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

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	Mashiya MN
Councillors	Khati SM
	Leburu PK
	Mabaleng MP
	Mabaso MK
	Mafojane PW
	Marumule MS
	Mohloare TA
	Mokete XE
	Molutsi TL
	Moshane ZM
	Mtombeni J
	Ncheche MM
	Ngece M
	Ntseki ML
	Sebate KE
	Tau RT
	Nanyane LJ
	Reed D
	Makunye AM
	Jika NE
	Makhooe NE
	Botma HJ
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 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The 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:

Mokothela BC
Accounting Officer

Statement of Financial Position as at 30 June 2017

Figures in Rand	Notes	2017	2016 Restated
Assets			
Current Assets			
Inventories	3	1 625 682	2 266 404
Receivables from exchange transactions	4	80 156 439	97 243 948
Receivables from non-exchange transactions	5	2 044 327	14 768 969
VAT receivable	6	38 640 227	17 596 857
Cash and cash equivalents	7	8 270 644	11 180 373
		130 737 319	**143 056 551**
Non-Current Assets			
Investment property	8	581 282 443	-
Property, plant and equipment	9	1 233 500 214	1 821 828 266
Intangible assets	10	79 065	525 672
Other financial assets	11	121 713	120 516
		1 814 983 435	**1 822 474 454**
Total Assets		**1 945 720 754**	**1 965 531 005**
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	10 480 546
Payables from exchange transactions	13	377 334 551	303 803 295
Consumer deposits	14	2 433 559	2 028 393
Employee benefit obligation	15	1 121 000	981 000
Unspent conditional grants and receipts	16	4 852 099	1 646 258
		385 741 209	**318 939 492**
Non-Current Liabilities			
Other financial liabilities	12	-	32 212 971
Employee benefit obligation	15	10 369 000	11 017 000
Provisions	17	18 783 891	17 791 725
		29 152 891	**61 021 696**
Total Liabilities		**414 894 100**	**379 961 188**
Net Assets		**1 530 826 654**	**1 585 569 817**
Accumulated surplus		1 530 826 654	1 585 569 817

Statement of Financial Performance

Figures in Rand	Notes	2017	2016 Restated
Revenue			
Revenue from exchange transactions			
Service charges	19	158 740 872	147 698 032
Rental of facilities		504 413	944 741
Interest received - consumer		23 662 860	17 652 844
Interest received - investment	20	1 856 360	2 365 855
Dividends received	20	4 751	6 262
Discount received		47 243	24 522
Debt forgiven		32 212 971	-
Other income	21	2 231 558	3 679 042
Total revenue from exchange transactions		**219 261 028**	**172 371 298**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	19 949 353	19 930 078
Fines, Penalties and Forfeits		180 649	179 692
Transfer revenue			
Government grants & subsidies	23	166 910 755	163 694 542
Total revenue from non-exchange transactions		**187 040 757**	**183 804 312**
Total revenue	18	**406 301 785**	**356 175 610**
Expenditure			
Employee related costs	24	(129 831 492)	(124 547 100)
Remuneration of councillors	25	(7 480 200)	(7 577 390)
Depreciation and amortisation	26	(50 293 226)	(49 537 277)
Impairment loss	27	(91 368 760)	(60 722 075)
Finance costs	28	(27 895 393)	(26 004 312)
Repairs and maintenance		(4 874 598)	(7 616 182)
Bulk purchases	29	(114 142 366)	(105 155 701)
Contracted services	30	(10 421 265)	(14 010 248)
General Expenses	32	(24 740 432)	(24 171 781)
Total expenditure		**(461 047 732)**	**(419 342 066)**
Operating deficit		**(54 745 947)**	**(63 166 456)**
Gain on property plant and equipment recognised		-	1 006 124
Fair value adjustments on other financial assets		-	(3 256)
Actuarial gains/losses	15&17	719 246	16 927 000
Loss on property plant equipment written off		(716 463)	(7 647 152)
		2 783	**10 282 716**
Deficit for the year		**(54 743 164)**	**(52 883 740)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 623 942 186	1 623 942 186
Adjustments		
Prior year adjustments	14 511 371	14 511 371
Balance at 01 July 2015 - as restated	**1 638 453 557**	**1 638 453 557**
Changes in net assets		
Restated surplus for the year	(52 883 740)	(52 883 740)
Total changes	(52 883 740)	(52 883 740)
Balance at 01 July 2016	**1 585 569 818**	**1 585 569 818**
Changes in net assets		
Surplus for the year	(54 743 164)	(54 743 164)
Total changes	(54 743 164)	(54 743 164)
Balance at 30 June 2017	**1 530 826 654**	**1 530 826 654**

Cash Flow Statement

Figures in Rand	Notes	2017	2016 Restated
Cash flows from operating activities			
Receipts			
Taxation		22 236 941	15 222 330
Sale of goods and services		75 067 505	72 357 227
Grants		173 454 884	161 424 064
Interest income		25 519 220	20 018 699
Dividends received		4 751	6 262
		296 283 301	269 028 582
Payments			
Employee costs		(135 211 001)	(127 562 597)
Suppliers and other		(80 498 801)	(77 019 097)
Finance costs		(27 895 393)	(26 004 312)
		(243 605 195)	(230 586 006)
Net cash flows from operating activities	33	**52 678 106**	**38 442 576**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(45 106 092)	(30 138 787)
Reclassification on property, plant and equipment	9	581 282 443	-
Reclassification to investment property	8	(581 282 443)	-
Proceeds from sale of financial assets		(1 197)	-
Net cash flows from investing activities		**(45 107 289)**	**(30 138 787)**
Cash flows from financing activities			
Repayment of other financial liabilities		(10 480 546)	(12 000 000)
Net cash flows from financing activities		**(10 480 546)**	**(12 000 000)**
Net increase/(decrease) in cash and cash equivalents		**(2 909 729)**	**(3 696 211)**
Cash and cash equivalents at the beginning of the year		11 180 373	14 876 584
Cash and cash equivalents at the end of the year	7	**8 270 644**	**11 180 373**

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	138 184 271	20 151 500	**158 335 771**	158 740 872	**405 101**	Note 48
Rental of facilities and equipment	693 413	(189 000)	**504 413**	504 413	**-**	
Interest received (consumer)	25 555 716	(1 892 856)	**23 662 860**	23 662 860	**-**	
Discount received	65 628	(18 385)	**47 243**	47 243	**-**	
Recoveries	-	-	**-**	32 212 971	**32 212 971**	Note 48
Other income	2 367 206	(135 648)	**2 231 558**	2 231 558	**-**	
Interest received - investment	2 041 680	(185 320)	**1 856 360**	1 856 360	**-**	
Dividends received	4 985	(234)	**4 751**	4 751	**-**	
Total revenue from exchange transactions	**168 912 899**	**17 730 057**	**186 642 956**	**219 261 028**	**32 618 072**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19 877 954	71 399	**19 949 353**	19 949 353	**-**	
Fines, Penalties and Forfeits	187 358	(6 709)	**180 649**	180 649	**-**	
Transfer revenue						
Government grants & subsidies	114 970 000	51 940 755	**166 910 755**	166 910 755	**-**	
Total revenue from non-exchange transactions	**135 035 312**	**52 005 445**	**187 040 757**	**187 040 757**	**-**	
Total revenue	**303 948 211**	**69 735 502**	**373 683 713**	**406 301 785**	**32 618 072**	
Expenditure						
Personnel	(130 985 939)	1 228 330	**(129 757 609)**	(129 831 492)	**(73 883)**	Note 48
Remuneration of councilors	(7 993 202)	513 002	**(7 480 200)**	(7 480 200)	**-**	
Depreciation and amortisation	(57 703 000)	7 939 542	**(49 763 458)**	(50 293 226)	**(529 768)**	Note 48
Impairment loss/ Reversal of impairments	(20 240 000)	(70 927 718)	**(91 167 718)**	(91 368 760)	**(201 042)**	Note 48
Finance costs	(24 052 107)	(4 520 797)	**(28 572 904)**	(27 895 393)	**677 511**	Note 48
Repairs and maintenance	(7 504 542)	2 563 806	**(4 940 736)**	(4 874 598)	**66 138**	Note 48
Bulk purchases	(104 259 413)	(9 882 953)	**(114 142 366)**	(114 142 366)	**-**	
Contracted Services	(11 266 710)	845 445	**(10 421 265)**	(10 421 265)	**-**	
General Expenses	(23 055 578)	(1 690 214)	**(24 745 792)**	(24 740 432)	**5 360**	Note 48
Total expenditure	**(387 060 491)**	**(73 931 557)**	**(460 992 048)**	**(461 047 732)**	**(55 684)**	
Operating deficit	**(83 112 280)**	**(4 196 055)**	**(87 308 335)**	**(54 745 947)**	**32 562 388**	
Gain on disposal of assets and liabilities	-	(247 008)	**(247 008)**	-	**247 008**	Note 48
Actuarial gains/losses	-	719 246	**719 246**	719 246	**-**	
Loss on non-current assets	-	(247 587)	**(247 587)**	(716 463)	**(468 876)**	Note 48
	-	**224 651**	**224 651**	**2 783**	**(221 868)**	
Deficit before taxation	**(83 112 280)**	**(3 971 404)**	**(87 083 684)**	**(54 743 164)**	**32 340 520**	

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	**(83 112 280)**	**(3 971 404)**	**(87 083 684)**	**(54 743 164)**	**32 340 520**	

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 judgment 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 17 - 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 15.

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 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Accounting Policies

1.3 Investment property (continued)

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite

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

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

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Item	Depreciation method	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		
- 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 with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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

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

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.6 Intangible assets

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

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

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

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

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

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

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

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

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

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:

1.6 Intangible assets (continued)

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

Intangible assets are unrecognised:
- 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 unrecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 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.

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.

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:

1.7 Financial instruments (continued)

- 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.

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

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.

1.7 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 unrecognised or impaired, or through the amortisation process.

Impairment 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.

Accounting Policies

1.7 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.

1.8 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.

1.8 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).

1.8 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.

1.9 Leases

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

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

1.9 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.

1.10 Inventories

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

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

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

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

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.

1.11 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).

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

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

1.11 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.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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.

1.12 Impairment of non-cash-generating assets

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

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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

1.13 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

1.13 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 programs) 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 programs

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs 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.

1.13 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;

1.13 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.

1.13 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.

1.13 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.

1.14 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 36.

Accounting Policies

1.14 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 1.11 and 1.12.

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.

1.15 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-cancelable or only cancelable 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.

1.16 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.

1.16 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.

1.17 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

1.17 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.

1.17 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 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.

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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

1.21 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.

1.22 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 program/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.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (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

1.24 Related parties

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

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.26 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)

1.27 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 unrecognised (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 2017 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 unrecognised (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 2017 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 2017 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 2017 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.

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.

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.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is set out in note Changes in Accounting Policy.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 values.
- 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.

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 values.
- 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 values
- 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.

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

The Board agreed to include a research project on its work program 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 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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 program 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:

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 2017 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	2017	2016

3. Inventories

Inventories (stock in transit)	-	27 875
Spare parts	1 597 752	2 211 297
Water	27 930	27 232
	1 625 682	**2 266 404**

Inventory pledged as security

No inventory was pledged as security for any liabilities.

4. Receivables from exchange transactions

Consumer debtors	484 257 818	421 764 142
Other receivables	10 519 900	9 594 935
Recoverable fruitless and wasteful expenditure	959 632	-
Overpayment to councillors	1 492 716	1 477 273
Less: Provision for bad debts on consumer debtors	(416 214 516)	(335 013 833)
Less: Provision for bad debts on other receivables	(859 111)	(578 569)
	80 156 439	**97 243 948**

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.

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	75 421 373	62 929 658
Water	237 516 720	212 397 727
Sewerage	72 647 581	61 922 887
Refuse	98 672 144	84 513 870
	484 257 818	**421 764 142**
Less: Allowance for impairment		
Electricity	(51 348 056)	(13 384 524)
Water	(215 481 019)	(194 281 832)
Sewerage	(63 920 641)	(54 033 246)
Refuse	(85 464 800)	(73 314 231)
	(416 214 516)	**(335 013 833)**
Net balance		
Electricity	24 073 317	49 545 134
Water	22 035 701	18 115 895
Sewerage	8 726 940	7 889 641
Refuse	13 207 344	11 199 639
	68 043 302	**86 750 309**

Figures in Rand	2017	2016

4. Receivables from exchange transactions (continued)

Trade and other receivables ageing

The ageing of amounts is as follows:

Current (not past due)	52 833 505	39 687 219
1 month past due	12 470 900	12 014 648
2 months past due	12 489 035	10 227 803
3 months past due	436 945 061	391 402 599
	514 738 501	**453 332 269**

The above mentioned ageing included consumer debtors from exchange R484 257 818 (2016 : R421 764 142) and non exchange consumer debtors R30 480 683 (2016 : R31 568 126) stating the gross balances outstanding for consumer debtors. Refer to Note 5 for non exchange Consumer debtors - Rates

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(335 013 833)	(270 736 173)
Provision for impairment	(82 729 056)	(65 809 908)
Amounts written off as uncollectable	-	13 277
Adjustment between exchange and non exchange - Interest	1 528 373	1 518 971
	(416 214 516)	**(335 013 833)**

5. Receivables from non-exchange transactions

Government grants and subsidies	-	3 338 288
Consumer debtors - Rates	30 480 683	31 568 126
Less: Provision for bad debts on consumer debtors	(28 436 356)	(20 137 445)
	2 044 327	**14 768 969**

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	23 798 267	24 193 091
Industrial and commercial consumers	2 276 692	4 951 958
National and provincial government	4 405 724	2 423 077
	30 480 683	**31 568 126**

Summary of provision for bad debts by customer classification

Household consumers	(23 950 906)	(14 961 574)
Industrial and commercial consumers	(1 141 223)	(2 981 062)
National and provincial government	(3 344 227)	(2 194 819)
	(28 436 356)	**(20 137 455)**

Figures in Rand	2017	2016

5. Receivables from non-exchange transactions (continued)

Gross balances

	2017	2016
Other receivables from non-exchange transactions	2 383 267	10 763 184

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

	2017	2016
Opening balance	(20 137 455)	(19 761 013)
Provision for impairment	(6 770 536)	338 184
Adjustment to previous impairment	-	804 354
Interest portion part of the provision for impairment	(1 528 365)	(1 518 980)
	(28 436 356)	**(20 137 455)**

6. VAT receivable

	2017	2016
VAT	38 640 227	17 596 857

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2017	2016
Bank balances	1 791 800	271 409
Call account	6 478 844	10 908 964
	8 270 644	**11 180 373**

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 2017	**30 June 2016**	**30 June 2015**	**30 June 2017**	**30 June 2016**	**30 June 2015**
FNB - Current Account 62025990765	1 669 159	371 002	1 241 539	1 791 800	271 409	1 484 866
FNB - Money Market 62026222521	80 078	5 361 066	4 490 938	80 078	5 361 066	4 490 938
FNB - Money Market 62002839506	6 338 372	415 214	2 659 579	6 338 372	415 214	2 659 579
FNB - Money Market 62373464503	60 394	5 132 684	6 241 200	60 394	5 132 684	6 241 201
Total	**8 148 003**	**11 279 966**	**14 633 256**	**8 270 644**	**11 180 373**	**14 876 584**

8. Investment property

	2017			2016		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	581 282 443	-	581 282 443	-	-	-

Figures in Rand	2017	2016

8. Investment property (continued)

Reconciliation of investment property - 2017

	Opening balance	Additions through transfer from PPE	Total
Investment property	-	581 282 443	581 282 443

Reconciliation of investment property - 2016

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. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	197 940 807	-	197 940 807	775 514 615	-	775 514 615
Buildings	181 431 755	(94 844 231)	86 587 524	183 950 449	(90 250 815)	93 699 634
Motor vehicles	11 802 413	(2 529 414)	9 272 999	11 802 413	(2 081 940)	9 720 473
Infrastructure	1 597 091 433	(660 453 481)	936 637 952	1 556 862 636	(617 742 801)	939 119 835
Other property, plant	10 020 444	(6 959 512)	3 060 932	9 426 264	(5 652 555)	3 773 709
Total	**1 998 286 852**	**(764 786 638)**	**1 233 500 214**	**2 537 556 377**	**(715 728 111)**	**1 821 828 266**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Impairment	Written off @ Carrying Value	Transfer to investment property	Additions to capital expenditure in WIP not yet transferred	Reclassification between asset types	Depreciation	Total
Land	775 514 615	-	-	-	(577 573 808)	-	-	-	197 940 807
Buildings	93 699 634	1 796 861	(227 478)	(252 911)	-	-	(3 708 635)	(4 719 947)	86 587 524
Motor vehicles	9 720 473	-	3 380	-	-	-	-	(450 854)	9 272 999
Infrastructure	939 119 835	23 936 235	-	(459 368)	-	17 430 287	-	(43 389 037)	936 637 952
Other property, plant and equipment	3 773 709	577 113	(29 820)	(3 606)	-	30 317	-	(1 286 781)	3 060 932
	1 821 828 266	**26 310 209**	**(253 918)**	**(715 885)**	**(577 573 808)**	**17 460 604**	**(3 708 635)**	**(49 846 619)**	**1 233 500 214**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Written off	Additions to capital expenditure in WIP not yet transferred	Reclassification between asset types	Depreciation	Impairment loss	Total
Land	779 290 610	-	(3 775 995)	-	-	-	-	775 514 615
Buildings	93 029 690	4 983 012	(3 104 378)	-	4 610 220	(4 156 359)	(1 662 551)	93 699 634
Motor vehicles	10 335 033	-	(168 112)	-	-	(446 448)	-	9 720 473
Infrastructure	956 866 976	13 595 061	(204 266)	16 726 512	(4 634 161)	(43 230 287)	-	939 119 835
Other property, plant and equipment	4 215 024	1 244 377	(394 489)	-	23 941	(1 309 370)	(5 774)	3 773 709
	1 843 737 333	**19 822 450**	**(7 647 240)**	**16 726 512**	**-**	**(49 142 464)**	**(1 668 325)**	**1 821 828 266**

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress

	Included within Infrastructure 2017	Included within Infrastructure 2016
Opening balance	30 041 560	13 315 977
Additions/capital expenditure	43 058 305	37 219 521
Transferred to completed items - Infrastructure	(25 597 701)	(19 822 450)
Transferred to completed items - Intangible assets	-	(205 434)
Transferred to completed items - Infrastructure	-	(466 054)
	47 502 164	**30 041 560**

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.

10. Intangible assets

	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 151 335	(2 072 270)	79 065	2 151 335	(1 625 663)	525 672

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	525 672	(446 607)	79 065

Reconciliation of intangible assets - 2016

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

Pledged as security

No intangible assets were pledged as security for liabilities.

11. Other financial assets

	2017	2016
Designated at fair value		
Unlisted shares	121 713	120 516
Unlisted shares consist of 8 236 (2016 : 8 236) equity shares values at R5.80 (2016:R6.00) each in Senwes Belleggings Limited and 7 110 (2016 : 7 110) equity shares in Senwes Limited valued at R10.40 (2016 : R10.00) each.		

	2017	2016
Non-current assets		
Designated at fair value	121 713	120 516

Figures in Rand	2017	2016

11. 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	47 769	49 416
Senwes Limited	73 944	71 100
	121 713	**120 516**

12. Other financial liabilities

At amortised cost		
Development Bank of South Africa (DBSA - 1005665/101)	-	42 693 517
Non-current liabilities		
At amortised cost	-	32 212 971
Current liabilities		
At amortised cost	-	10 480 546

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 terms and a total repayments of R10 480 546 were made during the year. The total interest of R32 212 971 was therefore written off by DBSA as the arrangement was adhered to and the conditions was met. The total debt forgiveness amount of R32 212 971 was therefore reconised as part of income

13. Payables from exchange transactions

Trade payables	344 163 258	277 701 381
Payments received in advanced	5 342 631	5 753 803
Accrued leave pay	15 564 014	13 864 520
Accrued bonus	2 996 046	2 806 095
Other creditors	6 554 357	438 317
Retentions	2 714 245	3 239 179
	377 334 551	**303 803 295**

Discounting was performed on trade payables where interest on creditors was not accrued for. An assumption of prime +1% interest rate was used in the calculation on discounting the trade payables and the following interest amounts of R40 790 (2016:R 484 553).

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

14. Consumer deposits

Electricity and water	2 433 559	2 028 393

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.

15. 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	(11 998 000)	(25 536 000)
Changes in the present value of the defined benefit obligation	1 010 567	892 000
Net movement recognised in the statement of financial performance	(502 567)	12 646 000
	(11 490 000)	**(11 998 000)**

Non-current liabilities	(10 369 000)	(11 017 000)
Current liabilities	(1 121 000)	(981 000)
	(11 490 000)	**(11 998 000)**

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 2017 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.

The previous year's actuarial valuation was also conducted by ZAQ Consultants and Actuaries and 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.

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

Opening balance	(11 998 000)	(25 536 000)
Benefits paid	1 010 567	892 000
Net movement recognised in the statement of financial performance	(502 567)	12 646 000
	(11 490 000)	**(11 998 000)**

Net movement recognised in the statement of financial performance

Current service cost	-	(1 156 000)
Interest cost	(1 055 000)	(2 285 000)
Actuarial gains	552 433	16 087 000
	(502 567)	**12 646 000**

Calculation of actuarial gains and losses

Actuarial gains losses – Obligation	552 433	16 087 000

Key assumptions used

Assumptions used at the reporting date:

15. Employee benefit obligations (continued)

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.

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	2017 Valuation	2016 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between curves	Difference between curves
Medical Aid Contribution Inflation	CPI+1	CPI+1%
Net Effective Discount Rate	Yield curve based nominal and yield	Yield curve based nominal and yield

Discount Rate

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

15. 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	1	6
Subsidy weighted average age	64,9	65,0	64,9
Subsidy weighted average past service	25,6	27,4	25,9
Number of spouses	3	0	3
Average monthly subsidy payable during retirement	R 1 790	R 1 500	R 1 740

Continuation Members (Pensioners)

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

	Male	**Female**	**Total**
Number of continuation members	8	8	16
Subsidy weighted average age	81,3	74,5	78,4
Average monthly subsidy	R 5 330	R 4 000	R 4 660

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:

	2017 R	**2016 R**	**2015 R**	**2014 R**	**2013 R**
Defined benefit obligation	(11 490 000)	(11 998 000)	(25 536 000)	(41 373 000)	(40 178 000)
Surplus (deficit)	(11 490 000)	(11 998 000)	(5 535 998)	(41 373 600)	(40 178 000)
Experience adjustments on plan liabilities	13 538 000	13 538 000	15 837 000	(1 195 000)	(10 377 000)

15. 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.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grants	4 852 099	-
Other Grants	-	1 646 258
	4 852 099	**1 646 258**

Movement during the year

Balance at the beginning of the year	1 646 258	578 447
Additions during the year	168 013 873	161 173 040
Income recognition during the year	(155 253 321)	(158 793 816)
Income recognition - VAT	(5 842 423)	(4 649 701)
National Treasury office	(374 000)	-
Deferred revenue	(3 338 288)	3 338 288
	4 852 099	**1 646 258**

Reconciliation of grants from National/Provincial Government.

Equitable share		
Additions during the year	107 899 000	118 274 000
Transfer from MIG	374 000	-
Income recognition during the year	(108 273 000)	(118 274 000)
	-	**-**

Integrated National Electrification Program (INEP) Grant		
Additions during the year	7 250 000	-
Income recognition - Capital	(6 375 275)	-
Income recognition - VAT	(874 725)	-
	-	**-**

Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	374 079	374 079
Additions during the year	36 884 050	27 315 350
Income recognition during the year	(25 850 586)	(27 112 617)
Income recognition - VAT	(3 521 567)	(3 541 021)
Deferred Revenue	(3 338 288)	3 338 288
National treasury offset*	(374 000)	-
	4 173 688	**374 079**

* National Treasury has added an amount of R374 000 (2017) that is receivable by the Municipality and deducted R374 000 from the equitable share due to Nala Municipality unspent MIG monies the for 2014/15 financial period

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

16. Unspent conditional grants and receipts (continued)

Financial Management Grant (FMG)		
Additions during the year	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	-	**-**
Municipal System Improvement Grant (MSIG)		
Additions during the year	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	-	**-**
Extended Public Works Program Grant (EPWP)		
Additions during the year	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	**-**
Accelerated Infrastructure Program (ACIP)		
Balance unspent at beginning of year	-	204 369
Conditions met - transferred to revenue	-	(204 369)
	-	**-**
South African National Energy Development Institute (SANEDI)		
Balance unspent at beginning of year	1 272 180	-
Additions during the year	5 181 873	10 300 000
Conditions met - transferred to revenue	(5 066 352)	(7 919 140)
Income recognition - VAT	(709 290)	(1 108 680)
	678 411	**1 272 180**
Municipal Infrastructure Grant - Operational (MIG)		
Additions during the year	1 414 950	1 437 650
Conditions met - transferred to revenue	(1 414 950)	(1 437 650)
	-	**-**
Energy Efficiency and Demand Site Management (EEDSM)		
Additions during the year	6 000 000	-
Conditions met - transferred to revenue	(5 263 158)	-
Income recognition - VAT	(736 842)	-
	-	**-**

16. 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 (MIG) - 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 (INEP) - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant (EPWP) - 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 (MIG) - Operational - Grants is used to fund the project management unit of the municipality

Energy Efficiency and Demand Site Management (EEDSM) - used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the Municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations.

17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	8 956 725	-	-	814 166	-	9 770 891
Long Service Bonus Awards	8 835 000	923 000	(1 466 186)	888 000	(166 814)	9 013 000
	17 791 725	**923 000**	**(1 466 186)**	**1 702 166**	**(166 814)**	**18 783 891**

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**

17. 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 2017:	Yield Curve
Discount rate (2016):	Yield Curve
CPI 2017:	Difference between nominal and real yield curve
CPI (2016):	Difference between nominal and real yield curve

17. 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	2017 Valuation	2016 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Discount Rate

We use the nominal and real zero curves as at 30 June 2017 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 2017 of 6%. The next salary increase was assumed to take place on 01 July 2018.
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%

17. 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 of employees salary	Number	Average annual average past service	Salary weighted accrued liability (Years)	Average
20 - 29	9	R 137 316	3,95	R 9 147
30 - 39	90	R 152 868	7,19	R 16 847
40 - 49	110	R 166 217	11,07	R 24 597
50 - 59	115	R 164 681	15,91	R 19 212
60 +	46	R 152 576	18,72	R 3 335
Total	**370**	**R 160 094**	**12,45**	**R 18 019**

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	6	R 155 751	4,92	R 8 983
30 - 39	23	R 173 169	5,73	R 15 082
40 - 49	43	R 188 280	12,96	R 31 899
50 - 59	21	R 179 570	17,85	R 25 621
60 +	9	R 195 570	30,18	R 3 972
Total	**102**	**R 181 809**	**13,63**	**R 23 0021**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

17. Provisions (continued)

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	15	R 144 690	4,37	R 9 081
30 - 39	113	R 157 000	6,79	R 16 488
40 - 49	153	R 172 418	11,65	R 26 649
50 - 59	136	R 166 980	16,24	R 20 201
60 +	55	R 159 611	21,02	R 3 439
Total	**484**	**R 164 787**	**12,73**	**R 19 096**

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.

18. Revenue

	2017	2016
Service charges	158 740 872	147 698 032
Rental of facilities	504 413	944 741
Interest received (consumer)	23 662 860	17 652 844
Interest received - investment	1 856 360	2 365 855
Dividends received	4 751	6 262
Discount received	47 243	24 522
Recoveries	32 212 971	-
Other income	2 231 558	3 679 042
Property rates	19 949 353	19 930 078
Fines, penalties and forfeits	180 649	179 692
Government grants & subsidies	166 910 755	163 694 542
	406 301 785	**356 175 610**

The amount included in revenue arising from exchanges of goods or services are as follows:	2017	2016
Service charges	158 740 872	147 698 032
Rental of facilities	504 413	944 741
Interest received (consumer)	23 662 860	17 652 844
Interest received - investment	1 856 360	2 365 855
Dividends received	4 751	6 262
Discount received	47 243	24 522
Recoveries	32 212 971	-
Other income	2 231 558	3 679 042
	219 261 028	**172 371 298**

The amount included in revenue arising from non-exchange transactions is as follows:	2017	2016
Taxation revenue		
Property rates	19 949 353	19 930 078
Fines, penalties and forfeits	180 649	179 692
Transfer revenue		
Government grants & subsidies	166 910 755	163 694 542
	187 040 757	**183 804 312**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

19. Service charges

Sale of electricity	80 606 468	72 887 116
Sale of water	43 006 481	41 094 873
Sewerage and sanitation charges	17 623 100	16 763 206
Refuse removal	17 504 823	16 952 837
	158 740 872	**147 698 032**

Included in the above service charges is income forgone to the amount of R49 162 647 (2016: R41 770 220).

20. Investment revenue

Dividend revenue		
Other financial assets	4 751	6 262
Interest revenue		
Bank	1 856 360	2 365 855
	1 861 111	**2 372 117**

21. Other income

Admin fees	37 958	57 402
Advertisement	11 879	20 501
Bad debts recovered	4 284	1 767
Burial income	398 186	393 189
Cemeteries	111 523	124 018
Connection Fees	250 082	440 614
Donations (G-Tec)	-	41 040
Fees earned	537 023	983 499
Insurance claims received	86 862	704 992
Levies	726 843	855 690
Meter tampering/testing	16 207	11 248
Valuation certificates	50 711	31 324
Other income	-	13 758
	2 231 558	**3 679 042**

22. Property rates

Rates levied

Property rates	30 984 098	31 048 732
Less: Income forgone	(11 034 745)	(11 118 654)
	19 949 353	**19 930 078**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

22. Property rates (continued)

Valuations

	2017	2016
Residential	1 383 969 309	1 383 969 309
Commercial	294 990 703	294 990 703
State	215 207 785	215 207 785
Municipal	32 259 976	32 259 976
Agriculture	2 807 609 036	2 807 609 036
Other	85 452 584	85 452 584
	4 819 489 393	**4 819 489 393**

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 - 2017	
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
Crèche	0,01327650
Public worship	0,00221275
PSI	0,00221275
Vacant	0,03540400

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

23. Government grants and subsidies

Operating grants and subsidies		
Equitable share	108 273 000	118 274 000
Municipal Infrastructure Grant	1 414 950	1 437 650
Financial assistance Grant (COGTA)	5 514 017	-
Municipal Systems Improvement Grant	-	930 000
Financial Management Grant	2 010 000	1 875 000
Extended Public Works Grant	1 000 000	1 000 000
	118 211 967	**123 516 650**
Capital grants and subsidies		
Municipal Infrastructure Grant	21 045 574	27 112 617
Integrated National Electrification Programme Grant (INEP)	11 638 432	-
South African National Energy Development Institute (SANEDI) Grant	5 066 353	7 919 141
Accelerated Infrastructure Program (ACIP)	4 805 012	204 369
VAT on capital expenses	5 842 423	4 650 165
Local Government Sector Education and Training Authority Grant (LG SETA)	300 994	291 600
	48 698 788	**40 177 892**
	166 910 755	**163 694 542**

24. Employee related costs

Basic	77 218 860	74 730 770
Bonus	6 145 126	5 806 080
Medical aid - municipality contributions	6 858 916	6 888 201
UIF	729 319	722 760
WCA and COID	751 711	1 028 190
SDL	1 047 939	1 007 584
Leave pay provision charge	1 699 494	1 130 262
Travel, motor car, accommodation, subsistence and other allowances	10 747 458	9 252 286
Housing benefits and allowances	181 398	429 450
Overtime payments	10 081 059	9 183 300
Acting allowances	667 802	641 565
Pension	13 335 974	12 530 921
Employee benefits - costs	-	542 000
Night shift allowance	366 436	653 731
	129 831 492	**124 547 100**

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

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	1 512 621	1 415 352
Car Allowance	125 448	142 328
Subsistence allowance	1 500	8 060
	1 639 569	**1 565 740**

Remuneration of Chief Financial Officer - Busakwe S

Annual Remuneration	1 075 806	944 600
Car Allowance	196 260	194 193
Subsistence allowance	3 561	7 067
	1 275 627	**1 145 860**

Figures in Rand	2017	2016

24. Employee related costs (continued)

Remuneration of Executive Director Corporate Services - Molupe BP

Annual Remuneration	832 128	780 852
Car Allowance	423 684	356 663
Acting allowance	42 366	40 106
Subsistence allowance	2 869	4 548
	1 301 047	**1 182 169**

Remuneration of Executive Director Infrastructure Development - Malebane K

Annual Remuneration	73 658	875 743
Car Allowance	16 666	196 660
Leave paid out	143 074	-
	233 398	**1 072 403**

25. Remuneration of councillors

Mayor	787 385	788 180
Speaker	628 083	627 278
Executive Members	1 561 431	568 504
Councillors	4 503 301	5 593 428
	7 480 200	**7 577 390**

There are 4 (2016: 4) Executive Committee Members and 18 (2016:18) 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.

26. Depreciation and amortisation

Property, plant and equipment	50 293 226	49 537 277

27. Impairment of assets and provision for bad debts

Impairments		
Property, plant and equipment	253 918	1 678 038
Assets identified during the year that was not in a working condition or could not be verified and was therefore impaired.		
Trade and other receivables	91 114 842	59 044 037
Provision for bad debts on trade and other receivables that was provided for.		
	91 368 760	**60 722 075**

28. Finance costs

Provisions and employee benefit obligations	1 943 000	2 981 000
Trade and other payables	25 952 201	23 023 312
Non-current borrowings	192	-
	27 895 393	**26 004 312**

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

29. Bulk purchases

Electricity	68 744 436	63 961 960
Water	45 397 930	41 193 741
	114 142 366	**105 155 701**

Refer to note 47 for the detail regarding the distribution losses.

30. Contracted services

Fleet Services	1 549 813	1 815 911
Operating Leases	1 913 911	2 266 868
Specialist Services	6 957 541	9 927 469
	10 421 265	**14 010 248**

31. Auditors' remuneration

Fees	4 315 778	3 475 655

32. General expenses

Accounts delivery cost	485 000	904 900
Administration fees	11 888	17 360
Advertising	193 984	486 852
Audit committee	42 160	61 718
Auditors remuneration	4 315 778	3 475 655
Bank charges	684 649	687 606
Cashier shortages	1 814	234
Collection cost: Incentives	73 676	96 906
Conferences and seminars	1 525 574	1 109 275
Consulting and professional fees	2 350 627	1 991 773
Consumables	1 000 133	1 579 132
Entertainment	160 623	970 276
Fuel and oil	2 093 650	2 168 560
Gifts	81 021	4 099
Hire of equipment	80 103	51 000
Rental expense	-	4 489
IT expenses	3 399	4 469
Insurance	568 942	591 965
License fees	145 928	127 769
Membership fees	1 344 135	1 323 218
Motor vehicle expenses	416	-
Postage and courier	820 538	692 892
Printing and stationery	1 288 361	807 988
Stock value adjustments	6 682	333 117
Street cleaning (project workers)	4 262 432	3 334 820
Telephone and fax	1 189 859	1 081 638
Transport and freight	380 500	2 105 511
Venue expenses	1 628 560	158 559
	24 740 432	**24 171 781**

Figures in Rand	2017	2016

33. Cash generated from operations

	2017	2016
Surplus/(deficit)	(54 743 164)	(52 883 740)
Adjustments for:		
Depreciation and amortisation	50 293 226	49 537 277
Gain on properly, plant and equipment recognised	-	(1 006 124)
Loss on property, plant and equipment recognised	716 463	7 647 152
Fair value adjustments	-	3 256
Impairment deficit	91 368 760	60 722 075
Debt forgiven - DBSA	(32 212 971)	-
Movements in retirement benefit assets and liabilities	(508 000)	(13 538 000)
Movements in provisions	992 166	880 325
Actuarial gains and loss	(719 246)	(16 927 000)
Changes in working capital:		
Inventories	640 722	(693 734)
Receivables from exchange transactions	(65 922 089)	(79 936 019)
Other receivables from non-exchange transactions	2 615 817	(5 396 318)
Payables from exchange transactions	71 641 806	73 478 452
VAT	(21 043 370)	455 787
Unspent conditional grants and receipts	6 544 129	(2 270 478)
Consumer deposits	405 166	269 772
Employee related payables	2 608 691	18 099 893
	52 678 106	**38 442 576**

34. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	80 156 439	80 156 439
Other receivables from non-exchange transactions	-	2 044 327	2 044 327
Cash and cash equivalents	-	8 270 644	8 270 644
Other financial assets	121 713	-	121 713
	121 713	**90 471 410**	**90 593 123**

Financial liabilities

	At amortised cost	Total
Trade payables from exchange transactions	377 334 551	377 334 551
Consumer deposits	2 433 559	2 433 559
Commitments - Operating leases	1 158 775	1 158 775
	380 926 885	**380 926 885**

. Financial instruments disclosure (continued)

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	97 243 948	97 243 948
Other receivables from non-exchange transactions	-	14 768 969	14 768 969
Cash and cash equivalents	-	11 180 373	11 180 373
Other financial assets	120 516	-	120 516
	120 516	**123 193 290**	**123 313 806**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	42 693 517	42 693 517
Trade payables from exchange transactions	303 803 295	303 803 295
Consumer deposits	2 028 393	2 028 393
Commitments - Operating leases	2 302 922	2 302 922
	350 828 127	**350 828 127**

35. Commitments

Authorised capital expenditure

	2017	2016
Already contracted for but not provided for		
• Property, plant and equipment	18 270 605	7 185 835

	2017	2016
Total capital commitments		
Already contracted for but not provided for	18 270 605	7 185 835

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)

	2017	2016
Minimum lease payments due		
- within one year	692 521	1 330 812
- in second to fifth year inclusive	466 254	972 110
	1 158 775	**2 302 922**

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.

Notes to the Annual Financial Statements

Figures in Rand	2017	2016

36. Contingencies

	2017	2016
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	4 000 000
SI Swartbooi was previously dismissed after disciplinary 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
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. No further declarations was received from Podbielski Incorporates and therefore no current litigation in progress for a contingency to be recognised.	-	147 390
Labour dispute - P.W Mafojane vs Nala bargaining counsel and the matter was referred to court for review and was settled during the year.	-	200 000
Labour dispute - Nala vs Lekitlane matter was referred to labour court.	150 000	200 000
	7 150 000	**7 547 390**

37. Related parties

Relationships

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

38. Prior period errors

Property, Plant and Equipment adjusted due to the asset register allocation adjusted from work in progress, repairs and maintenance to the asset register.

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.

Payables from exchange transactions was adjusted with the corrections made on COIDA interest and retention's values.

Other financial liabilities was adjusted as the DBSA loan terms and conditions was complied with and interest owing was written off.

Correction of errors for transactions allocated directly to retained earnings regarding corrections for the 2014/15 financial year against payables from exchange transactions and receivables from exchange transactions and other financial liabilities (DBSA Loan was adjusted with interest). Errors that was identified in the 2014/15 financial period in the current year was corrected against retained surplus.

Receivables from exchange transactions and VAT adjustment was made to correct the factors to be used on electricity readings.

The correction of the errors results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand

38. Prior period errors (continued)

Statement of financial position

Increase / (decrease) in inventories	89
Increase / (decrease) in receivables from exchange transactions	24 413 529
Increase / (decrease) in receivables from non exchange transactions	667 481
Increase / (decrease) in VAT receivable	(3 074 613)
Increase / (decrease) in property, plant and equipment	(466 054)
(Increase) / decrease in payables from exchange transactions	(5 182 012)
(Increase) / decrease in retained surplus through profit and loss 2015	(4 147 347)
(Increase) / decrease in retained surplus through profit and loss 2016	(12 211 073)
	-

Statement of Financial Performance

Increase / (decrease) in property rates	101 007
Increase / (decrease) in service charges	10 178 433
Increase / (decrease) in rental of facilities	(211 956)
Increase / (decrease) in interest received - consumer	1 281
(Increase) / decrease in finance costs	1 257 959
(Increase) / decrease in repairs and maintenance	(10 732)
(Increase) / decrease in general expenses	(8 167)
Increase / (decrease) in gain on property plant and equipment recognised	903 248
	12 211 073

Cash flow statement

Cash flow from operating activities

Net movement on receipts	(4 661)
Net movement on payments	(6 963 486)
	(6 968 147)

Cash flow from investing activities

Net movement on property plant and equipment	6 968 147

39. 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.

39. Risk management (continued)

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 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	377 334 551	-	-	-

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	-	-	-
Payables from exchange transactions	303 803 295	-	-	-

The DBSA loan was renegotiated and the term and conditions was adhered to. As 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.This agreement was adhered to and interest to the amount of R32 212 971 was written off.

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	2017	2016
Cash and cash equivalents	8 270 644	11 180 373
Receivables from exchange transactions	80 156 439	97 243 948
Receivables from non-exchange transactions	2 044 327	14 768 969
Other financial assets	121 713	120 516

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.

40. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of R 1 530 826 654 and that the municipality's total assets exceed its liabilities by R 1 530 826 654.

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 as the current and liquidity ratio state that it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did well increase as other long term liabilities was settled during the year.

The main ratios in this regard are as follow:	**2017**	**2016**
Current ratio	0.34	0.44
Bad debt impairment provision %	84.25%	79.53%
Solvency ratio	4.59	5.13
Liquidity ratio	2.09%	3.47%

41. Unauthorised expenditure

Opening balance	97 795 332	97 795 332
Unauthorised expenditure - current year	79 619 678	9 984 054
Less: Amounts written off - prior year	(97 795 332)	-
Less: Amounts written off - current year	(78 883 342)	(9 984 054)
	736 336	**97 795 332**

42. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure opening balance	15 995 104	694 175
Interest	25 134 894	23 498 417
Prepaid electricity sales - loss	959 632	-
Work in progress written off	-	15 995 104
Less: Amounts written off	(40 859 463)	(24 192 592)
	1 230 167	**15 995 104**

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.

43. Irregular expenditure

Opening balance	17 602 291	16 389 794
Add: Irregular Expenditure - current year	3 130 247	18 732 168
Add: Irregular expenditure - Prior year identified in current year	-	1 450 000
Add: Irregular expenditure - Identified after year-end	13 277 585	-
Less: Amounts written off	(20 732 538)	(18 969 671)
	13 277 585	**17 602 291**

Figures in Rand	2017	2016

43. Irregular expenditure (continued)

Analysis of expenditure awaiting to be written off per age classification

	2017	2016
Quarter 3 and 4	-	2 392 649
Identified after year-end	13 277 585	13 759 642
Prior years identified in 2016	-	1 450 000
	13 277 585	**17 602 291**

Details of irregular expenditure written off

		-
Prior periods 2016 quarter 3 and 4	Approved by council	2 392 649
Identified after year-end 30 June 2016	Approved by council	13 759 642
Prior periods 2015	Approved by council	1 450 000
Current year	Approved by council	3 130 247
		20 732 538

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2017	2016
Opening balance	829 825	-
Current year subscription / fee	1 325 870	1 259 825
Amount paid - current year	(2 155 695)	(430 000)
	-	**829 825**

Audit fees

	2017	2016
Opening balance	11 262	8 914
Current year fee	4 910 656	3 480 750
Amount paid - current year	-	487 305
Interest charged	77 843	-
Amount paid - current year	(4 434 131)	(3 965 707)
	565 630	**11 262**

PAYE and UIF

	2017	2016
Opening balance	-	(437 147)
Current year subscription / fee	17 780 829	15 864 003
Amount paid - current year	(16 422 101)	(15 426 856)
	1 358 728	**-**

Pension and Medical Aid Deductions

	2017	2016
Opening balance	50 764	50 824
Current year subscription / fee	32 852 174	31 345 391
Amount paid - current year	(29 971 317)	(31 345 451)
	2 931 621	**50 764**

VAT

	2017	2016
VAT receivable	38 640 227	17 596 857

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.

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

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati S.M.	10 269	7 119	17 388
Leburu P.K.	696	-	696
Mabaso M.K.	445	-	445
Mafojane P.W.	637	409	1 046
Makhooe N.E	317	-	317
Makunye A.M	1 724	6 274	7 998
Marumule M.S.	784	10	794
Mashiya M.N.	1 111	-	1 111
Mogoje T.A.	16 138	6 522	22 660
Mohloare T.A.	784	181	965
Mokete X.E.	981	4 373	5 354
Molutsi T.L.	2 260	14 203	16 463
Moshane Z.M.	1 345	345	1 690
Nanyane L.J	11 430	49 397	60 827
Ncheche M.M.	731	1 260	1 991
Ngece T.F.	913	5 677	6 590
Ntseki M.L.	8 895	45 332	54 227
Reed D.	1 701	-	1 701
Sebate K.E.	1 026	270	1 296
Tau R.T.	4 376	128 677	133 053
	66 563	**270 049**	**336 612**

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

45. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	42 693 517
	-	42 693 517
Cash set aside for the repayment of long-term liabilities	-	(10 480 546)
	-	**32 212 971**

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

The municipality has adhered to the repayments terms and a total repayments of R10 480 546 were made during the year. The total interest of R32 212 971 was therefore written off by DBSA as the arrangement was adhered to and the conditions was met. The total debt forgiveness amount of R32 212 971 was therefore reconised as part of income

46. 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 following expenses relate to deviations that the accounting officer approved		
Emergencies	2 171 132	2 284 075
Sole suppliers	1 284 403	124 521
	3 455 535	**2 408 596**

Figures in Rand	2017	2016

47. Distribution Losses

	2017	2016
Electricity - Rand		
Sold	85 179 760	77 497 258
Purchased	68 716 373	63 961 960
Electricity - Units		
Sold	70 166 056	67 868 996
Purchased	76 080 584	76 206 005
Electricity - Tariff		
Sold	1.21	1.14
Purchased	0.90	0.83
Electricity - Losses		
Units	5 914 528	8 337 009
Rand value	5 342 032	6 919 717
Percentage	7,77%	10,94%
Water - Rand		
Sold	45 913 977	47 803 535
Purchased	45 398 628	41 193 741
Water - Units		
Sold	2 881 102	3 153 718
Purchased	4 711 170	4 620 470
Water - Tariffs		
Sold	15.94	15.16
Purchased	9.64	8.92
Water - Losses		
Units	1 830 068	1 466 751
Rand value	17 635 232	13 076 807
Percentage	38.85%	31.74%

48. Budget differences

Notes on budget variances

Asset register was amended to state the value of assets more accurately therefore adjustments were made on the following budget accounts: Depreciation, Impairments, gain on disposal of assets and write offs of assets.

Personnel expenses increase due to re-mapping of account number that was reallocated from payables as part of expenditure.

General expenses increased due to the accrual of payables that was adjusted at year end.

Repairs and maintained was adjusted as an account number was remapped as part of expenditure and not part of employee cost.

Service charges increased due to the electricity factor corrections.

Debt forgiveness was recognised as part of revenue and not restated against retained eranings. All the conditions were met during the year and should therfore be recognised as part of revenue.