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

General Information

Legal form of entity	Local Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Mayoral committee	
Executive Mayor	Mogoje T
Speaker	Hlathi MN
Councillors	Moses SS
	Lenake MR
	Mabeleng JM
	Thebehae TL
	Bopiko MH
	Tutubala MM
	Nieuwoudt PL
	Botma HJ
	Mokolutlo RJ
	Radebe PS
	Leburu PK
	Mamatela JP
	Moepi PA
	Moshane ZM
	Marumule MS
	Motsoeneng NM
	Maas V
	Mpesi MM
	Masisi D
	Mohloare TA
	Ramaele R
	Ncheche NM
Grading of local authority	Nala Local Municipality is a grade 3 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
Capacity of local authority	Medium Capacity Municipality
Municipal demarcation code	FS185
Accounting Officer	Mokomela BC
Chief Finance Officer (CFO)	Busakwe S
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660
Bankers	First National Bank

General Information

External auditors	Auditor-General of South Africa
Attorneys	Podbielski Incorporated Finger Attorneys Moroka Attorneys

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
CPI	Consumer price index
IAS	International Accounting Standards
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
JSE	Johannesburg Stock Exchange
PAYE	Pay As You Earn (Employee's tax)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's proposed budget for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, he is supported by the municipality's finance department.

The annual financial statements set out on pages 5 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed by:

Mokomela BC
Accounting Officer

Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015 Restated
Assets			
Current Assets			
Inventories	3	2 266 315	1 572 670
Receivables from exchange transactions	4	72 830 419	69 645 056
Receivables from non-exchange transactions	5	14 101 488	4 732 893
VAT receivable	6	20 671 470	19 735 616
Cash and cash equivalents	7	11 180 373	14 876 584
		121 050 065	**110 562 819**
Non-Current Assets			
Property, plant and equipment and intangible assets	8	1 822 294 320	1 843 737 338
Intangible assets	9	525 672	725 599
Other financial assets	10	120 516	123 772
		1 822 940 508	**1 844 586 709**
Total Assets		**1 943 990 573**	**1 955 149 528**
Liabilities			
Current Liabilities			
Other financial liabilities	11	10 480 546	11 240 273
Payables from exchange transactions	12	308 985 307	231 729 358
Consumer deposits	13	2 028 393	1 758 621
Employee benefit obligation	14	981 000	892 000
Unspent conditional grants and receipts	15	1 646 258	578 448
		324 121 504	**246 198 700**
Non-Current Liabilities			
Other financial liabilities	11	32 212 971	43 453 244
Employee benefit obligation	14	11 017 000	24 644 000
Provisions	16	17 791 725	16 911 400
		61 021 696	**85 008 644**
Total Liabilities		**385 143 200**	**331 207 344**
Net Assets		**1 558 847 373**	**1 623 942 184**
Accumulated surplus		1 558 847 373	1 623 942 184

Statement of Financial Performance

Figures in Rand	Notes	2016	2015 Restated
Revenue			
Revenue from exchange transactions			
Service charges	18	137 519 599	137 665 238
Rental of facilities		1 156 697	305 262
Interest received - consumer		17 651 563	13 166 451
Interest received - investment	20	2 365 855	1 777 648
Dividends received	20	6 262	5 988
Discount received		24 522	120 269
Other income	19	3 679 042	1 646 176
Total revenue from exchange transactions		**162 403 540**	**154 687 032**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	19 829 071	16 034 662
Fines, Penalties and Forfeits		179 692	141 252
Transfer revenue			
Government grants & subsidies	22	163 694 542	185 274 284
Total revenue from non-exchange transactions		**183 703 305**	**201 450 198**
Total revenue	17	**346 106 845**	**356 137 230**
Expenditure			
Employee related costs	23	(124 547 100)	(117 830 535)
Remuneration of councillors	24	(7 577 390)	(7 085 602)
Depreciation and amortisation	25	(49 537 277)	(46 622 090)
Impairment loss	26	(60 722 075)	(61 982 519)
Finance costs	27	(27 262 271)	(28 616 784)
Repairs and maintenance		(7 508 613)	(7 918 478)
Bulk purchases	28	(105 155 701)	(96 962 291)
Contracted services	29	(14 010 248)	(16 956 579)
General Expenses	31	(24 260 451)	(21 704 573)
Total expenditure		**(420 581 126)**	**(405 679 451)**
Operating deficit		**(74 474 281)**	**(49 542 221)**
Gain on property plant and equipment recognised		102 876	145 732
Fair value adjustments on other finacial assets		(3 256)	5 596
Actuarial gains/losses	14	16 927 000	3 880 000
Loss on property plant equipment written off		(7 647 152)	-
		9 379 468	**4 031 328**
Deficit for the year		**(65 094 813)**	**(45 510 893)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 624 091 964	1 624 091 964
Adjustments		
Prior year adjustments	12 121 100	12 121 100
Surplus for the year	33 240 013	33 240 013
Balance at 01 July 2014 as restated	**1 669 453 077**	**1 669 453 077**
Changes in net assets		
Restated surplus for the year	(45 510 893)	(45 510 893)
Total changes	(45 510 893)	(45 510 893)
Opening balance as previously reported	1 607 657 331	1 607 657 331
Adjustments		
Prior year adjustments	16 284 855	16 284 855
Balance at 01 July 2015 as restated	**1 623 942 186**	**1 623 942 186**
Changes in net assets		
Surplus for the year	(65 094 813)	(65 094 813)
Total changes	(65 094 813)	(65 094 813)
Balance at 30 June 2016	**1 558 847 373**	**1 558 847 373**

Cash Flow Statement

Figures in Rand	Notes	2016	2015 Restated
Cash flows from operating activities			
Receipts			
Taxation		15 121 323	15 322 289
Sale of goods and services		90 115 739	66 894 006
Grants		161 424 064	178 293 816
Interest income		2 365 855	1 777 648
Dividends received		6 262	5 988
		269 033 243	262 293 747
Payments			
Employee costs		(127 562 597)	(119 570 621)
Suppliers and other		(68 797 652)	(87 114 326)
Finance costs		(27 262 271)	(28 616 784)
		(223 622 520)	(235 301 731)
Net cash flows from operating activities	32	**45 410 723**	**26 992 016**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	8	(37 106 934)	(50 256 375)
Cash flows from financing activities			
Net movement other financial liabilities		-	6 186 807
Repayment of other financial liabilities		(12 000 000)	-
Net cash flows from financing activities		**(12 000 000)**	**6 186 807**
Net increase/(decrease) in cash and cash equivalents		**(3 696 211)**	**(17 077 552)**
Cash and cash equivalents at the beginning of the year		14 876 584	31 954 136
Cash and cash equivalents at the end of the year	7	**11 180 373**	**14 876 584**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	146 084 829	(8 565 230)	**137 519 599**	137 519 599	-	
Rental of facilities and equipment	595 000	561 697	**1 156 697**	1 156 697	-	
Interest received (consumer)	17 558 394	89 411	**17 647 805**	17 651 563	**3 758**	
Discount received	6 479	18 043	**24 522**	24 522	-	
Other income	2 485 135	1 193 907	**3 679 042**	3 679 042	-	
Interest received - investment	1 855 972	509 883	**2 365 855**	2 365 855	-	
Dividends received	5 428	834	**6 262**	6 262	-	
Total revenue from exchange transactions	**168 591 237**	**(6 191 455)**	**162 399 782**	**162 403 540**	**3 758**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 950 778	2 878 293	**19 829 071**	19 829 071	-	
Fines, Penalties and Forfeits	130 000	49 692	**179 692**	179 692	-	
Transfer revenue						
Government grants & subsidies	98 324 000	65 298 274	**163 622 274**	163 694 542	**72 268**	Note 47
Total revenue from non-exchange transactions	**115 404 778**	**68 226 259**	**183 631 037**	**183 703 305**	**72 268**	
Total revenue	**283 996 015**	**62 034 804**	**346 030 819**	**346 106 845**	**76 026**	
Expenditure						
Personnel	(125 410 740)	666 513	**(124 744 227)**	(124 547 100)	**197 127**	
Remuneration of councillors	(7 205 089)	(372 301)	**(7 577 390)**	(7 577 390)	-	
Depreciation and amortisation	(57 602 000)	6 264 624	**(51 337 376)**	(49 537 277)	**1 800 099**	Note 47
Impairment loss/ Reversal of impairments	(67 820 000)	(2 082 402)	**(69 902 402)**	(60 722 075)	**9 180 327**	
Finance costs	(18 000 000)	(9 225 743)	**(27 225 743)**	(27 262 271)	**(36 528)**	
Repairs and maintenance	(8 352 085)	272 540	**(8 079 545)**	(7 508 613)	**570 932**	
Bulk purchases	(105 000 000)	(155 701)	**(105 155 701)**	(105 155 701)	-	
Contracted Services	(13 606 720)	(1 510 695)	**(15 117 415)**	(14 010 248)	**1 107 167**	
General Expenses	(19 321 007)	(3 840 889)	**(23 161 896)**	(24 260 451)	**(1 098 555)**	
Total expenditure	**(422 317 641)**	**(9 984 054)**	**(432 301 695)**	**(420 581 126)**	**11 720 569**	
Operating deficit	**(138 321 626)**	**52 050 750**	**(86 270 876)**	**(74 474 281)**	**11 796 595**	
Gain on disposal of assets and liabilities	-	102 876	**102 876**	102 876	-	
Fair value adjustments	-	(3 256)	**(3 256)**	(3 256)	-	
Actuarial gains/losses	-	16 927 000	**16 927 000**	16 927 000	-	
Loss on non-current assets	-	(7 631 067)	**(7 631 067)**	(7 647 152)	**(16 085)**	Note 47
	-	**9 395 553**	**9 395 553**	**9 379 468**	**(16 085)**	
Deficit before taxation	**(138 321 626)**	**61 446 303**	**(76 875 323)**	**(65 094 813)**	**11 780 510**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(138 321 626)**	**61 446 303**	**(76 875 323)**	**(65 094 813)**	**11 780 510**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 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.

1.2 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:

Receivables

The municipality assesses its 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 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 balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

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

The 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.

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of 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. 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 tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of property, plant and equipment and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

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

Allowance for doubtful debts

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

1.3 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets 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 and intangible assets 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 and intangible assets is initially measured at cost.

1.3 Property, plant and equipment and intangible assets (continued)

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and intangible assets 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 and intangible assets, 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 and intangible assets, 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 and intangible assets 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 and intangible assets.

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

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

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

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

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

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 60 years
Infrastructure		
- Electricity	Straight line	5 - 60 years
- Roads	Straight line	10 - 80 years
- Structures	Straight line	10 - 60 years
- Stormwater drainage	Straight line	50 - 60 years
- Sewer reticulation	Straight line	5 - 10 years
- Waste water treatment works	Straight line	15 - 80 years
- Water reticulation	Straight line	20 - 60 years
Other property, plant and equipment		

1.3 Property, plant and equipment and intangible assets (continued)

- Furniture and Fittings	Straight line	5 - 7 years
- IT Equipment	Straight line	6 - 7 years
- Landfill sites	Straight line	12 - 13 years
- Office equipment	Straight line	4 - 7 years
- Plant and machinery	Straight line	4 - 7 years
- Vehicles	Straight line	7 - 15 years
- Airports	Straight line	5 - 60 years

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

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

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

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

Items of property, plant and equipment and intangible assets 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 and intangible assets 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 and intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment and intangible assets. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment and intangible assets 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.

1.5 Intangible assets

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

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

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Item	**Useful life**
Computer software, other	4 years

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

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

1.6 Financial instruments

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

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 municipality on terms that are not market related.

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

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

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

1.6 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality 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 municipality 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 municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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 municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality 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 municipality designates at fair value at initial recognition; or
- are held for trading.

1.6 Financial instruments (continued)

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 municipality 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
Other financial asset	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at amortised cost

The municipality 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
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality 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.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality 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.

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 municipality 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.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

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.

Financial liabilities

The municipality 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 municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions.

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.

1.7 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

1.7 Statutory receivables (continued)

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

1.7 Statutory receivables (continued)

- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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 receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.8 Leases

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

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

Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 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.

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.

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.

1.10 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).

Accounting Policies

1.10 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.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

1.11 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.

Identification

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

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

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

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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.

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

Reversal of an impairment loss

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

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

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

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

Accounting Policies

1.12 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

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

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

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 municipality 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.

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

The municipality 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 municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality 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 municipality 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 municipality pays fixed contributions into a separate municipality (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 municipality during a reporting period, the municipality 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 municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality 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 municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality 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 municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

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

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

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

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

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

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

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

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

1.12 Employee benefits (continued)

- 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 municipality 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 municipality 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 municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality 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 municipality 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 presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality 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.

Accounting Policies

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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.

The municipality 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.

Accounting Policies

1.12 Employee benefits (continued)

Termination benefits

The municipality 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 municipality 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:
- 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.

1.13 Provisions and contingencies

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

Contingencies are disclosed in note 35.

Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

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

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

1.14 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.

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

1.15 Revenue from exchange transactions (continued)

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 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest 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.

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

1.16 Revenue from non-exchange transactions

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

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

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

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.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

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.

Taxes (Property rates for municipalities)

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

Transfers

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

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment and intangible assets on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.17 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.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

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

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

Accounting Policies

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure 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.

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

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

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

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

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

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

1.22 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 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.

Accounting Policies

1.23 Related parties

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

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

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.

1.24 Events after reporting date

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

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

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

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

1.25 Value-Added Tax

The municipality is registered with the South Africa Revenue Services (SARS) for value added tax (VAT) on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991)

1.26 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the standard for the first time in the 2016 annual financial statements.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of the standard is not material.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the directive for the first time in the 2016 annual financial statements.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of the standard is not material.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus/(deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality has adopted the directive for the first time in the 2016 annual financial statements.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of the standard is not material.

Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the directive is for years beginning on or after 01 April 2015.

The municipality has adopted the directive for the first time in the 2016 annual financial statements.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of the directive is not material.

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:
- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:
- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:
- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

3. Inventories

Inventories (stock in transit)	27 786	-
Spare parts	2 211 297	1 546 425
Water	27 232	26 245
	2 266 315	**1 572 670**

Inventory pledged as security

No inventory was pledged as security for any liabilities.

4. Receivables from exchange transactions

Consumer debtors	398 629 779	325 372 793
Other receivables	9 834 740	14 109 586
Overpayment to councillors	1 477 273	1 478 589
Less: Provision for bad debts on consumer debtors	(336 532 804)	(270 735 844)
Less: Provision for bad debts on other receivables	(578 569)	(580 068)
	72 830 419	**69 645 056**

Trade and other receivables pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Receivables from exchange transactions (continued)

Consumer debtors from exchange transactions

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors

Gross balances		
Electricity	26 209 780	26 529 535
Water	173 924 052	146 272 799
Sewerage	50 706 190	41 138 592
Refuse	69 205 047	58 097 361
VAT	47 186 300	40 417 944
Other	31 398 410	12 916 562
	398 629 779	**325 372 793**

Less: Allowance for impairment		
Electricity	(10 781 843)	(11 494 754)
Water	(156 502 848)	(131 421 083)
Sewerage	(43 526 236)	(34 173 734)
Refuse	(59 057 946)	(48 137 552)
VAT	(39 874 813)	(33 458 464)
Other	(26 789 118)	(12 050 257)
	(336 532 804)	**(270 735 844)**

Net balance		
Electricity	15 427 937	15 034 781
Water	17 421 204	14 851 716
Sewerage	7 179 954	6 964 858
Refuse	10 147 101	9 959 809
VAT	7 311 487	6 959 480
Other	4 609 292	866 305
	62 096 975	**54 636 949**

Trade and other receivables ageing

The ageing of amounts is as follows:

Current (not past due)	15 188 771	13 702 047
1 month past due	12 014 648	10 203 810
2 months past due	10 227 803	11 087 513
3 months past due	390 580 232	314 873 658
	428 011 454	**349 867 028**

The above mentioned ageing included's consumer debtors from exchange R398 629 779 (2015 : R325 372 793) and non exchange consumer debtors R29 381 675 (2015 : R24 494 235) stating the gross balances outstanding for consumer debtors. Refer to Note 5 for non exchange Consumer debtors - Rates

Trade and other receivables impaired

The debtor impairment is calculated using a collection rate per debtor.

3 to 6 months	21 641 226	20 114 384
over 6 months	354 897 308	294 027 918
	376 538 534	**314 142 302**

Figures in Rand	2016	2015

4. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(270 736 173)	(213 237 426)
Provision for impairment	(65 809 908)	(61 326 048)
Amounts written off as uncollectable	13 277	3 827 301
	(336 532 804)	**(270 736 173)**

5. Receivables from non-exchange transactions

Government grants and subsidies	3 338 288	-
Consumer debtors - Rates	29 381 675	24 494 235
Less: Provision for bad debts on consumer debtors	(18 618 475)	(19 761 342)
	14 101 488	**4 732 893**

Pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Consumer debtors - Rates

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information.

Receivables from non-exchange transactions

Summary of receivables by customer classification

Household consumers	22 517 445	18 276 706
Industrial and commercial consumers	4 608 979	4 817 954
National and provincial government	2 255 251	1 399 575
	29 381 675	**24 494 235**

Summary of provision for bad debts by customer classification

Household consumers	(13 833 035)	(15 225 021)
Industrial and commercial consumers	(2 756 200)	(3 337 456)
National and provincial government	(2 029 255)	(1 132 958)
	(18 618 490)	**(19 695 435)**

Gross balances

Other receivables from non-exchange transactions	10 763 184	4 798 800

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

Opening balance	(19 761 013)	(17 352 127)
Provision for impairment	338 184	(2 343 308)
Adjustment to previous impairment	804 354	(65 578)
	(18 618 475)	**(19 761 013)**

6. VAT receivable

VAT	20 671 470	19 735 616

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Bank balances	271 409	1 484 866
Call account	10 908 964	13 391 718
	11 180 373	**14 876 584**

No cash and cash equivalents was pledged as security for liabilities.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
FNB - Current Account 62025990765	371 002	1 241 539	6 372 985	271 409	1 484 866	2 190 513
FNB - Money Market 62026222521	5 361 066	4 490 938	20 261 603	5 361 066	4 490 938	20 261 603
FNB - Money Market 62002839506	415 214	2 659 579	3 509 287	415 214	2 659 579	3 509 287
FNB - Money Market 62373464503	5 132 684	6 241 200	5 992 732	5 132 684	6 241 201	5 992 732
Total	**11 279 966**	**14 633 256**	**36 136 607**	**11 180 373**	**14 876 584**	**31 954 135**

8. Property, plant and equipment and intangible assets

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	775 514 615	-	775 514 615	779 290 610	-	779 290 610
Buildings	174 689 337	(85 599 921)	89 089 416	174 790 729	(81 761 037)	93 029 692
Motor vehicles	11 802 414	(2 081 940)	9 720 474	11 970 526	(1 635 493)	10 335 033
Infrastructure	1 566 613 862	(622 393 815)	944 220 047	1 536 440 129	(579 573 150)	956 866 979
Other property, plant	9 402 204	(5 652 436)	3 749 768	23 657 474	(19 442 450)	4 215 024
Total	**2 538 022 432**	**(715 728 112)**	**1 822 294 320**	**2 526 149 468**	**(682 412 130)**	**1 843 737 338**

Reconciliation of property, plant and equipment and intangible assets - 2016

	Opening balance	Additions	Written off	Additions to capital expenditure in WIP not yet transferred	Depreciation	Impairment loss	Total
Land	779 290 610	-	(3 775 995)	-	-	-	775 514 615
Buildings	93 029 692	4 983 012	(3 104 378)	-	(4 156 359)	(1 662 551)	89 089 416
Motor vehicles	10 335 033	-	(168 112)	-	(446 447)	-	9 720 474
Infrastructure	956 866 979	13 595 061	(204 266)	17 192 566	(43 230 293)	-	944 220 047
Other property, plant and equipment	4 215 024	1 244 377	(394 489)	-	(1 309 370)	(5 774)	3 749 768
	1 843 737 338	**19 822 450**	**(7 647 240)**	**17 192 566**	**(49 142 469)**	**(1 668 325)**	**1 822 294 320**

Reconciliation of property, plant and equipment and intangible assets - 2015

	Opening balance	Additions	Written off	Additions to capital expenditure in WIP not yet transferred	Depreciation	Impairment loss	Total
Land	779 290 610	-	-	-	-	-	779 290 610
Buildings	100 227 988	8 309	-	-	(4 029 509)	(3 177 096)	93 029 692
Motor vehicles	4 269 631	6 770 382	-	-	(392 152)	(312 828)	10 335 033
Infrastructure	957 340 855	40 641 938	-	2 493 165	(40 705 464)	(2 903 515)	956 866 979
Other property, plant and equipment	5 006 329	764 220	(401 800)	-	(1 102 853)	(50 872)	4 215 024
	1 846 135 413	**48 184 849**	**(401 800)**	**2 493 165**	**(46 229 978)**	**(6 444 311)**	**1 843 737 338**

8. Property, plant and equipment and intangible assets (continued)

Reconciliation of Work-in-Progress

	Included within Infrastructure 2016	Included within Infrastructure 2015
Opening balance	13 315 977	19 288 377
Additions/capital expenditure	37 219 521	50 678 014
Restated against retained income	-	(16 008 476)
Transferred to completed items - Infrastructure	(19 822 450)	(40 590 623)
Transferred to completed items - Intangible assets	(205 434)	(51 315)
	30 507 614	**13 315 977**

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

9. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 151 335	(1 625 663)	525 672	1 945 901	(1 220 302)	725 599

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	725 599	205 434	(405 361)	525 672

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	1 066 396	51 315	(392 112)	725 599

Pledged as security

No intangible assets were pledged as security for liabilities.

10. Other financial assets

	2016	2015
Designated at fair value		
Unlisted shares	120 516	123 772
Unlisted shares consist of 8 236 (2015 : 8 236) equity shares values at R6.00 (2015:R6.05) each in Senwes Belleggings Limited and 7 110 (2015 : 7 110) equity shares in Senwes Limited valued at R10.00 (2015: R10.40) each.		

	2016	2015
Non-current assets		
Designated at fair value	120 516	123 772

Figures in Rand	2016	2015

10. Other financial assets (continued)

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

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

Level 1		
Senwes Belleggings	49 416	49 828
Senwes Limited	71 100	73 944
	120 516	**123 772**

11. Other financial liabilities

At amortised cost		
Development Bank of South Africa (DBSA - 1005665/101)	42 693 517	54 693 517

Non-current liabilities		
At amortised cost	32 212 971	43 453 244

Current liabilities		
At amortised cost	10 480 546	11 240 273

Defaults and breaches

The DBSA loan was renegotiated during the year. At 30 April 2015 the total amount due was R54 693 517, included in this amount was accrued interest of R32 212 971. A new agreement was entered into where DBSA agreed to write off all of the accrued interest if the municipality adhered to a capital repayment terms. The capital amount should be repaid in 24 monthly installments of R1 000 000 per month commencing 31 July 2015. No interest will be charged on the reduced loan for the 24 month period.

The municipality has adhered to the repayments for the current financial year and a total repayment of R12 000 000 have been made up to year end. The total interest of R32 212 971 will be written off by DBSA if the next 12 payments are made as per the arrangement, even though municipality have the intention to adhere to the repayment terms, the conditions have not been met at year end the amount is included in the liability as a non-current portion.

12. Payables from exchange transactions

Trade payables	282 000 430	205 574 129
Payments received in advanced	5 753 803	6 719 695
Accrued leave pay	13 864 520	12 804 297
Accrued bonus	2 806 095	2 693 425
Other creditors	433 694	771 483
Retentions	4 126 765	3 166 329
	308 985 307	**231 729 358**

13. Consumer deposits

Electricity and water	2 028 393	1 758 621

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held for electricity and water deposits.

Figures in Rand	2016	2015

14. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(25 536 000)	(25 785 000)
Changes in the present value of the defined benefit obligation	892 000	365 000
Net movement recognised in the statement of financial performance	12 646 000	(116 000)
	(11 998 000)	**(25 536 000)**

Non-current liabilities	(11 017 000)	(24 644 000)
Current liabilities	(981 000)	(892 000)
	(11 998 000)	**(25 536 000)**

One ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's Post-employment Medical Aid Benefits Liability as at 30 June 2016 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5. the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

A previous actuarial valuation was conducted by One Pangaea as at 30 June 2015 to disclose on the Medical Aid Benefits Liability in Nala's financial statements.

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

Opening balance	(25 536 000)	(25 785 000)
Benefits paid	892 000	365 000
Net movement recognised in the statement of financial performance	12 646 000	(116 000)
	(11 998 000)	**(25 536 000)**

Net movement recognised in the statement of financial performance

Current service cost	(1 156 000)	(1 210 000)
Interest cost	(2 285 000)	(2 427 000)
Actuarial gains	16 087 000	3 521 000
	12 646 000	**(116 000)**

Calculation of actuarial gains and losses

Actuarial gains losses – Obligation	16 087 000	3 521 000

Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

14. Employee benefit obligations (continued)

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

Financial Variable Assumed	2016 Valuation	2015 Valuation
Discount Rate	Yield Curve	9,02%
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	6,67%
Medical Aid Contribution Inflation	CPI+1%	8,17%
Net Effective Discount Rate	Yield curve based	0,79%

Discount Rate

We used the nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.
South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

14. Employee benefit obligations (continued)

Withdrawal

A table setting out the assumed rates of withdrawal from service is set out below:
As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Current (In Service) Members

The table below provides a summary of details for current employees.

	Male	Female	Total
Number of active employees	5	0	5
Subsidy weighted average age	63,8	0,0	63,8
Subsidy weighted average past service	20,9	0,0	20,9
Number of spouses	3	0	3
Average monthly subsidy payable during retirement	R 1 690	R 0	R 1 690

Continuation Members (Pensioners)

The table below provides a summary of details for continuation members.

	Male	**Female**	**Total**
Number of continuation members	11	9	20
Subsidy weighted average age	78,7	73,6	76,7
Average monthly subsidy	R 4 000	R 3 370	R 3 720

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	(966 000)	(1 156 000)
Effect on defined benefit obligation	(11 032 000)	(13 102 000)

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

	2016 R	**2015 R**	**2014 R**	**2013 R**	**2012 R**
Defined benefit obligation	(11 998 000)	(25 536 000)	(41 373 000)	(40 178 000)	(29 801 000)
Surplus (deficit)	(11 998 000)	(25 536 000)	(41 373 600)	(40 178 000)	(29 801 000)
Experience adjustments on plan liabilities	13 538 000	15 837 000	(1 195 000)	(10 377 000)	-

Figures in Rand	2016	2015

14. Employee benefit obligations (continued)

Defined contribution plan asset

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Other Grants	1 646 258	578 448

Movement during the year

Balance at the beginning of the year	578 447	7 558 916
Additions during the year	161 173 040	182 253 001
Income recognition during the year	(158 793 816)	(179 742 960)
Income recognition - VAT	(4 649 701)	(5 320 509)
National Treasury office	-	(4 170 000)
Deferred revenue	3 338 288	-
	1 646 258	**578 448**

Reconciliation of grants from National/Provincial Government.

Equitable share		
Additions during the year	118 274 000	122 029 000
Transfer from MIG	-	4 170 000
Income recognition during the year	(118 274 000)	(126 199 000)
	-	**-**

Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	374 079	5 003 108
Additions during the year	27 315 350	41 085 600
Income recognition during the year	(27 112 617)	(36 621 306)
Income recognition - VAT	(3 541 021)	(4 848 769)
National treasury offset*	3 338 288	(4 170 000)
Income recognition during the year - prior year	-	(74 554)
	374 079	**374 079**

* National Treasury has added an amount of R3 338 288 (2016) that is receivable by the Municipality and deducted R4 170 000 (2015) from the equitable share due to Nala Municipality unspent MIG monies for 2011/12 financial period

Figures in Rand	2016	2015

15. Unspent conditional grants and receipts (continued)

Financial Management Grant		
Additions during the year	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
	-	-

Municipal System Improvement Grant		
Additions during the year	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

Integrated National Electrification Program Grant		
Balance unspent at beginning of year	-	2 542 059
Additions during the year	-	2 000 000
Income recognition - Capital	-	(4 155 250)
Income recognition - VAT	-	(386 809)
	-	-

Extended Public Works Program Grant		
Balance unspent at beginning of year	-	13 750
Additions during the year	1 000 000	1 034 000
Conditions met - transferred to revenue	(1 000 000)	(1 047 750)
	-	-

Accelerated Infrastructure Program (ACIP)		
Balance unspent at beginning of year	204 369	-
Additions during the year	-	1 869 892
Conditions met - transferred to revenue	(204 369)	(1 512 893)
Conditions met - transferred to revenue - Prior year	-	(67 699)
Income recognition - VAT - Prior year	-	(84 937)
	-	**204 363**

South African National Energy Development Institute (SANEDI)		
Additions during the year	10 300 000	1 500 000
Conditions met - transferred to revenue	(7 919 140)	(1 500 000)
Income recognition - VAT	(1 108 680)	-
	1 272 180	-

Municipal Infrastructure Grant - Operational		
Additions during the year	1 437 650	2 162 400
Conditions met - transferred to revenue	(1 437 650)	(2 162 400)
	-	-

Human settlement grant		
Additions during the year	-	3 668 109
Income recognition during the year	-	(3 668 109)
	-	-

Figures in Rand	2016	2015

15. Unspent conditional grants and receipts (continued)

Equitable share - Grant is used for day to day municipal expenses including subsidizing indigents community members

Municipal Infrastructure Grant - Capital - Grants is used to fund the infrastructure project/capital projects of the municipality

Financial Management Grant - Grant is used to fund to assist to pay the financial systems expense of the municipality and the improvement of financial systems.

Municipal System Improvement Grant - Grant is to assist to pay the expenses that relates to addressing the audit action plan issues and the funding of municipal interns.

Integrated National Electrification Program Grant - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant - Grant is used to fund social uplifting projects.

Accelerated Infrastructure Program (ACIP) - Grant is used to fund the repairs and maintenance on water pipe leaks.

South African National Energy Development Institute (SANEDI) - The Grant is used to fund the installation of smart meters and energy efficiency

Municipal Infrastructure Grant - Operational - Grants is used to fund the project management unit of the municipality

Human settlement grant - Grant is used to fund the ratification of the bucket system.

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	8 210 400	-	-	746 325	-	8 956 725
Long Service Bonus Awards	8 701 000	993 000	(715 000)	696 000	(840 000)	8 835 000
	16 911 400	**993 000**	**(715 000)**	**1 442 325**	**(840 000)**	**17 791 725**

Reconciliation of provisions - 2015

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	7 526 263	-	-	684 137	-	8 210 400
Long Service Bonus Awards	8 664 000	1 689 000	(1 246 000)	-	(406 000)	8 701 000
	16 190 263	**1 689 000**	**(1 246 000)**	**684 137**	**(406 000)**	**16 911 400**

Notes to the Annual Financial Statements

16. Provisions (continued)

Environmental rehabilitation provision

The municipality engages in waste disposal operations from residential and business areas within the following areas:
- Bothaville
- Wesselsbron

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

The life spans for the individual landfill sites were calculated based on available air space and cover material available on the estimations of Nala Local Municipality as well as a survey of each landfill site by a qualify surveyor.

The estimation of cost of capping and remediation is highly sensitive to many factors, including:
- where the landfill site pose a risk to the environment more stringent capping and remediation measures may be required
- changing legislation may alter the minimum requirements for capping and remediation
- availability of capping materials
- site specific requirements may vary, as well as proposed end-use of the site
- non-inflation linked costs like fuel
- the condition of infrastructure on site at the time of closure, for instance fencing, and storm water management

The average predicated inflation rate is 6 % per year for the period 1 July 2015 to 30 June 2023

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Key assumptions used

Discount rate:	9.09%	(2015: 8.76%)
CPI:	6.00 %	(2015: 6.00%)

16. Provisions (continued)

Long service awards provision

ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's ('Nala')s long service bonus awards liability at 30 June 2016 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19). The valuation was performed by Niel Fourie B.Comm. (CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd

A previous actuarial valuation was performed by One Pangaea Financial as at 30 June 2015 to disclose on the long service bonus awards in Nala's financial statements.

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable Assumed	2016 Valuation	2015 Valuation
Discount Rate	Yield Curve	8,32%
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	6,04%
Normal Salary Increase Rate	Equal to CPI+1%	7,04%
Net Effective Discount Rate	Yield Curve Based	1,20%

Discount Rate

We use the nominal and real zero curves as at 30 June 2016 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2016 of 6%. The next salary increase was assumed to take place on 01 July 2017.
In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

16. Provisions (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements
A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Membership Data
The information below is based on the membership data received from the Municipality.

Eligible male employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	13	R 137 083	2,87	R 7 422
30 - 39	103	R 139 178	6,17	R 14 393
40 - 49	109	R 154 469	11,26	R 24 244
50 - 59	114	R 152 094	15,02	R 19 709
60 +	43	R 137 248	17,88	R 1 939
Total	**382**	**R 147 107**	**11,55**	**R 17 151**

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	9	R 135 274	3,54	R 5 509
30 - 39	23	R 165 908	5,61	R 14 455
40 - 49	44	R 180 742	12,78	R 33 285
50 - 59	18	R 148 323	18,16	R 19 693
60 +	8	R 192 015	28,93	R 10 225
Total	**102**	**R 168 548**	**12,81**	**R 22 381**

Figures in Rand	2016	2015

16. Provisions (continued)

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	22	R 136 343	3,14	R 6 639
30 - 39	126	R 144 057	6,05	R 14 404
40 - 49	153	R 162 024	11,75	R 26 844
50 - 59	132	R 151 580	15,44	R 19 707
60 +	51	R 145 839	20,16	R 3 239
Total	**484**	**R 151 626**	**11,84**	**R 18 253**

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

17. Revenue

	2016	2015
Service charges	137 519 599	137 665 238
Rental of facilities	1 156 697	305 262
Interest received (consumer)	17 651 563	13 166 451
Interest received - investment	2 365 855	1 777 648
Dividends received	6 262	5 988
Discount received	24 522	120 269
Other income	3 679 042	1 646 176
Property rates	19 829 071	16 034 662
Fines, penalties and forfeits	179 692	141 252
Government grants & subsidies	163 694 542	185 274 284
	346 106 845	**356 137 230**

	2016	2015
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	137 519 599	137 665 238
Rental of facilities	1 156 697	305 262
Interest received (consumer)	17 651 563	13 166 451
Interest received - investment	2 365 855	1 777 648
Dividends received	6 262	5 988
Discount received	24 522	120 269
Other income	3 679 042	1 646 176
	162 403 540	**154 687 032**

	2016	2015
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	19 829 071	16 034 662
Fines, penalties and forfeits	179 692	141 252
Transfer revenue		
Government grants & subsidies	163 694 542	185 274 284
	183 703 305	**201 450 198**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Service charges

Sale of electricity	62 667 788	64 991 532
Sale of water	41 135 768	41 411 864
Sewerage and sanitation charges	16 763 206	15 408 406
Refuse removal	16 952 837	15 853 436
	137 519 599	**137 665 238**

Included in the above service charges is income forgone to the amount of R42 669 435 (2015: R39 901 507).

19. Other income

Admin fees	57 402	32 175
Advertisement	20 501	8 480
Bad debts recovered	1 767	23 280
Burial income	393 189	351 963
Cemeteries	124 018	7 500
Connection Fees	440 614	186 000
Donations (G-Tec)	41 040	-
Fees earned	983 499	533 681
Insurance claims received	704 992	81 282
Levies	855 690	365 108
Meter tampering/testing	11 248	18 737
Valuation certificates	31 324	30 649
Other income	13 758	7 321
	3 679 042	**1 646 176**

20. Investment revenue

Dividend revenue		
Other financial assets	6 262	5 988
Interest revenue		
Bank	2 365 855	1 777 648
	2 372 117	**1 783 636**

21. Property rates

Rates levied

Property rates	30 947 725	26 421 933
Less: Income forgone	(11 118 654)	(10 387 271)
	19 829 071	**16 034 662**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

21. Property rates (continued)

Valuations

Residential	1 383 969 309	1 410 068 680
Commercial	294 990 703	302 289 523
State	215 207 785	198 627 785
Municipal	32 259 976	29 195 376
Agriculture	2 807 609 036	2 814 004 595
Other	85 452 584	54 297 150
	4 819 489 393	**4 808 483 109**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R80 000 of the rateable value of residential property are exempted from taxes.
A 100% rebate is granted to churches, public benefit organisations and municipal property.
Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties

Rates are levied on an monthly basis and interest is levied on outstanding amounts.

Rates tariffs

Residential	0.00885100
SS Residential	0.00885100
SS Business	0.01770200
SS Agricultural	0.00221275
Business	0.01770200
Industrial	0.01770200
Municipal	0.00885100
Government	0.02655300
Agricultural	0.00221275
Multi purpose : Business	0.01770200
Multi purpose : Residential	0.01327650
Multi purpose : Guesthouse	0.01327650
Multi purpose : Agricultural	0.00221275
Non permitted use	0.03540400
Public benefit organisation	0.00221275
Education	0.02655300
Guesthouse	0.01327650
Crech	0.01327650
Public worship	0.00221275
PSI	0.00221275
Vacant	0.03540400

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

22. Government grants and subsidies

Operating grants and subsidies		
Equitable share	118 274 000	126 199 000
Municipal Infrastructure Grant	1 437 650	2 162 400
Municipal Systems Improvement Grant	930 000	934 000
Financial Management Grant	1 875 000	1 800 000
Extended Public Works Grant	1 000 000	1 047 750
	123 516 650	**132 143 150**

Capital grants and subsidies		
Integrated National Electrification Program (INEP) Grant	-	4 155 250
Municipal Infrastructure Grant	27 112 617	36 695 860
South African National Energy Development Institute (SANEDI) Grant	7 919 141	1 500 000
Human settlement grant - Babereki donation	-	3 668 109
Accelerated Infrastructure Program (ACIP)	204 369	1 580 593
VAT on capital expenses	4 650 165	5 320 508
Local Government Sector Education and Training Authority Grant (LG SETA)	291 600	210 814
	40 177 892	**53 131 134**
	163 694 542	**185 274 284**

23. Employee related costs

Basic	74 730 770	71 645 150
Bonus	5 806 080	5 668 670
Medical aid - municipality contributions	6 888 201	6 248 214
UIF	722 760	710 595
WCA and COID	1 028 190	690 317
SDL	1 007 584	969 635
Leave pay provision charge	1 130 262	1 671 446
Travel, motor car, accommodation, subsistence and other allowances	8 901 111	8 213 378
Housing benefits and allowances	429 450	132 393
Overtime payments	9 183 300	8 357 429
Acting allowances	641 565	919 051
Pension	12 530 921	11 920 309
Employee benefits - costs	542 000	573 033
Other allowances	1 004 906	110 915
	124 547 100	**117 830 535**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	1 415 352	1 320 921
Car Allowance	142 328	163 736
Subsistence allowance	8 060	-
	1 565 740	**1 484 657**

Remuneration of Chief Financial Officer - Busakwe S

Annual Remuneration	944 600	871 763
Car Allowance	194 193	229 548
Subsistence allowance	7 067	-
	1 145 860	**1 101 311**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. Employee related costs (continued)

Remuneration of Executive Director Corporate Services - Molupe BP

Annual Remuneration	780 852	768 889
Car Allowance	356 663	341 530
Acting allowance	40 106	-
Subsistence allowance	4 548	-
	1 182 169	**1 110 419**

Remuneration of Executive Director Infrastructure Development - Malebane K

Annual Remuneration	875 743	824 150
Car Allowance	196 660	197 774
Contributions to UIF and SDL	-	9 844
	1 072 403	**1 031 768**

24. Remuneration of councillors

Mayor	788 180	744 363
Speaker	627 278	602 464
Executive Members	568 504	1 391 935
Councillors	5 593 428	4 346 840
	7 577 390	**7 085 602**

There are 4 (2015: 4) Executive Committee Members and 18 (2015:18) Other Councillors.

In-kind benefits

The Mayor, speaker are full time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has one full-time bodyguard and one full-time driver.

25. Depreciation and amortisation

Property, plant and equipment and intangible assets	49 537 277	46 622 090

26. Impairment of assets and provision for bad debts

Impairments		
Property, plant and equipment and intangible assets Assets identified during the year that was not in a working condition or could not be verified and was therefore impaired.	1 678 038	6 444 299
Trade and other receivables Provision for bad debts on trade and other receivables that was provided for.	59 044 037	55 538 220
	60 722 075	**61 982 519**

27. Finance costs

Provisions and employee benefit obligations	2 981 000	3 094 000
Trade and other payables	24 281 271	19 335 977
Non-current borrowings	-	6 186 807
	27 262 271	**28 616 784**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

28. Bulk purchases

Electricity	63 961 960	58 984 231
Water	41 193 741	37 978 060
	105 155 701	**96 962 291**

Refer to note 46 for the detail regarding the distribution losses.

29. Contracted services

Fleet Services	1 815 911	1 859 103
Operating Leases	2 266 868	2 989 408
Specialist Services	9 927 469	12 095 383
Other Contractors	-	12 685
	14 010 248	**16 956 579**

30. Auditors' remuneration

Fees	3 475 655	2 988 737

31. General expenses

Accounts delivery cost	912 100	764 650
Administration fees	17 360	23 811
Advertising	486 852	156 351
Audit committee	61 718	33 193
Auditors remuneration	3 475 655	2 988 737
Bank charges	687 606	281 115
Cashier shortages	234	1 229
Collection cost: Incentives	96 906	215 623
Conferences and seminars	1 109 275	1 249 549
Consulting and professional fees	1 991 773	3 620 534
Consumables	1 579 132	668 180
Entertainment	970 276	303 302
Fuel and oil	2 168 560	1 650 889
Gifts	4 099	16 699
Hire of equipment	51 000	55 825
Rental expense	4 489	76 105
IT expenses	4 469	11 393
Insurance	591 965	541 165
License fees	127 769	566 154
Membership fees	1 323 218	1 197 279
Motor vehicle expenses	96 837	11 902
Postage and courier	692 892	878 587
Printing and stationery	807 988	814 874
Stock value adjustments	317 750	(1 821)
Street cleaning (project workers)	3 334 820	1 529 895
Telephone and fax	1 081 638	863 616
Transport and freight	2 105 511	(1 080)
Venue expenses	158 559	3 186 817
	24 260 451	**21 704 573**

Figures in Rand	2016	2015

32. Cash generated from operations

	2016	2015
Deficit	(65 094 813)	(45 510 893)
Adjustments for:		
Depreciation and amortisation	49 537 277	46 622 090
Gain on properly, plant and equipment recognised	(102 876)	(145 732)
Loss on property, plant and equipment recognised	7 647 152	-
Fair value adjustments	3 256	(5 596)
Impairment deficit	66 320 919	66 363 540
Movements in retirement benefit assets and liabilities	(13 538 000)	(249 000)
Movements in provisions	880 325	721 138
Changes in working capital:		
Inventories	(693 645)	226 683
Receivables from exchange transactions	(68 980 824)	(72 157 260)
Other receivables from non-exchange transactions	(8 225 728)	(853 625)
Payables from exchange transactions	77 255 952	52 619 716
VAT	(935 854)	(13 852 130)
Unspent conditional grants and receipts	1 067 810	(6 980 468)
Consumer deposits	269 772	193 553
	45 410 723	**26 992 016**

33. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	72 201 065	72 201 065
Other receivables from non-exchange transactions	-	14 730 844	14 730 844
Cash and cash equivalents	-	11 180 373	11 180 373
Other financial assets	120 516	-	120 516
	120 516	**98 112 282**	**98 232 798**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	42 693 517	42 693 517
Trade payables from exchange transactions	282 000 430	282 000 430
Consumer deposits	2 028 393	2 028 393
	326 722 340	**326 722 340**

Figures in Rand	2016	2015

. Financial instruments disclosure (continued)

2015

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	69 645 056	69 645 056
Other receivables from non-exchange transactions	-	4 732 893	4 732 893
Cash and cash equivalents	-	14 876 584	14 876 584
Other financial assets	123 772	-	123 772
	123 772	**89 254 533**	**89 378 305**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	54 693 517	54 693 517
Trade payables from exchange transactions	205 574 129	205 574 129
Consumer deposits	1 758 621	1 758 621
	262 026 267	**262 026 267**

34. Commitments

Authorised capital expenditure

	2016	2015
Already contracted for but not provided for		
• Property, plant and equipment	7 185 835	32 971 215
Total capital commitments		
Already contracted for but not provided for	7 185 835	32 971 215

This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG Grants funds.

Operating leases - as lessee (expense)

	2016	2015
Minimum lease payments due		
- within one year	1 330 812	1 330 812
- in second to fifth year inclusive	972 110	2 302 922
	2 302 922	**3 633 734**

The municipality utilises vehicles from the Free State Fleet Management trading entity (FSFM) and is billed monthly for the right to use the vehicle (daily tariff) as well as the usage (usage tariff) there of.

The leases are also treated as 3- and 4-year leases based on the type of asset.

Figures in Rand	2016	2015

35. Contingencies

Patula Balekane Joint Venture issued summons against the Municipality for payment in respect of outstanding payments due for construction work at the sewerage works in Wesselbron to the plaintiff of an capital amount off R1.1mil plus interest (+/- R2.5mil) and legal costs(+/- R300 000).	4 000 000	2 611 331
SI Swartbooi was previously dismissed after disciplanry proceedings were instituted and the matter has been escalated to the Labour Court in Johannesburg and awaiting judgemental to be delivered.	3 000 000	3 000 000
Manama and 30 others: Interdict for interrupting electricity and restoration of electricity supply and the case was resolved during the year.	-	250 000
Theko Mogoje and 12 other: Charged for public violence, injury to property and possession and unauthorised use of fire arms, amongst others and the case was resolved during the year.	-	250 000
SS Mabaso was previously employed by the Municipality and the Labour Court ordered the Municipality to pay Mr Mabaso R43 600,plus interest which amounted to R77 390. This matter was argued on 23 July 2015 in the Labour Court in Johannesburg. An order was granted to stay the execution of this warrant pending and a formal application to set aside the warrant entirely. Further cost for the main application amounts to an additional R70 000.	147 390	77 390
Labour dispute - P.W Mafojane vs Nala bargaining counsel and the matter was referred to court for review.	200 000	-
Labour dispute - Nala vs Lekitlane matter was referred to labour court	200 000	-
	7 547 390	**6 188 721**

Unlicensed landfill site

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

36. Related parties

Relationships

Accounting Officer	Mr BC Mokomela
Members of key management	Refer to note 23

37. Prior period errors

Property, Plant and Equipment adjusted due to the asset register initially in 2009 not indicating all the assets. The depreciation therefore also not appropriately considered and corrected retrospectively. Included in Property, Plant and Equipment is also an adjustment on work in progress of projects that never was capitalised as these projects was taken over by an other party and the initial work in progress had to be written off .

37. Prior period errors (continued)

Employee benefits liability was corrected retrospectively as the valuation was restated by the actuarial valuators and therefore corrected retrospectively.

Provisions was restated to accompany the adjusted cost of the landfill sites. As the cost of the landfill site was adjusted retrospectively the provision calculation changed and is also corrected retrospectively.

Inventories was restated with the correct amounts as there was duplicated stock items identified on the stock list and was corrected in the prior year.

Unspent conditional grants was restated due to payments made in the prior year that did not reflect on the schedule in the prior year and was corrected retrospectively.

Correction of errors for transactions allocated directly to retained earnings regarding corrections for the 2013/14 financial year against payables from exchange transactions and receivables from exchange transactions. Duplicate billings on service charges that was accounted for and duplicate expenses recognized was the errors that was identified in the 2013/14 financial period in the current year is was corrected against retained surplus.

The correction of the errors results in adjustments as follows:

Statement of financial position	
Increase / (decrease) in inventories	(103 971)
Increase / (decrease) in receivables from exchange transactions	(890 957)
Increase / (decrease) in VAT receivable	371 942
Increase / (decrease) in property, plant and equipment	(3 550 742)
(Increase) / decrease in payables from exchange transactions	(1 198 054)
(Increase) / decrease in employee benefit obligation	19 200 000
(Increase) / decrease in unspent conditional grants and receipts	227 183
(Increase) / decrease in provisions	2 649 877
(Increase) / decrease in retained surplus in 2014	(11 744 328)
(Increase) / decrease in retained surplus through profit and loss 2015	(4 960 950)
	-

Statement of Financial Performance	
Increase / (decrease) in property rates	17 719
Increase / (decrease) in service charges	(98 020)
Increase / (decrease) in government grants and subsidies	5 673 575
Increase / (decrease) in other income	(8 089 646)
Increase / (decrease) in interest received - consumer	(1 551)
Increase / (decrease) in interest received - investment	(5 596)
(Increase) / decrease employee related costs	966 057
(Increase) / decrease depreciation and amortisation	185 845
(Increase) / decrease in finance costs	2 384 515
(Increase) / decrease in repairs and maintenance	(18 821)
(Increase) / decrease in bulk purchases	61 271
(Increase) / decrease in contracted services	(2 989 408)
(Increase) / decrease in general expenses	2 942 414
(Increase) / decrease in remuneration of councillors	47 000
Increase / (decrease) in fair value adjustments on other financial assets	5 596
Increase / (decrease) in actuarial gains	3 880 000
	4 960 950

37. Prior period errors (continued)

Cash flow statement

Cash flow from operating activities	
Net movement on receipts	(33 204 777)
Net movement on payments	27 086 952
	(6 117 825)
Cash flow from investing activities	
Net movement on property plant and equipment	(68 982)
Cash flow from financing activities	
Net movement on other financial liabilities	6 186 807

38. Risk management

Financial risk management

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

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.

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

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities (Borrowings)	10 480 546	32 212 971	-	-
Payables from exchange transactions	308 985 307	-	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities (Borrowings)	11 240 273	43 453 244	-	-
Payables from exchange transactions	231 729 358	-	-	-

Included in other financial liabilities is an amount of R32 212 971 which is suspended, subject to the conditions as indicated in note 11.

38. Risk management (continued)

Credit risk

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

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

Financial instrument	2016	2015
Cash and cash equivalents	11 180 373	14 876 584
Receivables from exchange transactions	72 830 419	69 645 056
Receivables from non-exchange transactions	14 101 488	4 732 893
Other financial assets	120 516	123 772

Market risk

Interest rate risk

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

39. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated deficits of R 1 558 847 373 and that the municipality's total liabilities exceed its assets by R 1 558 847 373.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

The main ratios in this regard, is as follow:	2016	2015
Current ratio:	37.35%	44.91%
Bad debt impairment provision %:	81.98%	83.03%
Liquidity ratio:	3.45%	6.04%

Figures in Rand	2016	2015

40. Unauthorised expenditure

Opening balance	97 795 332	97 795 332
Unauthorised expenditure - current year	9 984 054	62 112 345
Less: Amounts written off	(9 984 054)	(62 112 345)
	97 795 332	**97 795 332**

41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure opening balance	694 175	33 950 224
Interest	23 498 417	25 557 865
Legal fees	-	48 292
Arbitration awards	-	193 372
Work in progress written off	15 995 104	-
Less: Amounts written off	(24 192 592)	(59 055 578)
	15 995 104	**694 175**

Interest is charged on arrear accounts by the creditors due to the fact that late payments are made to the creditors.

Work in progress written off was for work performed by a contractor on Bucket eradication project in Wesselsbron that had to be re-performed.

42. Irregular expenditure

Opening balance	16 389 794	109 453 920
Add: Irregular Expenditure - current year	18 732 168	11 751 465
Add: Irregular expenditure - Prior year identified in current year	1 450 000	-
Less: Amounts written off	(18 969 671)	(104 815 591)
	17 602 291	**16 389 794**

Analysis of expenditure awaiting to be written off per age classification

Quarter 3 and 4	2 392 649	8 612 364
Identified after year-end	13 759 642	-
Prior years identified in current year	1 450 000	9 595 174
	17 602 291	**18 207 538**

Details of irregular expenditure written off

Prior periods 2014	Approved by council	9 595 174
Prior periods 2015 quarter 4	Approved by council	6 794 620
Current year quarter 1 and 2	Approved by council	2 579 877
		18 969 671

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	944 682
Current year subscription / fee	1 192 130	1 344 144
Amount paid - current year	(430 000)	(2 288 826)
	762 130	**-**

Figures in Rand	2016	2015

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

Audit fees

	2016	2015
Opening balance	8 914	2 178 812
Current year fee	3 480 750	2 625 971
Amount paid - current year	487 305	367 636
Amount paid - current year	(3 965 707)	(5 163 507)
	11 262	**8 912**

PAYE and UIF

	2016	2015
Opening balance	(437 147)	784 475
Current year subscription / fee	15 864 003	13 389 836
Amount paid - current year	(15 426 856)	(14 611 458)
	-	**(437 147)**

Pension and Medical Aid Deductions

	2016	2015
Opening balance	50 824	113 022
Current year subscription / fee	31 345 391	29 244 068
Amount paid - current year	(31 345 451)	(29 306 266)
	50 764	**50 824**

VAT

	2016	2015
VAT receivable	20 671 470	19 735 616

VAT output payables and VAT input receivables are shown in note 6 .

All VAT returns have been submitted by the due date throughout the year.

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

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje T.A.	9 240	-	9 240
Mpesi M.M.	306	-	306
Lenake M.R.	316	-	316
Mamatela J.P.	415	-	415
Motsoeneng N.M.	570	-	570
Tutubala M.M.	284	-	284
Mokolutlo R.J.	-	-	-
Moepi P.A.	306	-	306
Marumule M.S.	306	-	306
Ramaele P.R.	430	-	430
Mohloare T.A.	316	-	316
Mashiya M.N.	1 408	-	1 408
Moshane Z.M.	634	-	634
Bopiko M.H.	341	-	341
Radebe P.S.	748	-	748
Moses S.S.	590	-	590
Leburu P.K.	295	-	295
Moshodi T.L.	274	-	274
Masisi D.M.	1 885	-	1 885
Mabaleng J.M.	619	-	619
Maas V	1 234	-	1 234
	20 517	**-**	**20 517**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje T.A.	16 524	38 151	54 675
Hlathi M.N.	2 015	-	2 015
Moses S.S.	498	-	498
Bopiko M.H	121	-	121
Tutubala M.M	437	-	437
Nieuwhout P.T	4 848	-	4 848
Bothma H.J	9 710	2 608	12 318
Mokolutlo R.J	398	-	398
Radebe P.S	4 524	147	4 671
Moepi P.A	387	-	387
Moshane Z.M	426	-	426
Motsoeneng N.M	1 645	4 282	5 927
Moshodi T.L	40	-	40
Masisi M.D	1 378	-	1 378
	42 951	**45 188**	**88 139**

Figures in Rand	2016	2015

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	42 693 517	54 693 517
Amount not payable is agreement is adhered to	(32 212 971)	(32 212 971)
	10 480 546	22 480 546
Cash set aside for the repayment of long-term liabilities	(10 480 546)	(22 480 546)
	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

45. Deviation from supply chain management regulations

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

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

The folowing expenses relate to deviations that the accounting officer approved		
Emergencies	2 284 075	3 029 570
Sole suppliers	124 521	713 934
Other	-	152 237
	2 408 596	**3 895 741**

46. Distribution Losses

Electricity - Rand		
Sold	69 190 347	71 519 163
Purchased	63 961 960	58 988 128
Electricity - Units		
Sold	61 520 756	65 187 474
Purchased	76 206 005	79 513 080
Electricity - Tariff		
Sold	1.12	1.10
Purchased	0.83	0.74
Electricity - Losses		
Units	17 525 549	14 325 606
Rand value	14 542 628	10 627 694
Percentage	22.74%	18.02%
Water - Rand		
Sold	47 803 535	45 104 846
Purchased	41 193 741	38 035 434
Water - Units		
Sold	3 153 718	3 194 264
Purchased	4 620 470	4 795 790
Water - Tariffs		
Sold	15.16	14.12
Purchased	8.92	7.74
Water - Losses		
Units	1 466 751	1 601 526
Rand value	13 076 807	12 403 814
Percentage	31.74%	32.61%

Notes to the Annual Financial Statements

Figures in Rand

47. Budget differences

Notes on budget variances

Government Grants and Subsidies
Management did not include other subsidies received for the year in the operating budget.

Depreciation Charges
Depreciation charges difference due to changes to the asset register near year end.

Loss on assets
Loss on assets was higher than estimated due to stock adjustments that was made due to change in value when determining the total stock value.