13/12/2017

AUDITOR-GENERAL
P.O. BOX 315
2017 -12- 13
BLOEMFONTEIN, 9300
AUDITOR-GENERAL

LETSEMENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

Auditor General South Africa

Ok

^ - Casted
c/c - Cross casted
Ok - Confirmed

AUDITOR GENERAL
P.O. BOX 315
24 -01- 2018
BLOEMFONTEIN, 9300
AUDITOR GENERAL

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
	Cllr. M.J. Phaliso
	Cllr. X.W. Nqelani
	Cllr. M.T. Rens
	Cllr. M.C. Ntemane
	Cllr. S.J. Bahumi
	Cllr. A.N. November
	Cllr. C. Burger
	Cllr. T.V. Nthapo
	Cllr. T.S. Moqhoishi
	Cllr. M.A. Lebaka
Grading of local authority	Grade 2
Accounting Officer	B.A. Mnguni
Chief Finance Officer (CFO)	J. Mazinyo
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
Auditors	Auditor General South Africa

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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
GAMAP	Generally Accepted Municipal Accounting Practice
DBSA	Development Bank of South Africa
CRR	Capital Replacement Reserve
EPWP	Extended Public Works Program
SA GAAP	South African Statements of 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 (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 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 year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the 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 75, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
Mr. B. A. Mnguni

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Letsemeng Local Municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 3 650 212 (2016: surplus R 6 372 364).

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 Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. 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.

6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

7. 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

Accounting Officer's Report

8. 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.

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 (Act No. 56 of 2003).

9. Bankers

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

10. Auditors

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

11. Non compliance with applicable legislation

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

12. Retirement benefit obligation

Management performed an acturial valuation of the Employee Benefits of the employer's liability arising from the post-retirement healthcare subsidy ("PRHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	2	2 792 591	4 164 044
Receivables from exchange transactions	3	32 564 848	29 285 756
Receivables from non-exchange transactions	4	13 553 446	9 175 643
Other receivables from exchange transactions	5	64 021	64 021
VAT receivable	6	20 416 563	12 289 509
Cash and cash equivalents	7	512 639	729 726
		69 904 108	**55 708 699**
Non-Current Assets			
Property, plant and equipment	8	593 524 941	568 867 826
Intangible assets	9	1 079 073	160 278
Heritage assets	10	211 000	211 000
Other financial assets	11	120 730	237 135
		594 935 744	**569 476 239**
Total Assets		**664 839 852**	**625 184 938**
Liabilities			
Current Liabilities			
Finance lease obligation	12	666 642	171 790
Payables from exchange transactions	13	26 688 570	9 176 737
Consumer deposits	14	799 295	751 702
Employee benefit obligation	15	773 473	553 187
Unspent conditional grants and receipts	16	26 777 283	6 778 034
		55 705 263	**17 431 450**
Non-Current Liabilities			
Finance lease obligation	12	3 114 345	79 410
Employee benefit obligation	15	5 971 608	5 594 530
Provisions	17	12 763 987	11 144 694
		21 849 940	**16 818 634**
Total Liabilities		**77 555 203**	**34 250 084**
Net Assets		**587 284 649**	**590 934 854**
Accumulated surplus		587 284 649	590 934 854

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	18	48 932 367	41 196 000
Dividends received	19	1 369	6 866
Interest earned - external investments	19	578 992	231 731
Interest earned - outstanding debtors		7 807 563	7 462 942
Rental of facilities and equipment	20	2 208 897	504 953
Other income	21	544 947	724 008
Total revenue from exchange transactions		**60 074 135**	**50 126 500**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	14 917 157	13 227 770
Interest from outstanding receivables		2 718 217	-
Transfer revenue			
Government grants and subsidies	23	105 755 753	78 071 114
Fines, penalties and forfeits		7 550	30 130
Total revenue from non-exchange transactions		**123 398 677**	**91 329 014**
Total revenue	24	**183 472 812**	**141 455 514**
EXPENDITURE			
Employee related costs	25	(46 643 301)	(40 897 554)
Remuneration of councillors	26	(3 348 214)	(3 395 189)
Depreciation and amortisation	27	(32 865 634)	(27 589 030)
Impairment loss	28	-	(269 531)
Finance costs	29	(3 010 152)	(1 552 213)
Debt impairment	30	(36 734 605)	(5 476 775)
Repairs and maintenance		(3 117 530)	(1 575 660)
Bulk purchases	31	(26 844 034)	(21 611 373)
General expenses	32	(31 373 960)	(33 827 809)
Total expenditure		**(183 937 430)**	**(136 195 134)**
Operating (deficit) surplus		**(464 618)**	**5 260 380**
Loss on disposal of assets and liabilities		(1 538 752)	-
Fair value adjustments	33	(1 160)	975 490
Actuarial gains	15	(264 772)	136 494
Inventories losses/write-downs		(1 380 910)	-
		(3 185 594)	**1 111 984**
(Deficit) surplus for the year		**(3 650 212)**	**6 372 364**

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

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	575 593 703	575 593 703
Adjustments		
Prior year adjustments	8 968 787	8 968 787
Balance at 01 July 2015 as restated*	**584 562 490**	**584 562 490**
Changes in net assets		
Surplus for the year	6 372 364	6 372 364
Total changes	6 372 364	6 372 364
Restated* Balance at 01 July 2016	**590 934 861**	**590 934 861**
Changes in net assets		
Surplus for the year	(3 650 212)	(3 650 212)
Total changes	(3 650 212)	(3 650 212)
Balance at 30 June 2017	**587 284 649**	**587 284 649**

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		23 237 234	35 613 142
Grants and subsidies received		125 755 002	71 958 199
Interest income		578 992	231 731
Dividends received		1 369	6 866
		149 572 597	107 809 938
Payments			
Employee costs		(48 737 508)	(42 981 129)
Suppliers and other payments		(43 944 313)	(54 511 683)
Finance costs		(1 390 859)	(1 552 213)
		(94 072 680)	(99 045 025)
Net cash flows from operating activities	35	**55 499 917**	**8 764 913**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(54 510 965)	(23 145 614)
Purchase of other intangible assets	9	(1 028 612)	(14 674)
Proceeds from sale of financial assets		115 246	12 019 937
Net cash flows from investing activities		**(55 424 331)**	**(11 140 351)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(292 693)	(92 402)
Net decrease in cash and cash equivalents		**(217 107)**	**(2 467 840)**
Cash and cash equivalents at the beginning of the year		729 726	3 194 564
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	**512 619**	**726 724**

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Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	37 735 000	9 968 000	**47 703 000**	48 932 367	**1 229 367**	
Dividends received	4 000	26 000	**30 000**	1 369	**(28 631)**	Note 47
Interest earned - external investments	936 000	(187 000)	**749 000**	578 992	**(170 008)**	Note 47
Interest earned - outstanding debtors	-	-	-	7 807 563	**7 807 563**	Note 47
Rental of facilities and equipment	510 000	(102 000)	**408 000**	2 208 897	**1 800 897**	Note 47
Other income	4 248 000	311 000	**4 559 000**	544 947	**(4 014 053)**	Note 47
Total revenue from exchange transactions	**43 433 000**	**10 016 000**	**53 449 000**	**60 074 135**	**6 625 135**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	17 129 000	-	**17 129 000**	14 917 157	**(2 211 843)**	Note 47
Licences and permits	7 000	(4 000)	**3 000**	-	**(3 000)**	
Interest on outstanding receivables	-	-	-	2 718 217	**2 718 217**	Note 47
Transfer revenue						
Government grants and subsidies	50 227 000	-	**50 227 000**	105 755 753	**55 528 753**	Note 47
Fines, penalties and forfeits	56 000	(24 000)	**32 000**	7 550	**(24 450)**	Note 47
Total revenue from non-exchange transactions	**67 419 000**	**(28 000)**	**67 391 000**	**123 398 677**	**56 007 677**	
Total revenue	**110 852 000**	**9 988 000**	**120 840 000**	**183 472 812**	**62 632 812**	
Expenditure						
Employee costs	(44 929 000)	(900 000)	**(45 829 000)**	(46 643 301)	**(814 301)**	
Remuneration of councillors	(3 378 000)	(122 000)	**(3 500 000)**	(3 348 214)	**151 786**	
Depreciation and amortisation	(30 000 000)	-	**(30 000 000)**	(32 865 634)	**(2 865 634)**	
Finance costs	(53 000)	(67 000)	**(120 000)**	(3 010 152)	**(2 890 152)**	Note 47
Debt impairment	(15 000 000)	-	**(15 000 000)**	(36 734 605)	**(21 734 605)**	Note 47
Repairs and maintenance	-	-	-	(3 117 530)	**(3 117 530)**	Note 47
Bulk purchases	(26 991 000)	2 572 000	**(24 419 000)**	(26 844 034)	**(2 425 034)**	Note 47
Contracted Services	(3 850 000)	(811 000)	**(4 661 000)**	-	**4 661 000**	Note 47
General expenses	(23 487 000)	-	**(23 487 000)**	(31 373 960)	**(7 886 960)**	Note 47
Total expenditure	**(147 688 000)**	**672 000**	**(147 016 000)**	**(183 937 430)**	**(36 921 430)**	
Operating deficit	**(36 836 000)**	**10 660 000**	**(26 176 000)**	**(464 618)**	**25 711 382**	
Loss on disposal of assets and liabilities	-	-	-	(1 538 752)	**(1 538 752)**	Note 47
Fair value adjustments	-	-	-	(1 160)	**(1 160)**	Note 47
Actuarial gains	-	-	-	(264 772)	**(264 772)**	Note 47
Inventories losses/write-downs	-	-	-	(1 380 910)	**(1 380 910)**	Note 47
	-	-	-	**(3 185 594)**	**(3 185 594)**	
Surplus/(Deficit) for the year	**(36 836 000)**	**10 660 000**	**(26 176 000)**	**(3 650 212)**	**22 525 788**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
	(36 836 000)	**10 660 000**	**(26 176 000)**	**(3 650 212)**	**22 525 788**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	422 000	-	**422 000**	2 792 591	**2 370 591**	Note 47
Receivables from exchange transactions	32 077 000	-	**32 077 000**	32 564 848	**487 848**	
Receivables from non-exchange transactions	-	21 799 000	**21 799 000**	13 553 446	**(8 245 554)**	Note 47
Other receivables from exchange transactions	-	-	-	64 021	**64 021**	
VAT receivable	-	-	-	20 416 563	**20 416 563**	Note 47
Cash and cash equivalents	9 109 000	-	**9 109 000**	512 639	**(8 596 361)**	Note 47
	41 608 000	**21 799 000**	**63 407 000**	**69 904 108**	**6 497 108**	
Non-Current Assets						
Biological assets	-	250 000	**250 000**	-	**(250 000)**	Note 47
Investment property	20 802 000	(20 802 000)	-	-	-	
Property, plant and equipment	-	570 000 000	**570 000 000**	593 524 941	**23 524 941**	
Intangible assets	450 000	-	**450 000**	1 079 073	**629 073**	Note 47
Heritage assets	-	-	-	211 000	**211 000**	
Other financial assets	15 000 000	(14 747 000)	**253 000**	120 730	**(132 270)**	Note 47
	36 252 000	**534 701 000**	**570 953 000**	**594 935 744**	**23 982 744**	
Total Assets	**77 860 000**	**556 500 000**	**634 360 000**	**664 839 852**	**30 479 852**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	666 642	**666 642**	Note 47
Payables from exchange transactions	-	11 000 000	**11 000 000**	26 688 568	**15 688 568**	Note 47
Consumer deposits	842 000	-	**842 000**	799 295	**(42 705)**	
Employee benefit obligation	-	-	-	773 473	**773 473**	Note 47
Unspent conditional grants and receipts	-	-	-	26 777 283	**26 777 283**	Note 47
Provisions	755 000	-	**755 000**	-	**(755 000)**	Note 47
	1 597 000	**11 000 000**	**12 597 000**	**55 705 261**	**43 108 261**	
Non-Current Liabilities						
Finance lease obligation	-	-	-	3 114 345	**3 114 345**	Note 47
Employee benefit obligation	-	-	-	5 971 608	**5 971 608**	Note 47
Provisions	-	-	-	12 763 987	**12 763 987**	Note 47
	-	-	-	**21 849 940**	**21 849 940**	
Total Liabilities	**1 597 000**	**11 000 000**	**12 597 000**	**77 555 201**	**64 958 201**	
Net Assets	**76 263 000**	**545 500 000**	**621 763 000**	**587 284 651**	**(34 478 349)**	
Net Assets						
Reserves						
Accumulated surplus	76 263 000	545 500 000	**621 763 000**	587 284 651	**(34 478 349)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	40 187 000	10 000 000	**50 187 000**	23 237 234	**(26 949 766)**	
Grants	121 863 000	2 504 000	**124 367 000**	125 755 002	**1 388 002**	Note 47
Interest income	936 000	(187 000)	**749 000**	578 992	**(170 008)**	Note 47
Dividends received	4 000	26 000	**30 000**	1 369	**(28 631)**	Note 47
Other receipts	4 542 961	-	**4 542 961**	-	**(4 542 961)**	Note 47
	167 532 961	**12 343 000**	**179 875 961**	**149 572 597**	**(30 303 364)**	
Payments						
Suppliers	(103 559 411)	-	**(103 559 411)**	(92 681 821)	**10 877 590**	Note 47
Finance costs	(53 000)	-	**(53 000)**	(1 390 859)	**(1 337 859)**	Note 47
	(103 612 411)	-	**(103 612 411)**	**(94 072 680)**	**9 539 731**	
Net cash flows from operating activities	**63 920 550**	**12 343 000**	**76 263 550**	**55 499 917**	**(20 763 633)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(71 636 000)	(2 504 000)	**(74 140 000)**	(54 510 965)	**19 629 035**	
Purchase of other intangible assets	-	-	-	(1 028 612)	**(1 028 612)**	Note 47
Proceeds from sale of financial assets	-	-	-	115 245	**115 245**	Note 47
Net cash flows from investing activities	**(71 636 000)**	**(2 504 000)**	**(74 140 000)**	**(55 424 332)**	**18 715 668**	
Cash flows from financing activities						
Finance lease payments	-	-	-	(292 693)	**(292 693)**	Note 47
Net increase/(decrease) in cash and cash equivalents	(7 715 450)	9 839 000	**2 123 550**	(217 108)	**(2 340 658)**	
Cash and cash equivalents at the beginning of the year	2 000 000	-	**2 000 000**	729 726	**(1 270 274)**	
Cash and cash equivalents at the end of the year	**(5 715 450)**	**9 839 000**	**4 123 550**	**512 618**	**(3 610 932)**	

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, 2003 (Act No. 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.

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.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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.

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.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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
4) 365 days and more, 100% of the debt is considered bad

GRAP 24: Presentation of budget information

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

The approved and final budget amounts;
The actual amounts on a comparable basis.

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.

Fair value

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

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

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

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

1.4 Investment property (continued)

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

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings		
• 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
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

1.5 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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.

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.

1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	2 - 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 arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 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.

1.8 Heritage assets (continued)

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.

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.

1.9 Financial instruments (continued)

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.

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.

1.9 Financial instruments (continued)

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.

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

1.9 Financial instruments (continued)

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.

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

1.9 Financial instruments (continued)

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

1.9 Financial instruments (continued)

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

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

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

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

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

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

Financial liabilities

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

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

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

Presentation

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

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.

1.9 Financial instruments (continued)

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

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

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

1.10 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.

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.

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

1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.15 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

1.15 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

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

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

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

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

1.15 Employee benefits (continued)

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

1.15 Employee benefits (continued)

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

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.

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

1.16 Provisions and contingencies (continued)

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 .

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.

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.

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.

1.18 Revenue from exchange transactions (continued)

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

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

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.19 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding 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. Futher legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public proecutor can decide whether to waive the revenue amount collected from the spot fines and summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

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

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

Conditional grants and receipts

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

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grnats for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

It is probable that the economic benefits or service potential associated with the transacions will flow to the entity;
The amount of the revenue can be measured reliably. and;
There has been compliance witht the relevant legal requirement.

The municipality needs to assess 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 transacions 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 program 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 Division of Revenue 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

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

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.

Gifts and donations, including goods in-kind

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

Assessment Rates

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 transacions will flow to the entity;
The amount of the revenue can be measured reliably. and;
There has been compliance witht the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims, 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.

1.20 Investment income

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

1.21 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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.

1.24 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.25 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.

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, 2000 (Act No.32 of 2000), and the Public Office Bearers Act, 1998 (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.

1.26 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 2016/07/01 to 2017/06/30.

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.

1.27 Related parties

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

1.27 Related parties (continued)

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.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

Figures in Rand	2017	2016

2. Inventories

Maintenance materials	2 773 569	4 154 479
Water	19 022	9 565
	2 792 591	**4 164 044**

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

3. Receivables from exchange transactions

Gross balances		
Electricity	4 227 294	3 837 060
Water	33 400 285	20 578 366
Sewerage	30 857 077	21 727 152
Refuse	29 977 253	21 128 900
Other	3 025 494	1 257 140
	101 487 403	**68 528 618**
Less: Allowance for impairment		
Electricity	(1 811 909)	(1 895 427)
Water	(23 058 265)	(11 877 616)
Sewerage	(21 363 570)	(12 653 107)
Refuse	(20 798 539)	(12 325 874)
Other	(1 890 272)	(490 838)
	(68 922 555)	**(39 242 862)**
Net balance		
Electricity	2 415 385	1 941 633
Water	10 342 020	8 700 750
Sewerage	9 493 507	9 074 045
Refuse	9 178 714	8 803 026
Other	1 135 222	766 302
	32 564 848	**29 285 756**
Electricity		
Current (0 -30 days)	329 812	168 457
31 - 60 days	159 902	149 277
61 - 90 days	104 641	71 346
91 - 120 days	172 951	98 910
121 + days	1 775 201	1 561 996
Consumer debtors	(127 122)	(108 353)
	2 415 385	**1 941 633**
Water		
Current (0 -30 days)	883 571	316 372
31 - 60 days	1 056 340	292 554
61 - 90 days	794 074	299 946
91 - 120 days	272 628	292 890
121 + days	7 563 970	7 589 605
Consumer debtors	(228 563)	(90 617)
	10 342 020	**8 700 750**

Figures in Rand	2017	2016

3. Receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	460 385	335 360
31 - 60 days	330 589	309 351
61 - 90 days	311 126	289 333
91 - 120 days	297 950	283 524
121 + days	8 164 052	7 883 519
Consumer debtors	(70 595)	(27 042)
	9 493 507	**9 074 045**

Refuse		
Current (0 -30 days)	418 825	304 057
31 - 60 days	311 974	288 360
61 - 90 days	293 061	277 941
91 - 120 days	280 576	271 816
121 + days	7 898 845	7 692 986
Consumer debtors	(24 567)	(32 134)
	9 178 714	**8 803 026**

Other		
Current (0 -30 days)	46 814	198 246
31 - 60 days	32 658	12 749
61 - 90 days	23 989	12 058
91 - 120 days	21 644	12 379
121 + days	1 010 117	517 671
Consumer debtors	-	13 199
	1 135 222	**766 302**

Receivables from exchange transactions: other 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

None of the receivable from exchange transaction 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 2017, R 4 464 103 (2016: R 6 476 887) were past due but not impaired.

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

1 month past due	1 891 463	2 197 665
2 months past due	1 526 891	2 195 729
3 months past due	1 045 749	2 083 493

Reconciliation of allowance for impairment of receivables from exchange transactions

Opening balance	39 242 862	37 705 658
Allowance for impairment	29 679 693	1 059 044
Amounts written off as uncollectible	-	478 160
	68 922 555	**39 242 862**

Figures in Rand	2017	2016

3. Receivables from exchange transactions (continued)

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have 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.

4. Receivables from non-exchange transactions

Assessment rates	32 524 370	24 217 160
Provision for impairment	(18 970 924)	(15 041 517)
	13 553 446	**9 175 643**

None of the receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

The 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 the receivables from non-exchange transactions, the municipality considers any change in the credit quality of the assessment rate debtors 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 assessment rates are as follows:

Rates		
Current (0 - 30 days)	787 404	345 684
31 - 60 days	628 736	325 814
61 - 90 days	502 175	417 824
91 - 120 days	455 415	305 949
121 + days	11 553 960	8 057 815
Consumer debtors	(374 244)	(277 443)
	13 553 446	**9 175 643**

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

Opening balance	15 041 517	14 530 729
Provision for impairment	3 929 407	510 788
	18 970 924	**15 041 517**

5. Receivables from exchange transactions

Sundry deposits	64 021	64 021

6. VAT receivable

VAT	20 416 563	12 289 509

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

Figures in Rand	2017	2016

6. VAT receivable (continued)

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:

	2017	2016
Bank balances	512 639	729 726

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2017	Bank statement balances 30 June 2016	Cash book balances 30 June 2017	Cash book balances 30 June 2016
Balance at yearend	485 060	729 726	485 060	729 726
The balance consists of the balance of the following current accounts:				
First National Bank - 527115689918				
ABSA Bank - 4078034774				

8. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	74 959 435	-	74 959 435	74 955 150	-	74 955 150
Buildings	65 267 348	(24 634 367)	40 632 981	64 538 139	(23 513 038)	41 025 101
Infrastructure	992 278 369	(524 806 916)	467 471 453	941 086 522	(496 622 421)	444 464 101
Other property, plant and equipment	13 439 100	(6 151 065)	7 288 035	13 924 840	(5 654 927)	8 269 913
Leased assets	4 223 260	(1 050 223)	3 173 037	400 779	(247 218)	153 561
Total	**1 150 167 512**	**(556 642 571)**	**593 524 941**	**1 094 905 430**	**(526 037 604)**	**568 867 826**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Impairment reversal	Total
Land	74 955 150	4 285	-	-	-	74 959 435
Buildings	41 025 101	729 209	-	(1 121 329)	-	40 632 981
Infrastructure	444 464 101	54 197 119	(1 256 160)	(29 933 607)	-	467 471 453
Other property, plant and equipment	8 269 913	472 711	(556 711)	(897 878)	-	7 288 035
Leased assets	153 561	3 822 480	-	(803 004)	-	3 173 037
	568 867 826	**59 225 804**	**(1 812 871)**	**(32 755 818)**	**-**	**593 524 941**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Change in discount factor - Landfill sites	Depreciation	Impairment loss	Total
Land	74 955 150	-	-	-	-	-	74 955 150
Buildings	41 745 825	382 859	-	-	(1 103 583)	-	41 025 101
Infrastructure	440 120 773	28 952 176	-	664 847	(25 123 695)	(150 000)	444 464 101
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	**30 079 517**	**-**	**664 847**	**(27 428 793)**	**(221 961)**	**568 867 826**

Pledged as security

None of the tangible assets were pledged as security during the current year and previous financial years.

Figures in Rand	2017	2016

8. Property, plant and equipment (continued)

Other information

Expenditure incurred on repairs and maintenance of property, plant and equipment

	2017	2016
Buildings	46 675	-
Infrastructure	1 777 204	-
Other property, plant and equipment	827 031	-
	2 650 910	**-**

Reconciliation of work-in-progress 2017

	Included within buildings	Included within infrastructure	Total
Opening balance	10 920 712	34 233 396	45 154 108
Additions/capital expenditure	719 867	54 206 461	54 926 328
Work-in-progress completed during the year	(1 766 364)	(15 014 851)	(16 781 215)
	9 874 215	**73 425 006**	**83 299 221**

Reconciliation of work-in-progress 2016

	Included within buildings	Included within infrastructure	Included within other assets	Total
Opening balance	10 537 853	10 159 152	2 423 888	23 120 893
Additions/capital expenditure	382 859	28 920 675	-	29 303 534
Work-in-progress completed during the year	-	(7 270 320)	-	(7 270 320)
	10 920 712	**31 809 507**	**2 423 888**	**45 154 107**

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

9. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 007 465	(928 392)	1 079 073	978 853	(818 575)	160 278

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	160 278	1 028 612	(109 817)	1 079 073

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	305 840	14 674	(160 236)	160 278

9. Intangible assets (continued)

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

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	211 000	-	211 000	211 000	-	211 000

Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets	211 000	211 000

Reconciliation of heritage assets 2016

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

11. Other financial assets

	2017	2016
Designated at fair value		
Unlisted shares	120 550	120 342
The municipality holds the following non-controlling interests: Senwes Limited: 3 600 (2016: 3 600) shares Senwes Beleggings: 4 990 (2016: 4 990) shares OVK: 4 000 (2016: 4 000) shares		
Designated at fair value		
First National Bank	180	116 793
The municipality holds an investment, account number 62273244849, at First National Bank		
Total investments	**120 730**	**237 135**

	2017	2016
Non-current assets		
Designated at fair value	120 550	120 342
At amortised cost	180	116 793
	120 730	**237 135**

Figures in Rand	2017	2016

11. Other financial assets (continued)

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

	2017	2016
OVK Operations	52 800	54 402
These shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June.		
Senwes Limited	37 440	65 940
These shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June.		
Senwes Beleggings Limited	28 942	-
These shares are valued as per valuation obtained from the Senwes Transfer Secretaries as at 30 June.		
	119 182	**120 342**

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.

	2017	2016
Level 1		
Unlisted shares	119 182	120 342
Level 2		
Money market investments	180	-
	119 362	**120 342**

Figures in Rand	2017	2016

12. Finance lease obligation

Minimum lease payments due		
- within one year	1 261 144	269 834
- in second to fifth year inclusive	3 916 091	92 728
	5 177 235	362 562
less: future finance charges	(1 396 248)	(111 363)
Present value of minimum lease payments	**3 780 987**	**251 199**
Present value of minimum lease payments due		
- within one year	666 642	171 790
- in second to fifth year inclusive	3 114 345	79 410
	3 780 987	**251 200**
Non-current liabilities	3 114 345	79 410
Current liabilities	666 642	171 790
	3 780 987	**251 200**

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

The average lease term was 5 years for copiers, 2 years for cellphones and internet modems and the average effective borrowing rate was 10% (2016: 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

Accrued expenses	19 944 447	3 716 944
Accrued leave pay	3 636 605	2 685 118
Accrued bonus	1 236 788	1 266 860
Payments received in advance	537 851	537 851
Unknown deposits	(259 048)	-
Sundry deposits	30 796	27 072
Retention monies	1 561 131	942 892
	26 688 570	**9 176 737**

14. Consumer deposits

Electricity	212 111	211 290
Water	587 184	540 412
	799 295	**751 702**

Figures in Rand	2017	2016

15. Employee benefit obligations

Defined benefit plan

Post-employment health care 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 (2016: 1)
- In-service non-members (employees): 3 (2016: 3)
- Continuation members (retirees, widowers and orphans): 14 (2016: 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 5 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 2017. 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 2017 is estimated to be R427 355, whereas the cost for the ensuing year is estimated to be R395 721 for 30 June 2017.

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 2017. 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:

	2017	2016
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(4 293 667)	(4 136 780)
Present value of the defined benefit obligation-partly or wholly funded	(2 451 414)	(2 010 937)
	(6 745 081)	**(6 147 717)**
Non-current liabilities	(5 971 608)	(5 594 530)
Current liabilities	(773 473)	(553 187)
	(6 745 081)	**(6 147 717)**

The fair value of plan assets includes:

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

	2017	2016
Opening balance	4 136 780	4 303 285
Net expense recognised in the statement of financial performance	156 887	(166 505)
	4 293 667	**4 136 780**

Figures in Rand	2017	2016

15. Employee benefit obligations (continued)

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

Current service cost	19 287	19 059
Interest cost	346 557	337 747
Actuarial (gains) losses	325 326	(147 423)
Benefits paid	(534 283)	(375 888)
	156 887	**(166 505)**

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

Opening balance	2 010 937	1 644 482
Net expense recognised in the statement of financial performance	440 477	366 455
	2 451 414	**2 010 937**

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

Current service cost	408 068	376 662
Interest cost	164 224	127 179
Actuarial gains (losses)	(60 554)	10 929
Benefits paid	(71 261)	(148 315)
	440 477	**366 455**

Key assumptions used

Assumptions used at the reporting date:

Discount rate - post employment medical aid subsidy	8,67 %	8,76 %
Discount rate - long service award	8,47 %	8,55 %
Health care cost inflation rate	6,98 %	7,92 %
General salary inflation	6,29 %	7,20 %
Net discount rate - health care cost inflation	1,59 %	0,78 %
Net discount rate - long service award	2,05 %	1,26 %
Maximum subsidy inflation rate	4,86 %	5,56 %
Net discount rate - maximum subsidy inflation	3,64 %	3,03 %

Other assumptions

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

	2017 R	2016 R	2015 R	2014 R	2013 R
Defined benefit obligation - wholly unfunded	4 293 667	4 136 780	4 303 000	4 162 000	3 938 000
Defined benefit obligation - wholly funded	2 451 414	2 010 937	1 644 482	1 789 537	1 543 000
Actuarial (gains) / losses	325 326	147 423	205 000	350 000	217 000
Actuarial (gains) / losses	(60 554)	10 929	(332 174)	(55 730)	(161)

Acturial gains

Post employment medical aid and long service awards	264 772	136 484

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	4 564 885	5 246 630
Department of Roads and Transport Grant	1 416 404	1 416 404
Department of Water Affairs Grant	20 680 994	-
Department of Health Grant	115 000	115 000
	26 777 283	**6 778 034**

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 - 2017

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	11 144 694	1 619 293	12 763 987

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	5 109 213	6 035 481	-	11 144 694

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	4 637 946	3 890 231
Koffiefontein	2 784 179	2 462 646
Luckhoff	2 374 975	2 116 637
Oppermansdorp	1 122 214	978 144
Petrusburg	1 844 672	1 697 036
	12 763 986	**11 144 694**

18. Service charges

Sale of electricity	18 298 519	15 011 594
Sale of water	12 988 647	8 086 697
Sewerage and sanitation charges	9 103 940	9 293 731
Refuse removal	8 541 261	8 803 978
	48 932 367	**41 196 000**

Figures in Rand	2017	2016

19. Investment revenue

Dividend revenue		
Dividends	1 369	6 866
Interest revenue		
Interest on external investments	578 992	231 731
	580 361	**238 597**

20. Rental of facilities and equipment

Premises		
Premises	2 181 012	474 404
Venue hire	25 434	30 428
	2 206 446	**504 832**
Equipment		
Rental of crockery	600	-
Rental of equipment	439	121
	1 039	**121**
	2 207 485	**504 953**

21. Other income

Administration fees	23 151	31 558
Building plan fees	6 516	3 797
Connection and reconnection fees	123 063	124 927
Grave sales	45 954	45 556
Photocopies	657	861
Sundry income	274 988	431 974
Tax certificates	21 583	16 826
Tender documents	49 035	68 509
	544 947	**724 008**

22. Property rates

Rates charged		
Property rates	14 917 157	13 227 770
Valuations		
Residential	810 718 877	810 718 877
Commercial	177 231 140	177 231 140
State	60 569 875	60 569 875
Municipal	23 457 915	23 457 915
Small holdings and farms	1 966 486 424	1 966 486 424
Other	97 407 041	97 407 041
	3 135 871 272	**3 135 871 272**

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	2017	2016

23. Government grants and subsidies

Operating grants		
Equitable share	47 402 000	49 784 000
Capital grants		
Accelerated Community Infrastructure Programme (ACIP)	-	1 199 999
Department of Water Affairs (DWA)	39 459 007	9 255 946
Expanded Public Works Programme (EPWP)	1 000 000	1 000 000
Financial Management Grant (FMG)	1 825 000	1 800 000
Municipal Infrastructure Grant (MIG)	16 069 746	14 101 169
Municipal Sytems Improvement Grant (MSIG)	-	930 000
	58 353 753	**28 287 114**
	105 755 753	**78 071 114**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	58 353 753	28 287 114
Unconditional grants received	47 402 000	49 784 000
	105 755 753	**78 071 114**

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	5 246 631	2 369 798
Current-year receipts	20 635 000	16 978 000
Conditions met - transferred to revenue: capital expenditure	(16 069 746)	(14 101 167)
Repayment of funds (withheld from Equitable Share allocation)	(5 247 000)	-
	4 564 885	**5 246 631**

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 of municipal infrastructure.

Provincial : Roads and Transport Grant

Balance unspent at end 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.

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

National: Department Water Affairs (DWA)

Balance unspent at beginning of year	-	9 255 946
Current-year receipts	60 140 000	-
Conditions met - transferred to revenue: capital expenditure	(39 459 007)	(9 255 946)
	20 680 993	-

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

Current-year receipts	-	1 199 999
Conditions met - transferred to revenue	-	(1 199 999)
	-	-

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	1 825 000	1 800 000
Conditions met - transferred to revenue: operating expenses	(1 825 000)	(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, 2003 (Act No. 56 of 2003).

National: MSIG Funds

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

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.

Figures in Rand	2017	2016

23. Government grants and subsidies (continued)

National: EPWP Grant

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue: operating expenses	(1 000 000)	(1 000 000)
	-	-

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

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. Revenue

Service charges	48 932 367	41 196 000
Rental of facilities and equipment	2 208 897	504 953
Interest received - outstanding debtors (exchange)	7 807 563	7 462 942
Other income	544 947	724 008
Interest earned - external investments	578 992	231 731
Dividends received	1 369	6 866
Property rates	14 917 157	13 227 770
Interest received - outstanding debtors (non-exchange)	2 718 217	-
Government grants and subsidies	105 755 753	78 071 114
Fines, penalties and forfeits	7 550	30 130
	183 472 812	**141 455 514**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	48 932 367	41 196 000
Rental of facilities and equipment	2 208 897	504 953
Interest received - outstanding debtors	7 807 563	7 462 942
Other income	544 947	724 008
Interest earned - external investments	578 992	231 731
Dividends received	1 369	6 866
	60 074 135	**50 126 500**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	14 917 157	13 227 770
Interest received - outstanding debtors	2 718 217	-
Transfer revenue		
Government grants and subsidies	105 755 753	78 071 114
Fines, penalties and forfeits	7 550	30 130
	123 398 677	**91 329 014**

Figures in Rand	2017	2016

25. Employee related costs

Basic salaries and wages	28 928 787	26 750 622
Bonus	1 802 676	1 694 961
Overtime payments	4 748 629	3 794 572
Housing benefits and allowances	1 223 548	95 426
Other allowances	2 548 713	2 596 992
Telephone allowance	103 018	97 632
Pension funds - council contributions	3 680 427	3 136 428
Medical aid funds - council contributions	1 812 226	1 261 302
Industrial council	17 073	16 030
UIF	289 395	268 862
Workmens compensation contributions	644 250	272 444
Skills development levy	-	353 691
Defined contribution plans	-	418 288
Long service awards	(106 928)	140 304
Leave pay provision charge	951 487	-
	46 643 301	**40 897 554**

Remuneration of the Municipal Manager

Annual remuneration	748 986	694 500
Car allowance	245 838	231 500
Contributions to UIF, medical aid and pension funds	1 785	280 392
Other	51 062	61 345
	1 047 671	**1 267 737**

Remuneration of the Chief Finance Officer

Annual remuneration	524 434	470 504
Car allowance	80 000	79 260
Contributions to UIF, medical aid and pension funds	1 190	223 761
Other benefits	56 496	29 278
Other	121 216	24 647
	783 336	**827 450**

The Chief Financial Officer resigned at 28 February 2017 and the post was still vacant at 30 June 2017. The position is currently filled by an acting CFO.

Remuneration of the Director: Community Services

Annual remuneration	714 082	374 116
Car allowance	102 000	48 920
Contributions to UIF, medical aid and pension funds	1 785	165 363
Other benefits	37 875	34 415
Acting allowance	-	15 161
	855 742	**637 975**

Remuneration of the Director: Technical Services

Annual remuneration	-	376 416
Car allowance	-	80 100
Performance bonuses	-	142 146
Contributions to UIF, medical aid and pension funds	-	265 898
Acting allowance	220 869	102 025
	220 869	**966 585**

Figures in Rand	2017	2016

25. Employee related costs (continued)

The post was vacant from 1 July 2016 to 30 June 2017. A number of staff members acted in this position during the year.

Remuneration of the Director: Corporate Services

Annual remuneration	696 082	607 070
Car allowance	120 000	134 000
Contributions to UIF, medical aid and pension funds	1 785	289 465
Other benefits	-	57 899
Acting allowance	33 103	-
	850 970	**1 088 434**

26. Remuneration of councillors

Executive Major	736 384	700 567
Councillors	2 611 830	2 694 622
	3 348 214	**3 395 189**

27. Depreciation and amortisation

Property, plant and equipment	32 755 817	27 589 030
Intangible assets	109 817	-
	32 865 634	**27 589 030**

28. Impairment of assets

Impairments		
Property, plant and equipment	-	269 531

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	1 390 859	1 552 213
Rehabilitation of landfill site	1 619 293	-
	3 010 152	**1 552 213**

30. Debt impairment

Contributions to debt impairment provision	36 734 605	4 998 614
Bad debts written off	-	478 161
	36 734 605	**5 476 775**

31. Bulk purchases

Electricity	23 712 850	17 078 185
Water	3 131 184	4 533 188
	26 844 034	**21 611 373**

Figures in Rand	2017	2016

32. General expenses

Accommodation cost	1 010 766	386 245
Administration fees	15 118	-
Advertising	804 740	326 870
Auditors remuneration	2 721 346	2 904 206
Bank charges	185 067	243 763
Chemicals	1 606 756	1 670 582
Commission paid	104 380	-
Consulting and professional fees	6 845 200	8 487 112
Consumables	547 520	7 816 158
Donations	2 000	26 500
Electricity	4 287 730	3 490 809
Entertainment	79 105	75 734
Fuel and oil	717 769	631 064
Funeral cost	28 115	34 080
Hire	3 881 411	591 013
IT expenses	-	70 425
Insurance	752 474	808 606
License fees	373 747	352 183
Other expenses	216 833	789 189
Postage and courier	11 154	4 184
Printing and stationery	417 317	349 578
SMME projects	1 133 533	-
Special events and programs	775 702	950 052
Subscriptions and membership fees	1 000 898	535 776
Telephone and fax	2 225 313	2 421 044
Training	221 102	109 229
Travel - local	601 995	404 774
Uniforms	729 193	233 790
Ward committee expense	76 117	-
Water tests	1 559	114 843
	31 373 960	**33 827 809**

The amounts disclosed above for other 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.

33. Fair value adjustments

Other financial assets		
• Other financial assets	(1 160)	975 490

34. Auditors' remuneration

Fees	2 721 346	2 904 206

Figures in Rand	2017	2016

35. Cash generated from operations

(Deficit) surplus	(3 650 212)	6 372 364
Adjustments for:		
Depreciation and amortisation	32 865 634	27 589 030
Gain on sale of assets and liabilities	1 538 752	-
Fair value adjustments	1 160	(975 490)
Impairment loss	-	221 961
Impairment loss: Heritage assets	-	47 570
Movements in retirement benefit assets and liabilities	597 364	199 950
Movements in provisions	1 619 293	-
Changes in working capital:		
Inventories	1 371 453	2 954 531
Receivables from exchange transactions	(3 279 092)	(16 531 653)
Receivables from non-exchange transactions	(4 377 803)	(3 546 964)
Other receivables from exchange transactions	-	1 464 332
Payables from exchange transactions	16 893 580	522 915
VAT receivable	(8 127 054)	(3 470 638)
Unspent conditional grants and receipts	19 999 249	(6 112 915)
Consumer deposits	47 593	29 920
	55 499 917	**8 764 913**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	17 985 888	5 808 821

Total capital commitments		
Already contracted for but not provided for	17 985 888	5 808 821

Authorised operational expenditure

Total commitments

Total commitments		
Authorised capital expenditure	17 985 888	5 808 821

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

Figures in Rand	2017	2016

37. Related parties

Members of the council

These include the total remuneration per councillor, in aggregate for the entire financial year.

Related party transactions

Remuneration of Councillors

Cllr. T.I. Reachable (Mayor)	736 384	700 567
Cllr. M.C. Ntemane (Chief Whip and Chairperson: Community Service)	274 298	-
Cllr. M.M. Tsiloana (Chairperson (previous): Finance Service Committee)	34 802	280 987
Cllr. M.A. Mpatshehla (Chairperson (previous): Health Committee)	34 796	285 155
Cllr. S.J. Bahumi (Chairperson: Governance)	274 298	-
Cllr. M.T. Rens (Chairperson: Human Resource Corporate Service Committee)	274 298	-
Cllr. M.J. Jantjies (Chairperson (previous): Human Resource Committee)	34 802	280 947
Cllr. P.M. Dibe (Chairperson (previous): LED Services)	34 798	285 155
Cllr. X.W. Nqelani (Chairperson: Technical Service Committee)	274 298	-
Cllr. P.J. Louw (Chairperson (previous): Technical Service Committee)	34 830	281 605
Cllr. C. Burger	221 609	-
Cllr. M.A Lebaka	235 547	-
Cllr. T.S. Moqhoishi	221 609	-
Cllr. A.N. November	221 609	-
Cllr. T.V. Nthapo	221 609	-
Cllr. M.J. Phaliso	221 609	-
Cllr. V.A. Coetzee (previous)	27 761	223 538
Cllr. L.J. Greeff (previous)	27 744	223 538
Cllr. S.E. Lecoko (previous)	-	115 764
Cllr. V.A. Mona (previous)	25 319	202 575
Cllr. P.S. Musa (previous)	27 746	56 558
Cllr. K.W. Nel (previous)	27 761	223 538
	3 487 527	**3 159 927**

Compensation to councillors

Basic remuneration	3 114 295	2 717 529
Telephone allowance	267 236	199 985
Car allowance	86 760	216 000
Skills development levy	6 947	17 379
Travel and subsistence (re-imbursement)	12 289	9 034
	3 487 527	**3 159 927**

38. Prior period errors

During the year under review, the following errors, as defined in GRAP 3 were identified:

- Bulk purchases: In the previous financial year, the payable for Bulk purchases (electricity) was incorrectly recognised. The correction resulted in the following adjustments:

  Decrease in Payables from exchange transactions (sundry creditors) amounting to R1 674 544

  Increase in the VAT receivable amounting to R25 112

  Decrease in Bulk purchases amounting to R(1 699 655)

38. Prior period errors (continued)

- Bulk purchases: During the reconciliation of the bulk purchases, it was identified that input VAT was incorrectly included in the expenditure vote. The correction resulted in the following adjustments:

  Increase in the VAT receivable amounting to R484 189

  Decrease in the Bulk purchases amounting to R(514 456)

  Increase in Finance charges amounting to R30 268

- Bulk purchases: A payment was incorrectly cancelled in the previous financial year, which resulted in the Bulk purchases being understated. The correction resulted in the following adjustments:

  Increase in the Accumulated surplus balance amounting to R(3 387 268)

  Increase in the VAT receivable amounting to R415 980

  Increase in the Bulk purchases amounting to R2 971 288

- VAT was not claimed in respect to a payment made in respect to the Property, plant and equipment. The correction resulted in the following adjustments:

  Decrease in Property, plant and equipment amounting to (R31 500)

  Increase in the VAT receivable balance amounting to R31 500

- During the preparation of the 2016 Annual financial statements, a number of Statement of financial position items were incorrectly mapped to the Statement of financial performance, which resulted in the incorrect classification in the opening balance. The correction resulted in the following adjustments:

  Increase in the Accumulated surplus amounting to R(1 203 389)

  Decrease in the Consumer deposits amounting to R6 073

  Increase in the Debt impairment expense amounting to R1 197 316

A number of reclassifications were also done, resulting the comparative figures changing from the published figures in the 2016 Annual financial statements. These reclassifications were based on ensuring the Annual financial statements are GRAP compliant. These reclassifications resulted in the following adjustments:

- The Prepayments balance presented in the prior year Annual financial statements was represented by a deposit paid by the municipality. This was reclassified to Other receivables from exchange transactions and the total amount reclassified amounted to R64 021.

- Administration and management expense, as presented in the prior year Annual financial statements consisted of telephone and other sundry related expenses. These items were reclassified from the aforementioned line item to General expense and the reclassification amounted to R365 181.

- The Fines, forfeits and penalties included a total amount of R59 084, which was for Service charges. This amount was correctly classified, and subsequently reclassified in the previous financial year.

- During the year it was identified that depreciation expense of Intangible assets were incorrect as well as the opening balance of cost and accumulated depreciation and additions for the 2015/2016 financial year. The correction resulted in the following adjustments:

  Decrease in Intangible (Cost) assets amounting to R41 488.

  Decrease in depreciation expense amounting to R4 824.

Figures in Rand	2017	2016

38. Prior period errors (continued)

Decrease in Accumulated surplus amounting to R46 312.

- During the year it was identified that the opening balances of receivables from exchange and non-exchange transactions were incorrect. Various adjustments were processed in order to rectify the errors. The corrections resulted in the following adjustments:

  Increase in Receivables from exchange transactions (sewerage) amounting to R748 275.

  Decrease in Receivables from exchange transactions (water) amounting to R90 617.

  Decrease in Receivables from exchange transactions (electricity) amounting to R108 353.

  Decrease in other Receivables from exchange transactions (medical) amounting to R8 414.

  Increase in Receivables from exchange transactions (refuse) amounting to R307 156.

  Decrease in Receivables from non-exchange transactions (assessment rates) amounting to R3 388 507.

  Decrease in VAT Receivable amounting to R67 459.

  Decrease in Service charges amounting to R915 141.

  Decrease in Property rates amounting to R1 884 364.

  Decrease in interest on outstanding receivables amounting to R8 414.

- During the current year it was identified that the comparative figures for provision for doubtful debts were incorrectly calculated and disclosed. Based on the aforementioned, the amounts should have been calculated and disclosed in line with GRAP 104. The corrections resulted in the following adjustments:

  Increase in allowance for impairment (exchange) amounting to R12 457 959.

  Increase in allowance for impairment (non-exchange) amounting to R5 350 288.

  Decrease in debt impairment (profit / loss) amounting to R17 808 247.

- During the year it was identified that the municipality requested a rollover amount of R11 041 819 during the 2013/2014 financial year, which was granted. The supporting documentation clearly indicated that the amount has been committed to projets in the 2014/2015 financial year. The corrections resulted in the following adjustments:

  Decrease in Accumulated surplus amounting to R266 200.

  Decrease in Unspent conditional grants: DWA amounting to R8 989 746.

  Increase in Government grants and subsidies received: DWA amounting to R9 2 55 946.

The combined results in respect to the aforementioned errors and reclassifications are as follow:

38. Prior period errors (continued)

Statement of Financial Position	As previously reported	Adjustments	Reclassifications	Restated
ASSETS				
Current Assets				
Inventories	4 164 044	-	-	4 164 044
Receivables from exchange transactions	15 979 750	13 306 006	-	29 285 756
Receivables from non-exchange transactions	5 709 718	3 465 924	-	9 175 642
Other receivables from exchange transactions	-	-	64 021	64 021
Prepayments	64 021	-	(64 021)	-
VAT receivable	11 351 046	938 463	-	12 289 509
Cash and cash equivalents	729 726	-	-	729 726
	37 998 305	17 710 393	-	55 708 698
Non-Current Assets				
Property, plant and equipment	568 867 826	-	-	568 867 826
Intangible assets	201 766	(41 487)	-	160 279
Heritage assets	211 000	-	-	211 000
Investments	237 135	-	-	237 135
	569 517 727	**(41 487)**	-	**569 476 240**
LIABILITIES				
Current Liabilities				
Finance lease obligation	(171 790)	-	-	(171 790)
Payables from exchange transactions	(10 802 132)	1 625 396	-	(9 176 736)
Consumer deposits	(751 702)	-	-	(751 702)
Employee benefit obligation	(553 187)	-	-	(553 187)
Unspent conditional grants	(15 767 780)	8 989 746	-	(6 778 034)
	(28 046 591)	10 615 142	-	(17 431 449)
Non-Current Liabilities				
Finance lease obligation	(79 410)	-	-	(79 410)
Employee benefit obligation	(5 594 530)	-	-	(5 594 530)
Provisions	(11 144 694)	-	-	(11 144 694)
	(16 818 634)	-	-	**(16 818 634)**
Total Liabilities	(44 865 225)	10 615 142	-	(34 250 083)
Net Assets	(562 650 807)	(28 284 047)	-	(590 934 854)
Accumulated surplus	(562 650 807)	(28 284 047)	-	(590 934 854)

38. Prior period errors (continued)

Statement of Financial Performance	As previously reported	Adjustments	Reclassifications	Restated
REVENUE				
Revenue from exchange transactions				
Service charges	(40 347 912)	(789 003)	(59 085)	(41 196 000)
Dividends received	(6 866)	-	-	(6 866)
Interest earned - external investments	(231 731)	-	-	(231 731)
Interest earned - outstading debtors	(7 471 356)	8 414	-	(7 462 942)
Rental of facilities and equipment	(504 953)	-	-	(504 953)
Other income	(730 083)	6 075	-	(724 008)
Total revenue from exchange transactions	(49 292 901)	(774 522)	(59 085)	(50 126 500)
Revenue from non-exchange transactions				
Property rates	(15 112 134)	1 884 364	-	(13 227 770)
Government grants and subsidies	(68 815 168)	(9 255 946)	-	(78 071 114)
Fines, penalties and forfeits	(89 214)	-	59 085	(30 129)
Total revenue from non-exchange transactions	(84 016 516)	7 371 582	59 085	(91 329 013)
	(133 309 417)	**(8 146 097)**	**-**	**(141 455 513)**
Expenditure				
Employee related costs	40 897 555	-	-	40 897 555
Remuneration of councillors	3 395 189	-	-	3 395 189
Administration	365 181	-	(365 181)	-
Depreciation and amortisation	27 593 855	(4 825)	-	27 589 030
Impairment loss	269 531	-	-	269 531
Finance costs	1 521 945	30 268	-	1 552 213
Debt impairment	22 087 705	(16 610 930)	-	5 476 775
Repairs and maintenance	1 575 660	-	-	1 575 660
Bulk purchases	20 854 196	757 177	-	21 611 373
General expenses	33 462 628	-	365 181	33 827 809
Total expenditure	152 023 445	(15 828 310)	-	136 195 135
Operating (deficit) surplus	18 714 028	(23 974 407)	-	(5 260 379)
Fair value adjustments	(975 490)	-	-	(975 490)
Actuarial gains	(136 494)	-	-	(136 494)
	17 602 043	(23 974 407)	-	6 372 364
Deficit for the year	17 602 043	(23 974 407)	-	6 372 364

39. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	32 564 848	32 564 848
Receivables from non-exchange transactions	-	13 553 446	13 553 446
Other receivables from exchange transactions	-	64 021	64 021
Cash and cash equivalents	512 639	-	512 639
Other financial assets	120 730	-	120 730
	633 369	**46 182 315**	**46 815 684**

Figures in Rand	2017	2016

. **Financial instruments disclosure (continued)**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	3 780 988	3 780 988
Payables from exchange transactions	26 688 569	26 688 569
Consumer deposits	799 295	799 295
Unspent conditional grants and receipts	26 777 283	26 777 283
	58 046 135	**58 046 135**

2016

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	29 285 756	29 285 756
Receivables from non-exchange transactions	-	9 175 643	9 175 643
Other receivables from exchange transactions	-	64 021	64 021
Cash and cash equivalents	729 726	-	729 726
Other financial assets	237 135	-	237 135
	966 861	**38 525 420**	**39 492 281**

Financial liabilities

	At amortised cost	Total
Finance lease obligations	251 200	251 200
Payables from exchange transactions	9 176 737	9 176 737
Consumer deposits	751 702	751 702
Unspent conditional grants and receipts	6 778 034	6 778 034
	16 957 673	**16 957 673**

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.

40. Risk management (continued)

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 environment.

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.

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.

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.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions 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.

40. Risk management (continued)

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, 2000 (Act No. 32 of 2000) (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.

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 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 (included in Receivables from exchange and non-exchnage transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

Figures in Rand	2017	2016

40. Risk management (continued)

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 the reporting 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.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Receivables from exchange transactions	- %	49 489 662	-	-	-	-
Receivables from non-exchange transactions	- %	29 658 954	-	-	-	-
Other receivables from non-exchange transactions	- %	64 021	-	-	-	-
Finance lease obligations	- %	(166 640)	(79 410)	-	-	-
Payables from exchange transactions	- %	(19 653 838)	-	-	-	-
Payables from non-exchange transactions	- %	(374 244)	-	-	-	-
Consumer deposits	- %	(799 295)	-	-	-	-
Unspent conditional grants	- %	(36 385 268)	-	-	-	-

41. Irregular expenditure

	2017	2016
Opening balance	131 436 775	107 889 864
Current year expenditure	49 628 918	23 546 911
	181 065 693	**131 436 775**

The full extent of irregular expenditure relating to quotations, advertisements for lessor period and functionality evaluation still to be investigated.

42. Fruitless and wasteful expenditure

	2017	2016
Opening balance	2 003 661	1 892 792
Current year expenditure	372 699	110 869
	2 376 360	**2 003 661**

43. Unauthorised expenditure

	2017	2016
Opening balance	194 260 391	92 471 308
Current year expenditure	59 700 600	101 789 083
	253 960 991	**194 260 391**

Figures in Rand	2017	2016

44. Additional disclosure in terms of Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Contributions to organised local government

Opening balance	466 750	(33 250)
Current year subscription / fee	558 110	500 000
Amount paid - current year	(542 000)	-
	482 860	**466 750**

Audit fees

Opening balance	12 917	5 817
Current year audit fee expense	3 102 334	2 904 206
Amount paid - current year	(3 115 251)	(2 897 106)
	-	**12 917**

PAYE, UIF and SDL

Opening balance	478 694	49 861
Current year expense	6 280 843	5 608 400
Amount paid - current year	(6 759 537)	(5 179 567)
	-	**478 694**

Pension and medical aid fund contributions

Opening balance	610 533	(929 672)
Current year contributions	8 016 277	6 099 522
Amount paid - current year	(8 626 810)	(4 559 317)
	-	**610 533**

The balance represents pension and medical aid fund contributions deducted from employees and councillors in June 2017 payroll, as well as the municipality's contribution to these funds.

VAT

VAT receivable	20 416 563	12 289 509

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.

Councillors' arrear consumer accounts

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

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. M.C. Ntemane	280	-	280
Mr. S.J. Bahumi	1 658	29 055	30 713
Mr. S. Nqelani	1 139	11 264	12 403
Mr. M.A. Lebaka	435	-	435
Me. A.N. November	888	1 184	2 072
Mr. T.A. Reachable	98	-	98
	4 498	**41 503**	**46 001**

Figures in Rand	2017	2016

44. Additional disclosure in terms of Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (continued)

Supply Chain Management Regulations

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

The municipality maintains a detailed register at its offices.

Incident		
Emergency procurement (various reasons)	625 821	-
SMME approved suppliers	21 464	-
Sole providers (various reasons)	372 812	-
	1 020 097	-

45. Events after the reporting date

No events after the reporting date have occurred.

46. Going concern

Management considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The 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.
- 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.
- The ability of the municipality to continue as a going conern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

1. A deficit of R3 650 211 which has significantly increased from the prior year's surplus of R6 372 371.
2. The municipality's unspent conditional grants for the current year amounted to R26 777 283 (2016: R6 778 034). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
3. The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
4. Debt collection period has not improved during the current financial year.
5. The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R36 734 605 (2016: R5 476 775) has been disclosed in the financial statements. This significant increase (85.09%) in debt impairment clearly indicates that the municipality did not implement processes to ensure that outstanding receivables' accounts are settled.
6. As at 30 June 2017 the municipality's current liabilities amounted to R55 705 263 (2016: R17 431 450), whilst the current assets amounted to R69 904 108 (2016: R55 708 699).
7. The current ratio is below the required ratio of 2:1.
8. The acid test ratio is below the required norm of 1:1.

Figures in Rand	2017	2016

47. Budget differences

Material differences between budget and actual amounts

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

Statement of Financial Performance

Dividends received: Dividends were received from OVK. As this revenue is not controlled by the Municipality and dependant on the results of the aforementioned company, management did not provide / budget for it.

Interest on outstanding receivables: The Municipality did not provide / budget for interest on outstanding receivables due to lack of skills. Furthermore, the concept to understand why, in unforseen circumstances, debtors could not settle their accounts in a timeously manner was also a reason as to why the Municipality did not budget / provide for it.

Interest earned on external investments: The decrease is as a result of reduced investments during the year thereby leading to less investment income earned as compared to the budget amount.

Rental of facilities and equipment: The Municipality did not anticipate that rental income will be levied as agreed upon in the rental agreements. Furthermore management lacked the understanding as to why it is necessary to sufficiently budget for this line item.

Property rates: Management anticipated that rebates for indigent consumers would not be significant, hence the decrease in budget amount.

Government grants and subsidies: The increase is as a result of more projects conducted than anticipated thereby resulting to an increase in grants realised as compared to the budget amount.

Fines and penalties: The increase is as a result of more fines that were issued during the year.

Finance cost: The Municipality provided more for finance costs than the actual amount. The Municiaplity did not have overdraft facilities whereby interest were charged.

Debt impairment: During the current financial year, there was an increase in the number of consumers that were registered as indigent debtors. The indigent debtor balances were written-off and provided for at yearend after careful consideration of the probability of payment. Due to the increase in the volume of indigent registered debtors, the debt impairment exceeded the budgeted amount.

Repairs and maintenance: Due to the Municipality's financial difficulties it was decided to limit the budget for repairs and maintenance, however various incidents occurred that required vital equipment to be repaired, resulting in the increase.

Bulk purchases: Management has not anticipated that the outstanding balance owing to Eskom at yearend would be more than what was budgeted for. Due to an accrual which was provided for at yearend, this resulted in an increase.
.
General expenses: Due to cost cutting processess, management was able to save significantly on general expenses. This was a result of SCM processed being implemented and budget control measures.

Loss on disposal of assets: During the year various assets were disposed off at an auction held, which was not anticipated.

Fair value adjustments: The fair value adjustments are due to other financial assets being carried at fair value.

Actuarial gains: This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

Inventory losses / write-downs: Due to lack of internal controls over maintenance materials and stationary, items were written off during the year. As these represent controls within the municipality, management did not provide / budget for it.

47. Budget differences (continued)

Statement of Financial Position

Inventories: The increase resulted in more stock not consumed at yearend compared to the budget amount.

Receivables from non-exchange transactions: The budgeted balance represents the gross balance and the cummulative effect of the impairment provision which was not taken into account and management anticipated that rebates for indigent consumers would not be significant.

VAT receivable: No balance was budgeted for at yearend as the expectation was that the Municipality would received monies from the South African Revenue Services as the Municipality appointed consultants to assist with profit recovery.

Cash and cash equivalents: The decrease in cash balance is as a result of poor recoverability of accounts receivable than budgeted and thereby affecting the cash position of the Municipality.

Biological assets: Although the Municipality had provided / budgeted for biological assets, no such assets existed during the financial year, therefore management can allocate the budget amount to other classes of property, plant and equipment for the next budget cycle.

Intangible assets: During the year the Municipality purchased SAGE software amounting to R1 006 976.32 which was not provided / budget for. The new software system was acquired to comply with Municipal Standard Chart of Accounts (mSCOA).

Other financial assets: The Municipality utilised Money Market Investments during the year and these accounts were closed although management provided / budget for it.

Finance lease obligations: During the year the Municipality entered into finance lease agreements. Due to cashflow constraints and the need for the equipment, these were acquired although not budgeted for.

Payables from exchange transactions: Due to the Municipality's financial difficulties, it is not able to meet its short term commitments and therefore the desired budgeted results cannot be achieved.

Employee benefit obligations: Due to the Municipality's financial difficulties this was not provided / budgeted for.

Unspent conditional grants and receipts: The Municipality anticipated that all grants received and paid will be utilised for the year, therefore no amount was budgeted for.

Provisions: The landfill sites operated by the Municipality were physically inspected and a professional valuation was performed to estimate the future liability. This resulted in a material adjustment.