

Fines, Penalties and Forfeits
As the amount was immaterial, the municipality did not budget for it.

Employee Related cost
During the Adjustment budget processes the downward adjustment was to big on this line item.

Notes to the Annual Financial Statements

54. Budget differences (continued)

Remuneration of councillors
The municipality created an error in the adjustment of this item. By not taking into account the extra travel allowance.

Depreciation and amortisation
The budget figure for this was based on the budget figure of the prior year.

Finance costs
Interest on the outstanding amount owed to Eskom.

Bad debts written off
Lower collection rate on water and Property Rates.

Collection costs
The municipality budgeted for collection cost under Contracted services.

Repairs and maintenance
The municipality budgeted for Repairs and Maintenance under General Expenses.

Bulk purchases
Eskom tariffs increase.

Contracted Services
Underspend due to cash flow constraints.

General Expenses
Underspend due to cash flow constraints.

Appendix A
June 2016

Schedule of external loans as at 30 June 2010

	Loan Number	Interest Rate	Balance at 30/06/2015 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30/06/2016 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			-	-	-	-	-	-
Lease liability								
315SJ 4x4 loader	Acc 82003555	10%	377 069	-	89 528	287 541	197 582	-
CS533E XL Compactor	Acc 82003806	10%	488 192	-	114 533	373 659	255 303	-
Nissan 12 4X2N	Acc 82306558	10%	547 361	-	115 584	431 777	311 562	-
Printers - Nashua 1	Nashua 1	10,5%	25 269	-	25 269	-	-	-
Printers - Nashua 2	Nashua 2	10,5%	24 479	-	24 479	-	-	-
Printers - Nashua 3	Nashua 3	10,5%	18 557	-	18 557	-	-	-
Printers - Gestetner (Fintech)	Gestetner	10,5%	31 586	-	31 586	-	-	-
			1 512 513	**-**	**419 536**	**1 092 977**	**764 447**	**-**

Appendix B
June 2016

Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Leased Assets	3 149 933	-	-	-	-	-	3 149 933	(2 058 499)	-	-	(326 987)	-	(2 385 486)	764 447

Appendix B

June 2016

Analysis of property, plant and equipment as at 30 June 2016

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment	**523 783 079**	**2 411 233**	**-**	**-**	**-**	**-**	**526 194 312**	**(103 172 841)**	**-**	**-**	**(25 029 658)**	**-**	**(128 202 499)**	**397 991 807**

Appendix B

Analysis of property, plant and equipment as at 30 June 2016

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Appendix B
June 2016

Analysis of property, plant and equipment as at 30 June 2016

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun		Sep	Dec	Mar	Jun		Sep	Dec	Mar	Jun			Yes/ No	
Equitable Share	Nat Treasury	10 092	8 049	-	6 079	-	-	-	-	-	-	-	-	-	-	-	N/A	Yes	N/A
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
FMG	Nat Treasury	1 875	-	-	-	-	534	761	642	154	-	-	-	-	-	-	N/A	Yes	N/A
MIG	Nat Treasury	4 291	4 200	-	7 163	-	3 432	3 847	-	6 838	-	-	-	-	-	-	N/A	Yes	N/A
Library	DSAC	-	-	-	1 370	-	222	213	196	552	-	-	-	-	-	-	N/A	Yes	N/A
DWA	DWA	-	86	1 980	1 128	-	-	86	163	1 817	-	-	-	-	-	-	N/A	Yes	N/A
INEP	DOE	-	-	-	-	-	-	-	630	-	-	-	-	-	-	-	N/A	Yes	N/A
MSIG	Nat Treasury	930	-	-	-	-	428	124	132	309	-	-	-	-	-	-	N/A	Yes	N/A
EPWP	EPWP	400	300	300	1 500	-	53	403	479	168	-	-	-	-	-	-	N/A	Yes	N/A

17 588	12 635	2 280	17 240	-	4 669	5 434	2 242	9 838	-	-	-	-	-	-

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.