LETSEMENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

AUDITOR GENERAL
P.O. BOX 315
23 -01- 2017
BLOEMFONTEIN, 9300
AUDITOR GENERAL

23/01/2017
S. Steenbok

General Information

Mayoral committee	
Mayor	Cllr. T.I. Reachable
Councillors	Cllr. M.A. Mpatshehla
	Cllr. M.M. Tsiloana
	Cllr. M.U. Jantjies
	Cllr.P.M. Dibe
	Cllr. S. Lecoko
	Cllr. P.S. Musa
	Cllr. V.A. Mona
	Cllr. P. Louw
	Cllr. L. Greef
	Cllr. V. Coetzee
	Cllr. K. Nel
Grading of local authority	Grade 2
Accounting Officer	B.A. Mnguni
Chief Finance Officer (CFO)	K. Khoabane (Appointed 11 January 2016) O. Sesane (Acting 1 October 2015 - 30 November 2015) J. Mazinyo (Acting 1 July 2015 - 30 September 2015)
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA

Index

The reports and statements set out below comprise the Annual Financial Statements presented to the provincial legislature:

Abbreviations

ASB	Accounting Standards Board
COID	Compensation for Occupational Injuries and Diseases
DWAF	Department of Water Affairs
DBSA	Development Bank of South Africa
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SDL	Skills Development Levies

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 are 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 12 months to 30 June 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 Municipality 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.

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 separately.

The Annual Financial Statements set out on pages 4 to 68, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Accounting Officer
Mr. B.A. Mnguni

31 August 2016

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Letsemeng Local Municipality is a local government institution in Koffiefontein, Free State Province. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

The operating results for the year were [pleasing/satisfactory/disappointing] for the following reasons. The financial position of the municipality is as follows:

Net deficit of the municipality was R 17 602 044 (2015: deficit R 11 671 537).

2. Going concern

Management experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern .
(i) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contigent 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 government will continue to find the operations of the Municipality through the provision of the equitable share,additionally the accounting officer will continue to tightly manage the cashflow ofthe Municipality and where necessary procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matters or circumstances arising since the end of the financial year that may impact the Annual Financial Statements.

4. Accounting policies

The Annual Financial Statements prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations issued by the Accounting Standards Board and Accounting Practices Board.

5. Accounting Officer

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

Name	Nationality
Mr B.A Mnguni	South African

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this committment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Accounting Officer's Report

Management meetings

The accounting officer meets Section 56 managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003.

7. Bankers

The municipality's bankers did not change during the year.

8. Auditors

Auditor General South Africa will continue in office for the next financial period.

9. Non compliance with applicable legislation

Significant non-compliance with various legislations have been properly disclosed in the notes to the financial statements.

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	4 164 044	7 118 575
Receivables from exchange transactions	4	15 979 750	12 754 103
Receivables from non-exchange transactions	5	5 709 718	5 628 679
VAT receivable	6	11 351 046	7 880 408
Prepayments		64 021	1 528 353
Cash and cash equivalents	7	729 726	3 194 564
		37 998 305	**38 104 682**
Non-Current Assets			
Property, plant and equipment	8	568 867 825	565 774 216
Intangible assets	9	201 766	305 840
Heritage assets	10	211 000	258 570
Investments	11	237 135	10 306 092
		569 517 726	**576 644 718**
Total Assets		**607 516 031**	**614 749 400**
Liabilities			
Current Liabilities			
Finance lease obligation	12	171 790	128 974
Payables from exchange transactions	13	10 802 132	9 483 241
Consumer deposits	14	751 702	721 782
Employee benefit obligation	15	553 187	524 203
Unspent conditional grants and receipts	16	15 767 780	12 890 949
		28 046 591	**23 749 149**
Non-Current Liabilities			
Finance lease obligation	12	79 410	214 628
Employee benefit obligation	15	5 594 530	5 423 564
Provisions	17	11 144 694	5 109 213
		16 818 634	**10 747 405**
Total Liabilities		**44 865 225**	**34 496 554**
Net Assets		**562 650 806**	**580 252 846**
Accumulated surplus		562 650 806	580 252 846

* See Note 39

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	18	40 347 912	31 316 128
Rental of facilities and equipment	19	504 953	245 348
Interest on outstanding receivables		7 471 356	4 743 169
Interest on investments	21	231 731	1 849 970
Insurance claims received		-	3 517 136
Other income		730 083	2 554 325
Dividends received	21	6 866	4 515
Total revenue from exchange transactions		**49 292 901**	**44 230 591**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	15 112 134	14 563 811
Transfer revenue			
Government grants & subsidies	23	68 815 168	71 374 377
Fines, Penalties and Forfeits		89 214	4 500
Total revenue from non-exchange transactions		**84 016 516**	**85 942 688**
Total revenue		**133 309 417**	**130 173 279**
EXPENDITURE			
Employee related costs	24	(40 897 555)	(38 844 543)
Remuneration of councillors	25	(3 395 189)	(3 143 467)
Administration	26	(365 181)	(174 019)
Depreciation and amortisation	27	(27 593 855)	(28 729 139)
Impairment loss	28	(269 531)	(680 523)
Finance costs	29	(1 521 945)	(992 213)
Debt Impairment	30	(22 087 705)	(13 941 921)
Repairs and maintenance		(1 575 660)	(3 711 456)
Bulk purchases	31	(20 854 196)	(22 604 783)
General Expenses	32	(33 462 628)	(29 236 980)
Total expenditure		**(152 023 445)**	**(142 059 044)**
Operating deficit		**(18 714 028)**	**(11 885 765)**
Fair value adjustments	33	975 490	13 805
Actuarial gains	15	136 494	200 423
		1 111 984	**214 228**
Deficit for the year		**(17 602 044)**	**(11 671 537)**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**591 924 383**	**591 924 383**
Changes in net assets		
Surplus for the year	(11 671 537)	(11 671 537)
Total changes	(11 671 537)	(11 671 537)
Restated* Balance at 01 July 2015	**580 252 850**	**580 252 850**
Changes in net assets		
Surplus for the year	(17 602 044)	(17 602 044)
Total changes	(17 602 044)	(17 602 044)
Balance at 30 June 2016	**562 650 806**	**562 650 806**

Note(s)

* See Note 39

Letsemeng Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		37 904 777	32 132 913
Grants		69 891 999	72 196 754
Interest income		231 731	1 849 970
Dividends received		6 866	4 515
Insurance claims receipts		-	3 517 136
		108 035 373	109 701 288
Payments			
Employee costs		(44 292 744)	(41 988 010)
Suppliers and other payments		(50 867 704)	(68 036 901)
Finance costs		(1 521 945)	(992 213)
		(96 682 393)	(111 017 124)
Net cash flows from operating activities	35	**11 352 980**	**(1 315 836)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(24 708 877)	(19 552 113)
Proceeds from sale of property, plant and equipment	8	-	636 586
Purchase of other intangible assets	9	(60 986)	(11 614)
Proceeds from sale of financial assets		11 044 447	8 103 197
Net cash flows from investing activities		**(13 725 416)**	**(10 823 944)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(92 402)	-
Finance lease receipts		-	301 509
Net cash flows from financing activities		**(92 402)**	**301 509**
Net decrease in cash and cash equivalents		**(2 464 838)**	**(11 838 271)**
Cash and cash equivalents at the beginning of the year		3 194 564	15 032 835
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**729 726**	**3 194 564**

* See Note 39

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

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	49 324 000	(7 274 000)	**42 050 000**	40 347 912	**(1 702 088)**	
Rental of facilities and equipment	478 000	-	**478 000**	504 953	**26 953**	
Interest on oustanding receivables	-	-	-	7 471 356	**7 471 356**	1
Other income	9 891 000	(6 167 000)	**3 724 000**	730 083	**(2 993 917)**	2
Interest on investments	3 710 000	(2 832 000)	**878 000**	231 731	**(646 269)**	3
Dividends received	5 000	(1 000)	**4 000**	6 866	**2 866**	4
Total revenue from exchange transactions	**63 408 000**	**(16 274 000)**	**47 134 000**	**49 292 901**	**2 158 901**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 946 000	(1 110 000)	**14 836 000**	15 112 134	**276 134**	
Licences and permits	6 000	-	**6 000**	-	**(6 000)**	5
Transfer revenue						
Government grants & subsidies	53 514 000	-	**53 514 000**	68 815 168	**15 301 168**	6
Fines, Penalties and Forfeits	53 000	-	**53 000**	89 214	**36 214**	7
Total revenue from non-exchange transactions	**69 519 000**	**(1 110 000)**	**68 409 000**	**84 016 516**	**15 607 516**	
Total revenue	**132 927 000**	**(17 384 000)**	**115 543 000**	**133 309 417**	**17 766 417**	
Expenditure						
Employee costs	(40 667 000)	(1 273 000)	**(41 940 000)**	(40 897 555)	**1 042 445**	8
Remuneration of councillors	(3 266 000)	(112 000)	**(3 378 000)**	(3 395 189)	**(17 189)**	9
Administration	-	-	-	(365 181)	**(365 181)**	10
Debt impairment	(5 678 000)	-	**(5 678 000)**	(24 515 387)	**(18 837 387)**	11
Depreciation and amortisation	(19 000 000)	5 225 000	**(13 775 000)**	(27 593 855)	**(13 818 855)**	12
Impairment loss	-	-	-	(269 531)	**(269 531)**	13
Finance costs	-	(50 000)	**(50 000)**	(1 521 945)	**(1 471 945)**	14
Repairs and maintenance	-	-	-	(1 575 660)	**(1 575 660)**	16
Bulk purchases	(27 982 000)	3 200 000	**(24 782 000)**	(20 854 196)	**3 927 804**	
Contracted Services	(1 000 000)	(1 296 000)	**(2 296 000)**	-	**2 296 000**	17
General Expenses	(35 044 000)	11 400 000	**(23 644 000)**	(31 034 946)	**(7 390 946)**	18
Total expenditure	**(132 637 000)**	**17 094 000**	**(115 543 000)**	**(152 023 445)**	**(36 480 445)**	
Operating deficit	**290 000**	**(290 000)**	-	**(18 714 028)**	**(18 714 028)**	
Fair value adjustments	-	-	-	975 490	**975 490**	
Actuarial gains	-	-	-	136 494	**136 494**	
	-	-	-	**1 111 984**	**1 111 984**	
Surplus/(Deficit) for the year	**290 000**	**(290 000)**	-	**(17 602 044)**	**(17 602 044)**	
	290 000	**(290 000)**	-	**(17 602 044)**	**(17 602 044)**	

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	396 000	-	**396 000**	4 164 044	**3 768 044**	19
Receivables from non-exchange transactions	-	-	-	5 709 718	**5 709 718**	20
VAT receivable	-	-	-	11 351 046	**11 351 046**	
Prepayments	-	-	-	64 021	**64 021**	
Receivables from exchange transactions	30 111 000	-	**30 111 000**	15 979 750	**(14 131 250)**	21
Cash and cash equivalents	15 935 000	-	**15 935 000**	729 726	**(15 205 274)**	23
	46 442 000	-	**46 442 000**	**37 998 305**	**(8 443 695)**	
Non-Current Assets						
Property, plant and equipment	612 614 000	-	**612 614 000**	568 867 825	**(43 746 175)**	24
Intangible assets	202 000	-	**202 000**	201 766	**(234)**	
Heritage assets	-	-	-	211 000	**211 000**	
Investments	19 514 000	(19 514 000)	-	237 135	**237 135**	25
	632 330 000	**(19 514 000)**	**612 816 000**	**569 517 726**	**(43 298 274)**	
Total Assets	**678 772 000**	**(19 514 000)**	**659 258 000**	**607 516 031**	**(51 741 969)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	171 790	**171 790**	26
Payables from exchange transactions	10 270 000	-	**10 270 000**	10 802 132	**532 132**	
Consumer deposits	790 000	-	**790 000**	751 702	**(38 298)**	
Employee benefit obligation	-	-	-	553 187	**553 187**	27
Unspent conditional grants and receipts	-	-	-	15 767 780	**15 767 780**	28
Provisions	567 000	-	**567 000**	-	**(567 000)**	29
	11 627 000	-	**11 627 000**	**28 046 591**	**16 419 591**	
Non-Current Liabilities						
Finance lease obligation	-	-	-	79 410	**79 410**	26
Employee benefit obligation	-	-	-	5 594 530	**5 594 530**	27
Provisions	8 663 000	-	**8 663 000**	11 144 694	**2 481 694**	29
	8 663 000	-	**8 663 000**	**16 818 634**	**8 155 634**	
Total Liabilities	**20 290 000**	-	**20 290 000**	**44 865 225**	**24 575 225**	
Net Assets	**658 482 000**	**(19 514 000)**	**638 968 000**	**562 650 806**	**(76 317 194)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	658 482 000	(19 514 000)	**638 968 000**	544 018 227	**(94 949 773)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	65 270 000	(8 384 000)	**56 886 000**	54 188 879	**(2 697 121)**	
Grants	116 011 000	(43 852 000)	**72 159 000**	71 691 999	**(467 001)**	
Interest income	3 710 000	(2 832 000)	**878 000**	231 731	**(646 269)**	
Dividends received	5 000	(1 000)	**4 000**	6 866	**2 866**	
Other revenue	10 428 000	(6 167 000)	**4 261 000**	8 591 363	**4 330 363**	
	195 424 000	**(61 236 000)**	**134 188 000**	**134 710 838**	**522 838**	
Payments						
Employee costs	(132 637 000)	17 144 000	**(115 493 000)**	(49 054 287)	**66 438 713**	
Suppliers	-	(50 000)	**(50 000)**	(66 435 497)	**(66 385 497)**	
Finance costs	-	-	-	(1 521 945)	**(1 521 945)**	
	(132 637 000)	**17 094 000**	**(115 543 000)**	**(117 011 729)**	**(1 468 729)**	
Net cash flows from operating activities	**62 787 000**	**(44 142 000)**	**18 645 000**	**17 699 109**	**(945 891)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(62 497 000)	43 852 000	**(18 645 000)**	(30 079 516)	**(11 434 516)**	
Purchase of other intangible assets	-	-	-	(60 986)	**(60 986)**	
Proceeds from sale of financial assets	-	-	-	10 068 957	**10 068 957**	
Net cash flows from investing activities	**(62 497 000)**	**43 852 000**	**(18 645 000)**	**(20 071 545)**	**(1 426 545)**	
Cash flows from financing activities						
Finance lease payments	-	-	-	(92 402)	**(92 402)**	
Increase (decrease) in conumer deposits	(713 000)	-	**(713 000)**	-	**713 000**	
Net cash flows from financing activities	**-**	**-**	**-**	**(92 402)**	**(92 402)**	
Net increase/(decrease) in cash and cash equivalents	290 000	(290 000)	-	(2 464 838)	**(2 464 838)**	
Cash and cash equivalents at the beginning of the year	15 900 000	-	**15 900 000**	3 194 564	**(12 705 436)**	
Cash and cash equivalents at the end of the year	**16 190 000**	**(290 000)**	**15 900 000**	**729 726**	**(15 170 274)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

1. There was no budget made for interest on outstanding receivables.
2. This was due to corrections on misallocations, as a result only 10% of expected other income reflect in the actual results.
3. The reduction is as a result of reduced investments during the year thereby leading to less investment income earned as compared to the budgeted amounts.
4. The reduction in dividends earned is as a result of low investments during the year for Seneuues and OVK as compared to the budgeted amounts.
5. No revenue was received from licences and permits.
6. The increase is as a result of more projects performed than anticipated thereby resulting to an increase in grants realised as compared to the budgeted amounts.
7.The increase is as a result of more fines that were issued during the financial year as compared to anticipated amounts.
8. The increase is as a result an increase in average salaries as compared to the anticipated employee costs.
9. Councillors allowances increased as per SALGA guideline.
10. There were unforseen administration costs in corporate department.
11. The increase is related to the increase in outstanding receivables as at year end that were then impaired in accordance with the municipality's accounting policies.
12. Depreciation and amortisation were significantly huge due to changes in estimated uselife lives combined with asset acquisitions
13. Impairment reversal was raised in the current year.
14. Finance costs were significantly higher in relation to budget and also due to interest arising on landfill sites. Late payments to suppliers in the months of March, April and May due to cash flow problems also increased finance costs.
15. Bad debts amounting to R478 161 were written-off in the current year.
16. Due to low revenue collection, repairs and maintenance costs were not budgeted for as budget was in deficit.
17. Contracted services were correctly estimated as per invoices and are included in the actual amounts for general expenses.
18. The increase is mainly attributable to the provision on unrecoverable VAT for outstanding receivables and payables as at year end which was not budgeted for.
19. The increase is as a result of more stock not consumed as at year end compared to the budgeted amounts.
20. Receivables from non-exchange were budgeted for as consumer debtors.
21. The decrease is as a result of debt impairment that was charged on outstanding receivables as at year end. Less outstanding receivables were anticipated for 30 June 2016.
22. VAT payable is mainly attributable to the VAT on outstanding receivables as at year end due to an increase in anticipated receivables. Less receivables were budgeted for as at yerar end.
23. The reduction in cash balance is as a result of poor recoverability of accounts receivables than budgeted for thereby affecting the cash position of the municipality as at year end.
24. The reduction is as a result of decapitalisation of assets such as RDP houses and Petrusburg church and depreciation charge that was under budgeted for.
25. The decrease is mainly attributable to the call account funds that were spent as at year end and not budgeted for on the final budget.
26. This is as a result of finace lease obligations that were not budgeted for seperately but were included in payables from exchange transactions.
27. The increase is as a result of employee benefit obligation valuations for PEMA and LSA done by the Actuaries as at year end.
28. The unspent conditional grants as at year end were as a result of projects that had not met realisation conditions and thereby still mantained as payables as at year end.
29. The increase is as a result of the increase in estimates for the rehabilitation for landfill sites.

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.

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.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

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.

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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 15.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

The Municipality follows a policy that is in accordance with the Local Government Municipal Finance Management Act 2003, Local Government Municipal Systems Act 2000 as amended and other related legislation.

Bad debts write offs must be considered in terms of cost-benefit analysis: meaning when it becomes too costly to recover and the chances of collecting the debts are slim, a write off should be considered.

Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalization of any final readings and other administrative costs results in a balance one hundred Rand (R100) or less, such account must be forwarded once to the consumer for payment.

The Accounting Officer will, after thorough review of any applicants in terms of this Policy, be delegated to write off any amounts, outstanding for more than 365 days to the maximum of:

1) In the case of a household consumer an amount of R100.00 (excluding interest and penalties) per submission; and
2) In the case of a household consumer an amount of R 200.00 (excuding interest and penalties) per submission.

Provision for bad debts on municipal accounts will therefore be calculated as follows:

1) Up to 90 days debt is not considered bad,
2) 91-120 days 25% of the debt is considered bad,
3) 121-365 days 50% of the debt is considered bad and,
4) 365 days and more, 100% of the debt is considered bad .

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 for
- sale in the ordinary course of operations.

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

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

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

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

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

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

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

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:

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.

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

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

Property, plant and equipment 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.

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings		
• Buildings and improvements	Straight line	5 - 60
Other Assets		
• Office Equipment	Straight line	3 - 7
• IT Equipment	Straight line	3 - 5
• Plant and machinery	Straight line	5 - 25
• Motor Vehicles - Specialised vehicles	Straight line	10 - 15
• Motor vehicles - Other vehicles	Straight line	3
• Bins and containers	Straight line	5
• Furniture and fixtures	Straight line	7 - 10
Community		
• Buildings	Straight line	30
• Recreational Facilities	Straight line	20 - 30
• Security	Straight line	3 - 5
Infrastructure		
• Roads and Paving	Straight line	3 - 80
• Sewerage / Solid waste	Straight line	5 - 50
• Water	Straight line	5 - 50
• Electricity		10 - 50
• Landfill sites		5 - 25

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 Site restoration and dismantling cost

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

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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	2 to 6 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 is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 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.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

1.8 Heritage assets (continued)

Impairment

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

1.9 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.

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.

1.9 Financial instruments (continued)

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.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

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

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

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

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

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

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

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

1.9 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
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- 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 fair value
Current portion of Non-current investments	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Current portion of long term liabilities	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Presentation

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

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

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

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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.

1.10 Tax

VAT

The minicipality accounts for Value Added Tax on the Payment Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991)

1.11 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.

Accounting Policies

1.11 Leases (continued)

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

1.12 Inventories (continued)

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

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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

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

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

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

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

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

Identification

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

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

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.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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 held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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

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

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

Identification

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

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

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.

1.15 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality has opted to treat its provision for leave pay and bonuses as accruals

1.15 Employee benefits (continued)

Defined contribution plans

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

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans.

Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit plans

A Defined Benefit Plan is a post-employment benefit plan other than a defined contribution plan.

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

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

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

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

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees.

Actuarial gains or losses within the corridor are not recognised.

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

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

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

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

1.15 Employee benefits (continued)

Post- retirement Health Care Benefits

The entity provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Independent qualified actuaries carry out valuations of these obligations.

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds with which the Municipality is associated, provide for continued membership.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the Projected Unit Credit Method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

1.16 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.

Accounting Policies

1.16 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

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 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

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

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.17 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.

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.

1.18 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.

1.18 Revenue from exchange transactions (continued)

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 services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

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

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

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

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

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

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

1.19 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

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

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

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

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

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

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

1.19 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.20 Investment income

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

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 MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

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

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.

1.24 Irregular expenditure (continued)

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 cash basis and presented by economic classification linked to performance outcome objectives.

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

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.

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 provincial sphere of government are considered to be related parties.

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

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

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

1.27 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).

1.27 Events after reporting date (continued)

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 early adopted

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2016	The impact of the amendment is not material.

2.2 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 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP32: Service Concession Arrangements: Grantor	01 April 2016	
• GRAP108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	01 April 2016	The impact of the amendment is not material.

Figures in Rand	2016	2015

3. Inventories

Maintenance materials	4 154 479	7 107 948
Water	9 565	10 627
	4 164 044	**7 118 575**

Inventories are held for own use and measured at the lower of cost or current replacement value.

4. Receivables from exchange transactions

Gross balances		
Electricity	3 945 413	3 610 456
Water	20 668 983	14 298 139
Sewerage	20 978 877	14 322 235
Refuse	20 821 744	13 993 327
Other	1 265 554	890 185
	67 680 571	**47 114 342**
Less: Allowance for impairment		
Electricity	(2 771 369)	(2 150 005)
Water	(15 967 304)	(10 725 054)
Sewerage	(15 959 442)	(10 425 504)
Refuse	(16 102 142)	(10 262 134)
Other	(900 564)	(797 542)
	(51 700 821)	**(34 360 239)**
Net balance		
Electricity	1 174 044	1 460 451
Water	4 701 679	3 573 085
Sewerage	5 019 435	3 896 731
Refuse	4 719 602	3 731 193
Other	364 990	92 643
	15 979 750	**12 754 103**
Electricity		
Current (0 -30 days)	251 583	361 254
31 - 60 days	215 910	232 878
61 - 90 days	129 289	91 572
>91 days	129 951	774 747
121 - 365 days	447 311	-
	1 174 044	**1 460 451**
Water		
Current (0 -30 days)	540 911	606 161
31 - 60 days	645 384	407 944
61 - 90 days	669 660	347 010
>91 days	484 347	2 211 970
121 - 365 days	2 361 377	-
	4 701 679	**3 573 085**

Figures in Rand	2016	2015

4. Receivables from exchange transactions (continued)

Sewerage

Current (0 -30 days)	625 607	516 645
31 - 60 days	679 829	509 452
61 - 90 days	646 209	502 910
> 91 days	475 679	2 367 724
121 - 365 days	2 592 111	-
	5 019 435	**3 896 731**

Refuse

Current (0 -30 days)	508 936	489 271
31 - 60 days	637 732	481 917
61 - 90 days	622 509	473 797
>91 days	457 570	2 286 208
121 - 365 days	2 492 855	-
	4 719 602	**3 731 193**

Other

Current (0 -30 days)	270 628	11 169
31 - 60 days	16 874	12 075
61 - 90 days	15 826	11 153
> 91days	12 336	58 246
121 - 365 days	49 326	-
	364 990	**92 643**

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

Consumer debtors pledged as security

Non of the Consumer debtors have been pledged as security for the municipality's financial liabilities.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 6 476 887 (2015: R 11 371 650) were past due but not impaired.

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

1 month past due	2 197 665	1 644 267
2 months past due	2 195 729	1 426 442
3 months past due	2 083 493	8 300 941

Reconciliation of allowance for impairment of consumer debtors

Opening balance	34 360 239	19 096 734
Allowance for impairment	16 862 422	14 178 246
Amounts written off as uncollectable	478 160	1 085 259
	51 700 821	**34 360 239**

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment. Refer to details in the accounting policy for further details.

Figures in Rand	2016	2015

5. Receivables from non-exchange transactions

Consumer debtors - Rates	26 101 523	18 845 680
Impairment	(20 391 805)	(13 217 001)
	5 709 718	**5 628 679**

Non of the Receivables have been pledged as security for the municipality's financial liabilities.

Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

Net balances

The ageing of receivables from Rates is as follows:

Rates		
Current (0-30 days)	971 603	890 604
31- 60 days	746 727	892 272
61- 90 days	843 817	849 703
91- 120 days	538 569	2 996 100
121- 365 days	2 609 002	-
	5 709 718	**5 628 679**

6. VAT receivable

VAT	11 351 046	7 880 408

VAT is payable on a receipt basis. Once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	-	1 295
Bank balances	729 726	3 193 269
	729 726	**3 194 564**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
First National Bank - Current Account Number 527115689918 and ABSA Bank - Current Account Number 4048034774	729 726	3 196 595	729 726	3 193 269

8. 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	74 955 150	-	74 955 150	74 955 150	-	74 955 150
Buildings	64 538 139	(23 513 038)	41 025 101	64 155 280	(22 409 455)	41 745 825
Infrastructure	941 086 521	(496 622 421)	444 464 100	912 134 345	(472 013 572)	440 120 773
Other property, plant and equipment	13 924 840	(5 654 927)	8 269 913	13 180 358	(4 510 931)	8 669 427
Leased Assets	400 779	(247 218)	153 561	400 779	(117 738)	283 041
Total	**1 094 905 429**	**(526 037 604)**	**568 867 825**	**1 064 825 912**	**(499 051 696)**	**565 774 216**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Change in discount factor - Landfill sites	Depreciation	Impairment loss	Depreciation on Disposal	Total
Land	74 955 150	-	-	-	-	-	74 955 150
Buildings	41 745 825	382 859	-	(1 103 583)	-	-	41 025 101
Infrastructure	440 120 773	28 952 175	664 847	(25 123 695)	(150 000)	-	444 464 100
Other property, plant and equipment	8 669 427	744 482	-	(1 072 035)	(71 961)	-	8 269 913
Leased Assets	283 041	-	-	(129 480)	-	-	153 561
	565 774 216	**30 079 516**	**664 847**	**(27 428 793)**	**(221 961)**	**-**	**568 867 825**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Change in discount factor - Landfill sites	Depreciation	Impairment loss	Depreciation on Disposal	Total
Land	74 955 150	-	-	-	-	-	-	74 955 150
Buildings	32 311 557	10 537 853	-	-	(1 103 585)	-	-	41 745 825
Infrastructure	443 588 221	20 545 409	-	2 206 597	(26 219 454)	-	-	440 120 773
Other property, plant and equipment	7 408 892	3 061 373	(1 486 375)	-	(1 139 438)	(43 937)	868 912	8 669 427
Leased assets	30 205	382 060	(56 561)	-	(110 101)	-	37 438	283 041
	558 294 025	**34 526 695**	**(1 542 936)**	**2 206 597**	**(28 572 578)**	**(43 937)**	**906 350**	**565 774 216**

Pledged as security

None of the tangible assets were pledged as security during the current year and previous year:

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within buildings	Included within infrastructure	Included within Other PPE	Total
Opening balance	10 537 853	10 159 152	2 423 888	23 120 893
Additions/capital expenditure	382 859	21 681 855	-	22 064 714
Work in progress completed during the year	-	(947 368)	-	(947 368)
	10 920 712	**30 893 639**	**2 423 888**	**44 238 239**

Reconciliation of Work-in-Progress 2015

	Included within buildings	Included within infrastructure	Included within Other PPE	Total
Opening balance	6 947 639	5 870 873	2 423 888	15 242 400
Additions/capital expenditure	3 590 214	11 634 664	-	15 224 878
Work in progress completed during the year	-	(7 346 385)	-	(7 346 385)
	10 537 853	**10 159 152**	**2 423 888**	**23 120 893**

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

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 025 165	(823 399)	201 766	964 179	(658 339)	305 840

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	305 840	60 986	(165 060)	201 766

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	450 787	11 614	(156 561)	305 840

Pledged as security

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality. :

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	211 000	-	211 000	258 570	-	258 570

Reconciliation of heritage assets 2016

	Opening balance	Impairment losses recognised	Total
Heritage assets	258 570	(47 570)	211 000

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	258 570	258 570

11. Investments

	2016	2015
Designated at fair value		
Unlisted shares	120 342	121 030
Non-controlling interest of 3600 (2016: 3600) shares in Senwes Limited, 4990 (2015: 4990) shares in Senwes Beleggings and 4000 (2015: 4000) shares in OVK, which are recognised at fair value.		
At amortised cost		
Other financial assets	116 793	10 185 062
Money Market Investments		
These are Money Market instruments placed with the local financial institutions. FNB account number 62273244849. Average interest rate for the period 4.25% (2015: 4.25%).		
Total investments	**237 135**	**10 306 092**

	2016	2015
Non-current assets		
Designated at fair value	120 342	121 030
At amortised cost	116 793	10 185 062
	237 135	**10 306 092**

Figures in Rand	2016	2015

11. Investments (continued)

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Investment in OVK shares These shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June each year.	54 402	53 400
Investment in Senwes Beleggings and Senwes Limited These shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June each year.	65 940	67 630
	120 342	**121 030**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Unlisted shares	120 342	121 030
Level 2		
Money Market Investments	-	10 185 062
	120 342	**10 306 092**

Figures in Rand	2016	2015

12. Finance lease obligation

Minimum lease payments due		
- within one year	269 834	270 105
- in second to fifth year inclusive	92 728	281 709
	362 562	551 814
less: future finance charges	(111 362)	(208 212)
Present value of minimum lease payments	**251 200**	**343 602**

Present value of minimum lease payments due		
- within one year	171 790	128 974
- in second to fifth year inclusive	79 410	214 628
	251 200	**343 602**

Non-current liabilities	79 410	214 628
Current liabilities	171 790	128 974
	251 200	**343 602**

It is municipality policy to lease certain copiers and cellphones under finance leases.

The average lease term was 3 years for copiers, 2 years for cellphones and the average effective borrowing rate was 9% (2015: 9%).

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

13. Payables from exchange transactions

Unknown deposits	-	2 532 792
Accrued leave pay	2 685 118	2 217 401
Accrued bonus	1 266 860	759 407
Accrued expenses	5 342 340	3 234 850
Creditors- halls	27 071	-
Payments received in advance	537 851	508 814
Deferred income- prepaid electricity	-	83 077
Retention monies	942 892	146 900
	10 802 132	**9 483 241**

14. Consumer deposits

Electricity	211 290	217 346
Water	540 412	504 436
	751 702	**721 782**

Figures in Rand	2016	2015

15. Employee benefit obligations

Defined benefit plan

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid Schemes.

The members of the Post-employment Health Care Benefit Plan are made up as follows: In-service Members (Employees) 1,

In-service Non-members (Employees) 3 and Continuation Members (Retirees, widowers and orphans) 14.

Long Service Awards Liability

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is every 5 years of continuous service, from 5years of service to 45 years of service, inclusive. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2016. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost for the year ending 30 June 2016 is estimated to be R395 721, whereas the cost for the ensuing year is estimated to be R251 665 for 30 June 2015.

Post retirement medical aid plan

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

	2016	2015
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(4 136 780)	(4 303 285)
Present value of the defined benefit obligation-partly or wholly funded	(2 010 937)	(1 644 482)
	(6 147 717)	**(5 947 767)**
Non-current liabilities	(5 594 530)	(5 423 564)
Current liabilities	(553 187)	(524 203)
	(6 147 717)	**(5 947 767)**

The fair value of plan assets includes:

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

	2016	2015
Opening balance	4 303 285	4 161 989
Net expense recognised in the statement of financial performance	(166 505)	141 296
	4 136 780	**4 303 285**

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance: Post Employment Medical Aid

Current service cost	19 059	19 010
Interest cost	337 747	326 433
Actuarial (gains) losses	(147 423)	147 009
Benefits paid	(375 888)	(351 156)
	(166 505)	**141 296**

Changes in the present value of the Long Service Awards obligation are as follows:

Opening balance	1 644 482	1 789 537
Net expense recognised in the statement of financial position	366 455	(145 055)
	2 010 937	**1 644 482**

Net expenses recognised in the statement of financial performance: Long Service Awards Obligations:

Current service cost	376 662	251 665
Interest cost	127 179	134 931
Acturial gains(losses)	10 929	(347 432)
Benefits paid	(148 315)	(184 219)
	366 455	**(145 055)**

The municipality expects to contribute R 553 187 to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

Actual return on plan assets	8.76 %	8.20 %
Discount rates used	8.55 %	8.09 %
Expected rate of return on assets	7.92 %	7.49 %
Expected rate of return on reimbursement rights	7.20 %	7.14 %
Actual return on reimbursement rights	0.78 %	0.66 %
Medical cost trend rates	1.26 %	0.89 %

Other assumptions

Amounts for the current and previous four years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation - Post - retirement Health Care Liability	4 136 780	4 303 000	4 162 000	3 938 000	6 404 000
Defined benefit obligation - Long service award Liability	2 010 937	1 644 482	1 789 537	1 543 000	1 366 000
Experience adjustments on plan liabilities -Post retirement Health Care Liability	147 423	205 000	350 000	217 000	(146 000)
Experience adjustments on plan liabilities - Long service award liability	10 929	(332 174)	(55 730)	(161)	24

Acturial gains

Post Employment Medical Aid and Long service awards	136 484	200 423

Figures in Rand	2016	2015

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	5 246 630	2 369 799
Deaprtment of Roads and Transport Grant	1 416 404	1 416 404
Department of Water Affairs Grant	8 989 746	8 989 746
Department of Health Grant	115 000	115 000
	15 767 780	**12 890 949**

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

See note 23 for reconciliation of grants from National/Provincial Government.

Due to the adverse economic environment, a significant portion of amounts due to the municipality in respect of services rendered, property rates and taxes are tied up in receivables. This resulted in amounts earmarked for conditional projects being utilised to ensure smooth running of the municipality. Management is actively following up on outstanding receivables to ensure that projects are completed.

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	5 109 213	6 035 481	11 144 694

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	7 298 282	508 089	-	(2 697 158)	5 109 213

The provision was based on 100% of the landfill site areas as the total area is used for dumping of waste. Dumping is not limited to a certain portion of landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on 100%.

Jacobsdal	3 890 231	1 494 391
Koffiefontein	2 462 646	837 579
Luckhoff	2 116 637	873 822
Oppermansdorp	978 144	903 016
Petrusburg	1 697 036	1 000 405
	11 144 694	**5 109 213**

18. Service charges

Sale of electricity	15 106 640	14 161 586
Sale of water	8 107 101	5 159 123
Sewerage and sanitation charges	8 637 349	6 245 959
Refuse removal	8 496 822	5 749 460
	40 347 912	**31 316 128**

Figures in Rand	2016	2015

19. Rental of facilities and equipment

Premises		
Premises	474 404	245 348
Venue hire	30 428	-
	504 832	**245 348**
Facilities and equipment		
Rental of equipment	121	-
	504 953	**245 348**

20. Other revenue

Insurance claims received	-	3 517 136
Other income	730 083	2 554 325
	730 083	**6 071 461**

21. Investment revenue

Dividend revenue		
Dividends	6 866	4 515
Interest revenue		
Interest on investments	231 731	1 849 970
	238 597	**1 854 485**

22. Property rates

Rates charged

Property rates	15 112 134	14 563 811

Valuations

Residential	898 759 608	543 576 000
Commercial	178 619 440	163 187 000
State	60 069 875	87 817 000
Municipal	23 457 915	368 086 000
Small holdings and farms	1 962 730 449	1 671 639 000
Other	10 132 000	52 579 000
	3 133 769 287	**2 886 884 000**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions and any significant changes in the property valuations.

Figures in Rand	2016	2015

23. Government grants and subsidies

Operating grants		
Equitable share	49 784 000	50 185 000
Capital grants		
Financial Management Grant (FMG)	1 800 000	1 800 000
MSIG	930 000	934 000
DWA	-	2 052 073
MIG	14 101 169	13 638 829
ACIP	1 199 999	1 754 475
EPWP	1 000 000	1 010 000
	19 031 168	**21 189 377**
	68 815 168	**71 374 377**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	19 031 168	21 189 377
Unconditional grants received	49 784 000	50 185 000
	68 815 168	**71 374 377**

Equitable Share

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

National : MIG funds

Balance unspent at beginning of year	2 369 799	735 628
Current-year receipts	16 978 000	16 009 000
Conditions met - transferred to revenue: capital expenses	(14 101 169)	(13 638 829)
Amount off set against equitable share	-	(736 000)
	5 246 630	**2 369 799**

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

The Municipal Infrastructure Grant (MIG) 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 f municipal infrastructure.

Provincial : Roads and Transport Grant

Balance unspent at beginning of year	1 416 404	1 416 404

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

The grant is used to finance the upgrading and construction of the street network within the municipal boundaries.

National: Department Water Affairs (DWA) - Other Capital Projects

Balance unspent at beginning of year	8 989 746	11 041 819
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(2 052 073)
	8 989 746	**8 989 746**

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

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

The grant is used to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

Provincial: Health Subsidies

Balance unspent at beginning of year	115 000	115 000

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

This grant is used to fund environmental health care services, which services are in a process of being transferred to Provincial Government.

Provincial : Accelerated Community Development Programme

Balance unspent at beginning of year	-	404 475
Current-year receipts	1 199 999	1 350 000
Conditions met - transferred to revenue	(1 199 999)	(1 754 475)
	-	-

The purpose of this grant is for the upgrading of the Koffiefontein sewer pump system. No amount was withheld during the year.

National: FMG Grant

Balance unspent at beginning of year	-	-
Current-year receipts	1 800 000	1 800 000
Conditions met - transferred to revenue	(1 800 000)	(1 800 000)
	-	-

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.

National: MSIG Funds

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

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

National: EPWP Grant

Current-year receipts	1 000 000	1 010 000
Conditions met - transferred to revenue	(1 000 000)	(1 010 000)
	-	-

The Expanded Public Works Programme Grant was allocated to the municipality for environmental and water infrastructure projects. No amount was withheld during the year.

Changes in level of government grants

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Employee related costs

Basic	26 750 622	25 325 027
Medical aid - company contributions	1 261 302	1 753 492
UIF	268 862	239 811
WCA	272 444	575 555
SDL	353 691	59 490
Defined contribution plans	418 288	196 664
Other allowances	2 596 992	1 712 780
Overtime payments	3 794 572	3 695 197
Long-service awards	69 068	121 522
Bonus	1 766 198	2 093 268
Housing benefits and allowances	95 426	332 465
Industrial council	16 030	15 174
Telephone allaowance	97 632	86 200
Contribution to pension fund	3 136 428	2 637 898
	40 897 555	**38 844 543**

25. Remuneration of councillors

Councillors	3 395 189	3 143 467

26. Administrative expenditure

Administration and management fees - third party	365 181	174 019

27. Depreciation and amortisation

Property, plant and equipment	27 593 855	28 729 139

28. Impairment of assets

Impairments

Property, plant and equipment	269 531	680 523
Property, plant and equipment and Heritage assets have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment		

29. Finance costs

Interest expense	1 521 945	992 213

30. Debt impairment

Contributions to debt impairment provision	21 609 544	12 856 662
Bad debts written off	478 161	1 085 259
	22 087 705	**13 941 921**

Figures in Rand	2016	2015

31. Bulk purchases

Electricity	16 321 008	18 850 444
Water	4 533 188	3 754 339
	20 854 196	**22 604 783**

32. General expenses

Advertising	326 870	294 671
Auditors remuneration	2 904 206	2 815 176
Bank charges	243 763	248 761
Consulting and professional fees	8 487 112	4 871 773
Consumables	7 816 158	457 682
Donations	26 500	233 206
Entertainment	75 734	119 060
Hire	591 013	1 881 750
Insurance	808 606	3 719 297
IT expenses	70 425	333 137
Fuel and oil	631 064	1 011 035
Postage and courier	4 184	15 998
Printing and stationery	349 578	388 327
Royalties and license fees	352 183	97 273
Subscriptions and membership fees	535 776	1 452 773
Telephone and fax	2 055 863	1 581 709
Training	109 229	470 824
Travel - local	404 774	318 983
Electricity	3 490 809	3 536 913
Uniforms	233 790	216 510
Special events and programs	950 052	1 097 744
Accommodation cost	386 245	755 817
WARD Committee expense	-	264 246
Funeral cost	34 080	36 417
Water tests	114 843	329 645
Chemicals	1 670 582	1 518 006
Other expenses	789 189	1 170 247
	33 462 628	**29 236 980**

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

Insurance expenses for fprior year include the claims received by the Municipality in 2014/2015. The proceeds was paid over to the beneficiaries of the key man policies paid by the Municipality.

33. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L	975 490	13 805

34. Auditors' remuneration

Fees	2 904 206	2 815 176

Figures in Rand	2016	2015

35. Cash generated from (used in) operations

Deficit	(17 602 044)	(11 671 537)
Adjustments for:		
Depreciation and amortisation	27 593 855	28 729 139
Fair value adjustments	(975 490)	(13 805)
Impairment loss	269 531	680 523
Debt impairment	22 087 705	13 941 921
Movements in retirement benefit assets and liabilities	199 950	(3 759)
Movements in provisions	6 035 481	-
Re-estimation of rehabilitation costs	(664 842)	(200 423)
Adjustment to Accumulated surplus	(5 370 639)	3 681 462
Unwinding of landfill sites	-	(2 554 325)
Changes in working capital:		
Inventories	2 954 531	(6 162 855)
Receivables from exchange transactions	(25 313 352)	(17 337 620)
Receivables from non-exchange transactions	(81 039)	(2 418 897)
Prepayments	1 464 332	(1 016 474)
Payables from exchange transactions	1 318 888	(623 957)
VAT	(3 470 638)	(5 551 287)
Unspent conditional grants and receipts	2 876 831	(822 377)
Consumer deposits	29 920	28 435
	11 352 980	**(1 315 836)**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	5 808 821	8 395 014
Total capital commitments		
Already contracted for but not provided for	5 808 821	8 395 014

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	5 808 821	8 395 014

This committed expenditure relates to property, plant and equipment and will be financed from own resources.

Figures in Rand	2016	2015

37. Related parties

Members of the council

These include the total remuneration per councillor and in agregate for the whole finacial year.

Related party transactions

Councillor Salaries Disclosure		
Cllr. T I Reachable (Full Time Mayor/Speaker)	700 567	700 567
Cllr V A Mona (Odinary Councillor)	202 575	202 575
Cllr.P J Louw (Chairperson: Technical Service Committee)	281 605	281 605
Cllr M A Mpatshehla (Chairperson: Health Committe)	285 155	285 155
Cllr M J Jantjies (Chairperson: Human Resources Corporate Service Committe)	280 947	280 947
Cllr MM Tsiloana (Chairperson: Finance Service Committer)	280 987	280 987
Cllr PS Musa (Ordinary Councillor)	56 558	56 558
Cllr P Dibe (Chairperson LED Services)	285 155	285 155
Cllr K Nel (Odinary Councillor)	223 538	223 538
Cllr L Greeff (Ordinary Councillor)	223 538	223 538
Cllr V A Coetzee (Ordinary Councillor)	223 538	223 538
Cllr S E Lecoko (Chairperson 0	115 764	115 764
	3 159 927	**3 159 927**

Compensation to councillors		
Salary	2 717 529	2 717 529
Phone Allowance	199 985	199 985
Car Allowance	216 000	216 000
SDL	17 379	17 379
Travel and Subsistence	9 034	9 034
	3 159 927	**3 159 927**

38. Accounting Officer's and prescribed officer's remunerations

Municipal Manager

2016

	Remmuneration	Car allowance	Acting Allowance	Contributions to UIF, Medical Aid & Pension Fund	Other	Total
Mr B.A Mnguni	694 500	231 500	-	280 392	61 345	1 267 737

2015

	Remuneration	Car Allowance	Acting Allowannce	Contributions to UIF, Medical Aid & Pension Fund	Other	Total
Mr B.A Mnguni (held position from 01/08/2014)	636 625	212 208	-	8 140	-	856 973
Mr Z Manjiya (Acting MM from 01/07/2014 -31/07/2014)	-	-	6 475	-	-	6 475
	636 625	**212 208**	**6 475**	**8 140**	**-**	**863 448**

Prescribed officers

2016

	Remuneration	Car Allowance	Contributions to UIF, Medical Aid & Pension Fund	Other Benefits	Acting Allowance	Total
Chief Financial Officer - Sesane	62 627	13 680	66 554	70 374	19 372	232 607
Chief Financial Officer - Khoabane	367 665	60 000	133 140	6 087	-	566 892
Chief Financial Officer - Manziyo	102 839	19 260	90 621	23 191	24 647	260 558
Community Services - Makhoba	342 802	42 500	147 704	20 303	9 875	563 184
Community Services -Visagie	31 314	6 420	17 659	14 112	5 286	74 791
Technical Services - Bapela	170 874	39 360	132 080	51 989	48 647	442 950
Technical Services - Tsoane	205 542	40 740	133 818	50 036	93 499	523 635
Corporate Services - Deeuw	607 070	134 000	289 465	57 899	-	1 088 434
	1 890 733	**355 960**	**1 011 041**	**293 991**	**201 326**	**3 753 051**

2015

	Remuneration	Car Allowance	Other benefits	Telephone Allowance	Total
Chief Financial Officer - Z. Manjiya (Acting CFO 01/07/2014 - 31/08/2014)	136 667	-	1 979	1 000	139 646
Chief Financial Officer - L. Mashiane (Acting 01/09/2014 - 31/03/2015)	59 792	-	619	-	60 411
J Mazinyo (01/04/2015 -Current)	123 000	18 000	67 127	1 500	209 627
Community Services -T.A. Reachable (Acting till date of appointmennt on 01/02/2015)	570 313	105 000	81 491	5 000	761 804
Corporate Services- T. Deeuw (acting till date of appointment 01/02/2015)	322 493	63 000	8 535	5 000	399 028
Technical Services -N.C. Gaelejwe	508 161	106 850	5 988	4 000	624 999
K.R. Bapela (Acting 01/12/2014 -30/04/2015)	181 517	44 713	32 803	2 500	261 533
M.Tlali (Acting 01/05/2015 - Current)	79 958	-	1 121	1 000	82 079

38. Accounting Officer's and prescribed officer's remunerations (continued)

	1 981 901	**337 563**	**199 663**	**20 000**	**2 539 127**

39. Prior period errors

During the year under review, the following errors were identified for prior year Annual Financial Statements:

Consumer debtors figure has changed due the the fact that the prepayment are now separately disclosed.

Heritage assets changed as a result of errors made by the municipality in recognising heritage assets that did not belong to them.

Property Plant and Equipment and Depreciation was restated largerly due to correction of prior period errors arising from properties not belonging to the Municipality having being account for as municipal assets and depreciation misstatements.

Accumulated surplus was adjusted for by the net effect of the adjustments of prior period errors.

General expenses were also adjusted for due to correction of re-estimation of the costs associated with the rehabilitation of landfill sites.

Accumulated surplus was adjusted for by the net effect of the adjustments of prior period errors.

Property rates received and interest income were reclassified to sale of goods and services income for disclosure purposes in the Cash Flow Statement.

Cash Flow Statement was adjusted to reflect the correct cash movements.

The correction of the errors results in adjustments as follows:

Statement of Financial Position	As previously reported	Adjustments	Reclassifications	Restated
ASSETS				
Current Assets				
Inventories	7 118 575	-	-	7 118 575
Receivables from exchange transactions	14 282 456	-	(1 528 353)	12 754 103
Prepayments	-	-	1 528 353	1 528 353
Receivables from non-exchange transactions	5 628 679	-	-	5 628 679
VAT receivable	7 880 408	-	-	7 880 408
Cash and cash equivalents	3 194 564	-	-	3 194 564
	38 104 682	-	-	38 104 682
Non-Current Assets				
Property, plant and equipment	587 062 860	(21 288 644)	-	565 774 216
Intangible assets	305 840	-	-	305 840
Heritage assets	3 929 468	(3 670 898)	-	258 570
Investments	10 306 092	-	-	10 306 092
	601 604 260	**(24 959 542)**	**-**	**576 644 718**
	639 708 942	**(24 959 542)**	**-**	**614 749 400**

39. Prior period errors (continued)

LIABILITIES				
Current Liabilities				
Finance lease obligation	128 974	-	-	128 974
Payables from exchange transactions	9 483 241	-	-	9 483 241
Consumer deposits	721 782	-	-	721 782
Employee benefit obligation	524 203	-	-	524 203
Unspent conditional grants	12 890 949	-	-	12 890 949
	23 749 149	-	-	23 749 149
Non-Current Liabilities				
Finance lease obligation	214 628	-	-	214 628
Employee benefit obligation	5 423 564	-	-	5 423 564
Provisions	5 109 213	-	-	5 109 213
	10 747 405	**-**	**-**	**10 747 405**
Total Liabilities	34 496 554	-	-	34 496 554
Net Assets	605 212 389	(24 959 542)	-	580 252 846
Accumulated surplus	605 212 389	(24 959 542)	-	580 252 846

Statement of Financial Performance	As previously reported	Adjustments	Reclassifications	Restated
REVENUE				
Revenue from exchange transactions				
Dividends received	4 515	-	-	4 515
Interest received (trading)	4 743 169	-	-	4 743 169
Interest received (investments)	1 849 970	-	-	1 849 970
Other income	2 554 325	-	-	2 554 325
Recoveries	3 517 136	-	-	3 517 136
Rental of facilities and equipment	245 348	-	-	245 348
Service charges	31 316 128	-	-	31 316 128
Total revenue from exchange transactions	44 230 591	-	-	44 230 591
Revenue from non-exchange transactions				
Property rates	14 563 811	-	-	14 563 811
Government grants and subsidies	71 374 377	-	-	71 374 377
Fines, Penalties and Forfeits	4 500	-	-	4 500
Total revenue from non-exchange transactions	85 942 688	-	-	85 942 688
	130 173 279	**-**	**-**	**130 173 279**

39. Prior period errors (continued)

Expenditure				
Employee related costs	(38 844 543)	-	-	(38 844 543)
Remuneration of councillors	(3 143 467)	-	-	(3 143 467)
Administration	(174 019)	-	-	(174 019)
Depreciation and amortisation	(28 593 065)	(145 946)	-	(28 739 011)
Impairment loss	(680 523)	-	-	(680 523)
Finance costs	(992 213)	-	-	(992 213)
Bulk purchases	(22 604 783)	-	-	(22 604 783)
Repairs and maintenance	(3 711 456)	-	-	(3 711 456)
Debt impairment	(13 941 921)	-	-	(13 941 921)
General expenses	(28 948 940)	(288 040)	-	(29 236 980)
Total expenditure	(141 634 930)	(433 986)	-	(142 068 916)
Operating (deficit) surplus	(11 461 651)	(433 986)	-	(11 895 637)
Fair value adjustments	13 805	-	-	13 805
Actuarial gains	200 423	-	-	200 423
	214 228	-	-	214 228
Deficit for the year	(11 247 423)	-	-	(11 681 409)

Cash Flow Statement	As previously reported	Adjustments	Reclassifications	Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts				
Property rates	12 144 915	-	(12 144 915)	-
Sale of goods and services	7 410 747	5 601 322	19 120 844	32 132 913
Grants	70 552 000	-	1 644 754	72 196 754
Interest income	1 849 970	-	-	1 849 970
Dividends received	4 515	-	-	4 515
Insurance claims received	4 160 675	(643 539)	-	3 517 136
Interest income -trading	4 743 169	-	(4 743 169)	-
	100 865 991	4 957 783	3 877 514	109 701 288
Payments				
Employee costs	(41 791 346)	(196 664)	-	(41 988 010)
Suppliers and other payments	(62 226 010)	(5 810 891)	-	(68 036 901)
Finance costs	(855 165)	(137 048)	-	(992 213)
	(104 872 521)	(6 144 603)	-	(111 017 124)
Net cash flows from operating activities	(4 006 530)	-	-	(1 315 836)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(15 843 644)	(3 708 469)	-	(19 552 113)
Purchase of intangible assets	(11 614)	-	-	(11 614)
Movement in financial assets	8 117 001	(13 804)	-	8 103 197
Proceeds from sale of property, plant and equipment	5 786	630 800	-	636 586
Net cash flows from investing activities	(7 732 471)	616 996	-	(10 823 944)
CASH FLOWS FROM FINANCING ACTIVITIES				
Finance lease (payments)/receipts	(99 269)	400 778	-	301 509
Net decrease in cash and cash equivalents	(11 838 270)	-	-	(11 838 270)
Cash and cash equivalents at the beginning of the year	15 032 834	-	-	15 032 834
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	3 194 564	-	-	3 194 564

40. Risk management

Financial risk management

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

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

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

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

Further quantitative disclosures are included throughout these Annual Financial Statements.

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

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial

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

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

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

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk

management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Figures in Rand	2016	2015

40. Risk management (continued)

Credit risk

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

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

Investments/Bank, Cash and Cash Equivalents.

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

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled

in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who

acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

• The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;

• A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;

• The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;

• The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;

• Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

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

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

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting.

Figures in Rand	2016	2015

40. Risk management (continued)

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

Interest rate risk

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

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

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

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

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

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

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

41. Going concern

Management considered the following matters relating to the Going Concern:

(i) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(ii) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.However the following issues gave rise to the concern about the municipalities going concern assumption.A deficit of (R 17 602 044) which has increased from the prior year of (R 11 671 537),the municipality is providing for debt of more than 50% of the receivables which is high,creditors as a percentage of cash and cash equivalents (732.1%) are extremely high in comparison to that of the prior year (296.9%),the current ratio is below the required ratio of 2:1,the acid test ratio is below the required norm of 1:1 and the municipality is struggling to pay creditors due to cash constraints.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

Figures in Rand	2016	2015

42. Events after the reporting date

Following the local government elections, the councillors listed below were appointed and took oath of office in August 2016. Accordingly these are the councillors responsible for any subsequent resolutions and judgements made in connection with the financial statements subsequent to the day they took oath.

T.I. Reachable Mrs
M.J. Phaliso Mr
V.W. Nqelani Mr
M.T. Rens Mr
M.C. Ntemane Mr
S.J. Bahumi Mr
A.N. November Mrs
C.Burger Mrs
T.V. Nthapo
T.S. Moqhoishi

43. Unauthorised expenditure

	2016	2015
Opening	92 471 308	64 555 974
Current year expenditure	101 789 083	27 915 334
	194 260 391	**92 471 308**

44. Fruitless and wasteful expenditure

	2016	2015
Opening balance	1 892 792	1 587 068
Current year expenditure	110 869	305 724
	2 003 661	**1 892 792**

This was interest paid on overdue accounts due to cash flow problems.

45. Irregular expenditure

	2016	2015
Opening balance	107 889 864	88 064 441
Add: Irregular Expenditure - current year	17 498 603	19 825 423
	125 388 467	**107 889 864**

Details of irregular expenditure – current year

Non Compliance with the SCM Regulations	Investigations are still underway	17 498 603

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2016	2015
Opening balance	(33 250)	(37 250)
Current year subscription / fee	500 000	4 000
	466 750	**(33 250)**

Figures in Rand	2016	2015

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

Material losses

Loss for the year - Electricity	-	3 477 531
Loss for the year - Water	-	10 675 551
	-	**14 153 082**

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.

Electricity distribution losses for the period exceeds the norm of 7% - 10% as per section 125 of the MFMA.

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.In the current year we could not conclusively obtain the units consumed for both electricity and water conventional meters hence both water and electricity losses could not be accurately dislosed.

Water Loss amounted to R 0 (2015 : R 10 675 551)

Audit fees

Opening balance	5 817	4 408
Current year subscription / fee	2 904 206	2 806 067
Amount paid - current year	(2 897 106)	(2 804 658)
	12 917	**5 817**

PAYE and UIF

Opening balance	49 861	49 861
Current year subscription / fee	5 608 400	4 883 270
Amount paid - current year	(5 658 261)	(4 883 270)
	-	**49 861**

Pension and Medical Aid Deductions

Opening balance	(929 672)	(294 188)
Current year subscription / fee	5 488 989	4 698 820
Amount paid - current year	(4 559 317)	(5 334 304)
	-	**(929 672)**

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in June 2016 payroll, as well as the municipality's contribution to these funds.

VAT

VAT receivable	11 351 046	7 880 408

VAT output payables and VAT input receivables are based on the amounts due/payable to SARS and on outstanding debtors and creditors as at year end.

47. Contingencies

The municipality had no contigent liabilities during the year under audit.