MANGAUNG
AT THE HEART OF IT ALL

CONFIDENTIAL

ANNEXURE

MANGAUNG METROPOLITAN COUNCIL

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

PAGES 1 – 145

TUESDAY JANUARY 31, 2017

MANGAUNG METROPOLITAN MUNICIPALITY

Members are kindly requested to retain this annexure for use with the minutes

Bram Fischer Building
BLOEMFONTEIN
JANUARY 20, 2017

MANGAUNG
AT THE HEART OF IT ALL

Mangaung Metropolitan Municipality
Consolidated Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Providing municipal services and maintaining the best interest of the local community, mainly in the Mangaung area
Executive Mayor	TM Manyoni
Deputy Executive Mayor	CLM Rampai (Late)
Speaker	MA Siyonzana
Chief Whip	ZE Mangcotywa
Mayoral Committee members	DM Sekakanyo KN Rabela LA Masoetsa MA Moeng MJ Matsoelane MM Tsomela NG Mokotjo SA Monnakgori XD Pongolo
Grading of local authority	Metropolitan
Acting Accounting officer	Adv TB Mea
Chief Finance Officer (CFO)	ME Mohlahlo
Registered office and business address	Bram Fischer Building Cnr Nelson Mandela Drive and Markgraaf Street Bloemfontein 9301
Postal address	PO Box 3704 Bloemfontein 9301
Bankers	ABSA Development Bank of South Africa First National Bank Nedbank Limited Standard Bank of South Africa
Auditors	Auditor-General of South Africa
Enabling legislation	Municipal Finance Management Act, (Act 56 of 2003) Municipal Systems Act, (Act 32 of 2000) Municipal Structures Act, (Act 117 of 1998) Municipal Property Rates Act, (Act 6 of 2004) Division of Revenue Act, (Act 1 of 2015) Municipal Demarcation Act, (Act 27 of 1998)

Mangaung Metropolitan Municipality
Consolidated Annual Financial Statements for the year ended 30 June 2016

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Abbreviations

1. Abbreviations used within the annual financial statements

ACT	Actual
BAL	Balance
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
FV	Fair Value
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IGRAP	Interpretation of the Standards of Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act, (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
PPE	Property, Plant and Equipment
SALGA	South African Local Government Association
VAR	Variance
VAT	Value Added Tax

Acting Accounting Officer's Responsibilities and Approval

The acting 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 consolidated annual financial statements and related financial information included in this report. It is the responsibility of the acting accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the entity 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 consolidated annual financial statements and were given unrestricted access to all financial records and related data.

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

The acting accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the entity and places considerable importance on maintaining a strong control environment. To enable the acting accounting officer to meet these responsibilities, the acting 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The acting accounting officer is responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act, (Act 56 of 2003), and has signed on behalf of the entity.

The acting accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 44 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act, (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The acting 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 consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The acting accounting officer has reviewed the entity's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future. Details regarding the assumptions have been included in note 62.

Although the acting accounting officer is primarily responsible for the financial affairs of the entity, he is supported by the entity's external auditors to express and independent opinion of the fair presentations of the annual financial statements.

The external auditors are responsible for independently reviewing and reporting on the entity's consolidated annual financial statements.

The consolidated annual financial statements set out on pages 6 to 125, which have been prepared on the going concern basis, were approved and signed by the acting accounting officer on 30 September 2016:

Adv TB Mea
Acting Accounting Officer

Acting Accounting Officer's Report

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

1. Review of activities

Main business and operations

The entity is engaged in providing municipal services and maintaining the best interest of the local community, mainly in the Mangaung area and operates principally in South Africa.

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

Net deficit of the entity was R 251,771,806 (2015: surplus R 152,520,788).

2. Going concern

I draw attention to the fact that at 30 June 2016, the entity had accumulated surplus of R 11,455,329,800 and that the entity's total assets exceed its liabilities by R 13,494,772,247.

The consolidated 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 entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 3 of 2016).

3. Subsequent events

On 2 July 2015 the Municipal Demarcation Board issued circular 8/2015 which re-determined certain municipal boundaries. As a result of this re-determination, the boundaries of Mangaung Metropolitan Municipality will extend to include Naledi Local Municipality and the town of Soutpan from Masilonyana Local Municipality. These changes are effective as of 3 August 2016.

On 8 July 2016 the Council resolved that 11 170 indigents be included in the indigent register. These indigents had outstanding balances amounting to R50,748.313 at the date of inclusion. Council approved the write off of these balances.

At the same meeting, Council approved the write off 4 673 accounts owed by disabled / pensioned indigents, with outstanding balances amounting to R23,714,052; and 77 housing rental accounts with outstanding balances amounting to R14,545.

4. Acting Accounting Officer's interest in contracts

None

5. Accounting policies

The consolidated annual financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Standards Board, and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003). The accounting policies are presented on pages 17 to 49, and unless indicated in note 2 are consistent with the prior year.

6. Accounting officer

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

Name	Nationality	Changes
SM Mazibuko	South African	Resigned 29 February 2016
Adv TB Mea	South African	Appointed to Acting Position - 15 December 2015

Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	5	438,906,236	321,275,212
Consumer receivables from non-exchange transactions	6	4,454,092	810,045
Other receivables from exchange transactions	7	96,266,927	88,135,211
Consumer receivables from non-exchange transactions	8	262,419,381	303,378,328
Consumer receivables from exchange transactions	9	804,890,677	632,952,917
VAT receivable	10	57,223,114	153,575,810
Investments	11	107,818,543	362,715,433
Cash and cash equivalents	12	325,679,377	312,911,132
Non-current receivables	17	295,545	295,545
		2,097,953,892	**2,176,049,633**
Non-Current Assets			
Investment property	13	1,497,507,000	1,636,496,363
Property, plant and equipment	14	14,149,789,089	13,205,403,135
Intangible assets	15	108,354,623	115,838,065
Heritage assets	16	321,568,687	321,568,687
Non-current receivables	17	2,732,863	4,691,251
Deferred tax	18	143,891,447	68,197,502
		16,223,843,709	**15,352,195,003**
Total Assets		**18,321,797,601**	**17,528,244,636**
Liabilities			
Current Liabilities			
Payables from exchange transactions	19	1,318,706,007	837,591,352
Payables from non-exchange transactions	20	286,199,407	279,414,560
Consumer deposits	21	161,471,743	101,668,902
Employee benefit obligation	27	806,000	972,000
Unspent conditional grants and receipts	22	106,083,319	107,483,829
Current portion of Operating lease liability	23	97,893	304,171
Current portion of Finance lease obligation	24	44,968,869	41,538,934
Current portion of Borrowings	25	100,965,373	35,002,987
Current portion of Provisions	26	343,044,894	194,808,344
		2,362,343,505	**1,598,785,079**
Non-Current Liabilities			
Operating lease liability	23	-	96,338
Finance lease obligation	24	20,184,450	68,799,455
Borrowings	25	673,092,550	557,182,589
Provisions	26	178,043,634	294,353,503
Employee benefit obligation	27	729,754,000	645,493,000
Deferred tax	18	462,929,813	391,523,240
FRESHCO liability	28	214,558,041	193,357,936
Land availability liability	29	186,119,361	31,575,456
		2,464,681,849	**2,182,381,517**
Total Liabilities		**4,827,025,354**	**3,781,166,596**
Net Assets		**13,494,772,247**	**13,747,078,040**

* See Note 59

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Reserves			
Revaluation reserve	30	1,961,930,567	1,984,560,395
Other NDR	31	60,000,000	60,000,000
Self insurance reserve	32	5,000,000	5,000,000
COID reserve	33	12,511,880	10,628,620
Accumulated surplus		11,455,329,800	11,686,889,025
Total Net Assets		**13,494,772,247**	**13,747,078,040**

* See Note 59

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	36	2,891,918,204	2,717,576,105
Rental of facilities and equipment	37	33,243,326	28,370,601
Income from agency services		4,788,455	4,750,908
Licences and permits		656,529	170,677
Other income from exchange transactions	38	77,612,549	57,090,659
Interest received	39	220,587,550	237,073,638
Total revenue from exchange transactions		**3,228,806,613**	**3,045,032,588**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	40	810,476,472	787,453,693
Transfer revenue			
Government grants & subsidies	41	1,710,171,686	1,608,312,776
Fines		51,082,513	77,671,023
Other income from non-exchange transactions	42	47,486,438	24,945,123
Total revenue from non-exchange transactions		**2,619,217,109**	**2,498,382,615**
Total revenue	35	**5,848,023,722**	**5,543,415,203**
Expenditure			
Employee related costs	43	(1,423,526,305)	(1,261,395,316)
Remuneration of councillors	44	(52,421,659)	(49,594,283)
Depreciation and amortisation	45	(693,119,346)	(653,386,515)
Impairment loss/ Reversal of impairments	46	(5,800,468)	(6,489,096)
Finance costs	47	(140,680,324)	(96,812,968)
Debt Impairment	48	(394,970,009)	(607,335,202)
Repairs and maintenance		(491,163,818)	(335,486,675)
Bulk purchases	49	(1,758,933,035)	(1,614,567,988)
Contracted services	50	(494,628,031)	(329,814,213)
Grants and subsidies paid	51	(5,196,378)	(10,679,376)
General expenses	52	(474,115,484)	(494,106,173)
Total expenditure		**(5,934,554,857)**	**(5,459,667,805)**
Operating (deficit) surplus		**(86,531,135)**	**83,747,398**
Loss on disposal of assets and liabilities		(30,021,902)	(17,733,658)
Fair value adjustments	53	(139,118,141)	9,683
Actuarial gains/losses	27	(388,000)	3,254,000
		(169,528,043)	**(14,469,975)**
(Deficit) surplus before taxation		**(256,059,178)**	**69,277,423**
Taxation	54	4,287,372	83,243,365
(Deficit) surplus for the year		**(251,771,806)**	**152,520,788**

* See Note 59

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Other NDR	Self Insurance reserve	COID reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	942,625,311	60,000,000	5,000,000	8,934,693	1,016,560,004	11,356,741,200	12,373,301,204
Adjustments							
Prior year adjustments	8,504,058	-	-	-	8,504,058	166,690,889	175,194,947
Balance at 01 July 2014 as restated*	**951,129,369**	**60,000,000**	**5,000,000**	**8,934,693**	**1,025,064,062**	**11,523,432,089**	**12,548,496,151**
Changes in net assets							
Surplus for the year	-	-	-	-	-	152,520,788	152,520,788
Revaluation of assets	1,452,032,434	-	-	-	1,452,032,434	-	1,452,032,434
Realisation of Revaluation Reserve	(12,032,305)	-	-	-	(12,032,305)	12,630,075	597,770
Contributions received	-	-	264,447	3,132,626	3,397,073	(3,397,073)	-
Insurance claims processed	-	-	(264,447)	(1,438,699)	(1,703,146)	1,703,146	-
Deferred tax	(406,569,103)	-	-	-	(406,569,103)	-	(406,569,103)
Total changes	1,033,431,026	-	-	1,693,927	1,035,124,953	163,456,936	1,198,581,889
Opening balance as previously reported	1,976,056,336	60,000,000	5,000,000	10,628,620	2,051,684,956	11,485,941,640	13,537,626,596
Adjustments							
Prior year adjustments	8,504,059	-	-	-	8,504,059	200,947,388	209,451,447
Balance at 01 July 2015 as restated*	**1,984,560,395**	**60,000,000**	**5,000,000**	**10,628,620**	**2,060,189,015**	**11,686,889,028**	**13,747,078,043**
Changes in net assets							
Surplus for the year	-	-	-	-	-	(251,771,806)	(251,771,806)
Impairment losses on revalued capital assets	(17,794,678)	-	-	-	(17,794,678)	-	(17,794,678)
Revaluation of assets	17,260,688	-	-	-	17,260,688	-	17,260,688
Realisation of Revaluation Reserve	(22,095,838)	-	-	-	(22,095,838)	22,095,838	-
Contributions received	-	-	180,770	3,393,230	3,574,000	(3,574,000)	-
Insurance claims processed	-	-	(180,770)	(1,509,970)	(1,690,740)	1,690,740	-
Total changes	(22,629,828)	-	-	1,883,260	(20,746,568)	(231,559,228)	(252,305,796)
Balance at 30 June 2016	**1,961,930,567**	**60,000,000**	**5,000,000**	**12,511,880**	**2,039,442,447**	**11,455,329,800**	**13,494,772,247**
Note(s)	30	31	32	33			

* See Note 59

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		3,332,542,714	3,009,005,727
Grants		1,708,771,176	1,612,093,491
Interest income		188,038,104	201,445,849
		5,229,351,994	4,822,545,067
Payments			
Employee costs		(1,452,614,961)	(1,275,076,599)
Suppliers		(2,679,132,615)	(2,629,470,020)
Finance costs		(7,774)	(4,368)
Grants paid		(5,196,378)	(10,679,376)
		(4,136,951,728)	(3,915,230,363)
Net cash flows from operating activities	55	**1,092,400,266**	**907,314,704**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(1,478,955,229)	(1,240,195,890)
Proceeds from sale of investment property	13	176,000	6,537,000
Purchase of other intangible assets	15	(6,144,308)	(18,251,105)
Purchase of other receivables from non-exchange transactions		1,653,610	(1,184,150)
Proceeds from sale of investments		254,896,890	(130,297,220)
Interest (paid) / received		32,549,446	35,627,789
Net cash flows from investing activities		**(1,195,823,591)**	**(1,347,763,576)**
Cash flows from financing activities			
Proceeds from borrowings		173,000,000	427,000,000
Repayment of borrowings		(20,502,332)	(26,677,891)
Interest (paid) / received		(50,923,866)	(43,844,600)
Finance lease payments		(45,185,070)	(33,177,177)
Consumer deposits		59,802,838	23,651,263
Net cash flows from financing activities		**116,191,570**	**346,951,595**
Net increase/(decrease) in cash and cash equivalents		**12,768,245**	**(93,497,277)**
Cash and cash equivalents at the beginning of the year		312,911,132	406,408,409
Cash and cash equivalents at the end of the year	12	**325,679,377**	**312,911,132**

* See Note 59

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 Note 70
Statement of Financial Performance						
Revenue						
Revenue by source						
Property rates	913,072,817	(167,761,698)	**745,311,119**	810,476,472	**65,165,353**	A1;B1
Service charges	3,615,605,352	(389,623,610)	**3,225,981,742**	2,892,012,542	**(333,969,200)**	A2;B2
Investment revenue	154,381,795	(83,240,650)	**71,141,145**	45,387,094	**(25,754,051)**	B3
Transfers recognised - operational	615,255,000	17,792,291	**633,047,291**	655,808,218	**22,760,927**	A3;B4
Other own revenue	1,420,979,222	(43,978,015)	**1,377,001,207**	475,251,275	**(901,749,932)**	A4;B5
Total Revenue (excluding capital transfers and contributions)	**6,719,294,186**	**(666,811,682)**	**6,052,482,504**	**4,878,935,601**	**(1,173,546,903)**	
Expenditure by type						
Employee costs	(1,711,050,898)	268,531,686	**(1,442,519,212)**	(1,414,714,863)	**27,804,349**	A5;B6
Remuneration of councillors	(54,215,591)	-	**(54,215,591)**	(53,472,431)	**743,160**	
Debt impairment	(242,626,112)	-	**(242,626,112)**	(394,970,009)	**(152,343,897)**	B7
Depreciation & asset impairment	(527,384,374)	35,507,661	**(491,876,713)**	(697,169,875)	**(205,293,162)**	B8
Finance charges	(224,941,236)	82,471,428	**(142,469,808)**	(141,059,323)	**1,410,485**	A6
Materials and bulk purchases	(2,152,070,570)	(13,228,386)	**(2,165,298,956)**	(2,239,717,120)	**(74,418,164)**	A7;B9
Transfers and grants	(117,570,826)	37,528,464	**(80,042,362)**	(13,794,034)	**66,248,328**	A8;B10
Other expenditure	(1,177,066,105)	(142,094,653)	**(1,319,160,758)**	(1,011,295,725)	**307,865,033**	A9;B11
Total expenditure	**(6,206,925,712)**	**268,716,200**	**(5,938,209,512)**	**(5,966,193,380)**	**(27,983,868)**	
Surplus / (Deficit)	**512,368,474**	**(398,095,482)**	**114,272,992**	**(1,087,257,779)**	**(1,201,530,771)**	
Transfers recognised - capital	754,004,000	106,861,581	**860,865,581**	793,435,468	**(67,430,113)**	A3;B4
Contributions recognised - capital & contributed assets	20,952,879	-	**20,952,879**	37,763,137	**16,810,258**	B12
Surplus / (Deficit) after capital transfers & contributions	**1,287,325,353**	**(291,233,901)**	**996,091,452**	**(256,059,174)**	**(1,252,150,626)**	
Taxation	-	-	-	4,287,372	**4,287,372**	
Surplus / (Deficit) for the year	**1,287,325,353**	**(291,233,901)**	**996,091,452**	**(251,771,802)**	**(1,247,863,254)**	
Reconciliation						
Total Revenue Reconciliation						
Actuarial gains/losses				(388,000)		R1
Fair value adjustments				(139,118,141)		R1
Profit on sale of assets				592,710		
Deferred lease (Net)				917,718		
Interdepartmental charges				106,198		
Total Expenses Reconciliation						
Actuarial gains/losses				388,000		R1
Fair value adjustment				139,118,141		
Profit on sale of assets				(592,710)		
Deferred lease (Net)				(917,718)		
Interdepartmental charges				(106,198)		
Actual Amount in the Statement of Financial Performance				**(251,771,802)**		

Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2016

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 Note 70
Statement of Financial Position						
Assets						
Current Assets						
Cash	146,662,980	(86,041,665)	**60,621,315**	325,679,377	**265,058,062**	A10;B13
Call investment deposits	533,492,589	(104,067,604)	**429,424,985**	107,818,543	**(321,606,442)**	A10;B13
Consumer debtors	1,492,016,575	(154,905,902)	**1,337,110,673**	1,067,310,058	**(269,800,615)**	A10;B13
Other debtors	969,133,548	(99,575,473)	**869,558,075**	157,944,133	**(711,613,942)**	A10;B13
Current portion of long-term receivables	14,408,692	-	**14,408,692**	295,545	**(14,113,147)**	A10;B13
Inventory	253,456,651	(66,554,405)	**186,902,246**	438,906,236	**252,003,990**	A10;B13
	3,409,171,035	**(511,145,049)**	**2,898,025,986**	**2,097,953,892**	**(800,072,094)**	
Non-Current Assets						
Long-term receivables	19,552,978	(2,045,806)	**17,507,172**	2,732,863	**(14,774,309)**	A10;B13
Investments	18,000	-	**18,000**	-	**(18,000)**	A10;B13
Investment property	249,528,038	-	**249,528,038**	1,497,507,000	**1,247,978,962**	A10;B13
Property, plant and equipment	13,707,173,473	626,846,769	**14,334,020,242**	14,471,357,776	**137,337,534**	A10;B13
Intangible assets	235,099,020	104,115,605	**339,214,625**	108,354,623	**(230,860,002)**	A10;B13
Other non-current assets	15,892,876	-	**15,892,876**	-	**(15,892,876)**	A10;B13
Deferred tax asset	-	-	-	143,891,447	**143,891,447**	A10;B13
	14,227,264,385	**728,916,568**	**14,956,180,953**	**16,223,843,709**	**1,267,662,756**	
Total Assets	**17,636,435,420**	**217,771,519**	**17,854,206,939**	**18,321,797,601**	**467,590,662**	
Liabilities						
Current Liabilities						
Borrowing	120,157,767	-	**120,157,767**	146,032,135	**25,874,368**	A10;B13
Consumer deposits	79,438,395	20,048,711	**99,487,106**	161,471,743	**61,984,637**	A10;B13
Trade and other payables	1,535,455,468	(92,478,479)	**1,442,976,989**	1,710,988,734	**268,011,745**	A10;B13
Provisions	149,558,075	-	**149,558,075**	343,850,894	**194,292,819**	A10;B13
	1,884,609,705	**(72,429,768)**	**1,812,179,937**	**2,362,343,506**	**550,163,569**	
Non-Current Liabilities						
Borrowing	605,512,000	-	**605,512,000**	1,093,954,402	**488,442,402**	A10;B13
Provisions	1,186,127,259	-	**1,186,127,259**	907,797,634	**(278,329,625)**	A10;B13
Deferred tax	-	-	-	462,929,813	**462,929,813**	A10;B13
	1,791,639,259	**-**	**1,791,639,259**	**2,464,681,849**	**673,042,590**	
Total Liabilities	**3,676,248,964**	**(72,429,768)**	**3,603,819,196**	**4,827,025,355**	**1,223,206,159**	
Net Assets	**13,960,186,456**	**290,201,287**	**14,250,387,743**	**13,494,772,246**	**(755,615,497)**	
Community wealth/equity						
Accumulated Surplus/(Deficit)	12,998,724,850	290,201,287	**13,288,926,137**	11,455,329,799	**(1,833,596,338)**	A10;B13
Reserves	961,461,606	-	**961,461,606**	2,039,442,447	**1,077,980,841**	A10;B13
Total community wealth/equity	**13,960,186,456**	**290,201,287**	**14,250,387,743**	**13,494,772,246**	**(755,615,497)**	

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 Note 70
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and other	5,166,172,418	(444,897,021)	4,721,275,397	3,332,542,714	(1,388,732,683)	A11;B14
Government - operating	615,255,000	(2,029,000)	613,226,000	918,761,614	305,535,614	A11;B14
Government - capital	754,004,000	(7,660,000)	746,344,000	790,009,562	43,665,562	A11;B14
Interest	325,460,493	(153,278,747)	172,181,746	188,038,104	15,856,358	A11;B14
	6,860,891,911	**(607,864,768)**	**6,253,027,143**	**5,229,351,994**	**(1,023,675,149)**	
Payments						
Suppliers and employees	(4,841,807,910)	77,121,430	(4,764,686,480)	(4,131,747,576)	632,938,904	A11;B14
Finance charges	(205,371,115)	92,372,565	(112,998,550)	(7,774)	112,990,776	A11;B14
Transfers and Grants	(43,015,663)	38,696,018	(4,319,645)	(5,196,378)	(876,733)	A11;B14
	(5,090,194,688)	**208,190,013**	**(4,882,004,675)**	**(4,136,951,728)**	**745,052,947**	
Net cash flows from operating activities	**1,770,697,223**	**(399,674,755)**	**1,371,022,468**	**1,092,400,266**	**(278,622,202)**	
Cash flows from investing activities						
Receipts						
Proceeds on disposal of PPE	539,500	(539,500)	-	176,000	176,000	A11;B14
Decrease (Increase) in non-current debtors	-	-	-	1,653,610	1,653,610	
Decrease (increase) other non-current receivables	-	-	-	254,896,890	254,896,890	B14
Interest received	-	-	-	32,549,446	32,549,446	
	539,500	**(539,500)**	**-**	**289,275,946**	**289,275,946**	
Payments						
Capital assets	(1,588,280,322)	(9,834,513)	(1,598,114,835)	(1,485,099,537)	113,015,298	A11;B14
Net cash flows from investing activities	**(1,587,740,822)**	**(10,374,013)**	**(1,598,114,835)**	**(1,195,823,591)**	**402,291,244**	
Cash flows from financing activities						
Receipts						
Borrowing long term/refinancing	173,000,000	-	173,000,000	173,000,000	-	A11;B14
Increase (decrease) in consumer deposits	6,000,000	(4,001,070)	1,998,930	59,802,841	57,803,911	A11;B14
	179,000,000	**(4,001,070)**	**174,998,930**	**232,802,841**	**57,803,911**	
Payments						
Repayment of borrowing	(131,135,568)	19,670,335	(111,465,233)	(65,687,402)	45,777,831	A11;B14
Interest paid	-	-	-	(50,923,869)	(50,923,869)	
	(131,135,568)	**19,670,335**	**(111,465,233)**	**(116,611,271)**	**(5,146,038)**	
Net cash flows from investing activities	**47,864,432**	**15,669,265**	**63,533,697**	**116,191,570**	**52,657,873**	
Net increase/(decrease) in cash held	230,820,833	(394,379,503)	(163,558,670)	12,768,245	176,326,915	
Cash/cash equivalents at the year begin:	449,334,735	96,830,402	546,165,137	312,911,132	(233,254,005)	
Cash and cash equivalents at the end of the year	**680,155,568**	**(297,549,101)**	**382,606,467**	**325,679,377**	**(56,927,090)**	

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2016											
Financial Performance											
Property rates	913,072,817	(167,761,698)	745,311,119	-		745,311,119	810,476,472		65,165,353	109 %	89 %
Service charges	3,615,605,352	(389,623,610)	3,225,981,742	-		3,225,981,742	2,892,012,542		(333,969,200)	90 %	80 %
Investment revenue	154,381,795	(83,240,650)	71,141,145	-		71,141,145	45,387,094		(25,754,051)	64 %	29 %
Transfers recognised - operational	615,255,000	17,792,291	633,047,291	-		633,047,291	655,808,218		22,760,927	104 %	107 %
Other own revenue	1,420,979,222	(43,978,015)	1,377,001,207	-		1,377,001,207	475,251,275		(901,749,932)	35 %	33 %
Total revenue (excluding capital transfers and contributions)	**6,719,294,186**	**(666,811,682)**	**6,052,482,504**	**-**		**6,052,482,504**	**4,878,935,601**		**(1,173,546,903)**	**81 %**	**73 %**
Employee costs	(1,711,050,898)	268,531,686	(1,442,519,212)	-	-	(1,442,519,212)	(1,414,714,863)	-	27,804,349	98 %	83 %
Remuneration of councillors	(54,215,591)	-	(54,215,591)	-	-	(54,215,591)	(53,472,431)	-	743,160	99 %	99 %
Debt impairment	(242,626,112)	-	(242,626,112)			(242,626,112)	(394,970,009)	-	(152,343,897)	163 %	163 %
Depreciation and asset impairment	(527,384,374)	35,507,661	(491,876,713)			(491,876,713)	(697,169,875)	-	(205,293,162)	142 %	132 %
Finance charges	(224,941,236)	82,471,428	(142,469,808)	-	-	(142,469,808)	(141,059,323)	-	1,410,485	99 %	63 %
Materials and bulk purchases	(2,152,070,570)	(13,228,386)	(2,165,298,956)	-	-	(2,165,298,956)	(2,239,717,120)	-	(74,418,164)	103 %	104 %
Transfers and grants	(117,570,826)	37,528,464	(80,042,362)	-	-	(80,042,362)	(13,794,034)	-	66,248,328	17 %	12 %
Other expenditure	(1,177,066,105)	(142,094,653)	(1,319,160,758)	-	-	(1,319,160,758)	(1,011,295,725)	-	307,865,033	77 %	86 %
Total expenditure	**(6,206,925,712)**	**268,716,200**	**(5,938,209,512)**	**-**	**-**	**(5,938,209,512)**	**(5,966,193,380)**	**-**	**(27,983,868)**	**100 %**	**96 %**
Surplus/(Deficit)	**512,368,474**	**(398,095,482)**	**114,272,992**	**-**		**114,272,992**	**(1,087,257,779)**		**(1,201,530,771)**	**(951)%**	**(212)%**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	754,004,000	106,861,581	860,865,581	-		860,865,581	793,435,468		(67,430,113)	92 %	105 %
Contributions recognised - capital and contributed assets	20,952,879	-	20,952,879	-		20,952,879	37,763,137		16,810,258	180 %	180 %
Surplus (Deficit) after capital transfers and contributions	**1,287,325,353**	**(291,233,901)**	**996,091,452**	**-**		**996,091,452**	**(256,059,174)**		**(1,252,150,626)**	**(26)%**	**(20)%**
Taxation	-	-	-	-		-	(4,287,372)		(4,287,372)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	**1,287,325,353**	**(291,233,901)**	**996,091,452**	**-**		**996,091,452**	**(251,771,802)**		**(1,247,863,254)**	**(25)%**	**(20)%**

Capital expenditure and funds sources

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Total capital expenditure	1,793,890,542	57,288,943	1,851,179,485	-		1,851,179,485	1,630,343,006		(220,836,479)	88 %	91 %
Sources of capital funds											
Transfers recognised - capital	754,004,000	106,861,581	860,865,581	-		860,865,581	793,435,468		(67,430,113)	92 %	105 %
Public contributions and donations	20,952,879	-	20,952,879	-		20,952,879	37,763,137		16,810,258	180 %	180 %
Borrowing	514,256,000	14,673,228	528,929,228	-		528,929,228	390,239,730		(138,689,498)	74 %	76 %
Internally generated funds	504,677,663	(64,245,866)	440,431,797	-		440,431,797	408,904,671		(31,527,126)	93 %	81 %
Total sources of capital funds	**1,793,890,542**	**57,288,943**	**1,851,179,485**	**-**		**1,851,179,485**	**1,630,343,006**		**(220,836,479)**	**88 %**	**91 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	1,770,697,224	(399,674,756)	1,371,022,468	-		1,371,022,468	1,092,400,266		(278,622,202)	80 %	62 %
Net cash from (used) investing	(1,587,740,822)	(10,374,013)	(1,598,114,835)	-		(1,598,114,835)	(1,195,823,591)		402,291,244	75 %	75 %
Net cash from (used) financing	47,864,432	15,669,265	63,533,697	-		63,533,697	116,191,570		52,657,873	183 %	243 %
Net increase/(decrease) in cash and cash equivalents	**230,820,834**	**(394,379,504)**	**(163,558,670)**	-		**(163,558,670)**	**12,768,245**		**176,326,915**	**(8)%**	**6 %**
Cash and cash equivalents at the beginning of the year	449,334,735	96,830,402	546,165,137	-		546,165,137	312,911,132		(233,254,005)	57 %	70 %
Cash and cash equivalents at year end	**680,155,569**	**(297,549,102)**	**382,606,467**	-		**382,606,467**	**325,679,377**		**56,927,090**	**85 %**	**48 %**

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

The consolidated 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 consolidated 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.

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.

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These consolidated annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.2 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the economic entity presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and the controlled entity.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of the controlled entity, is included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the Standards of GRAP on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the Standards of GRAP on Financial Instruments.

The annual financial statements of the controlling entity and its controlled entity are used in the preparation of the consolidated annual financial statements which are prepared as of the same reporting date.

Adjustments are made when necessary to the annual financial statements of the controlled entity to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.3 Significant judgements and sources of estimation uncertainty

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables, loans and other receivables

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

Where the impairment for trade receivables and loans and other receivables is calculated on a portfolio basis, these are based on historical loss ratios. These annual loss ratios are applied to loan balances in the portfolio. 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. The impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired.

Allowance for slow moving, damaged and obsolete stock

An allowance is made for slow moving, damaged and obsolete inventory to write this inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance.

Fair value estimation

The fair value of financial instruments traded in active markets such as trading 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 entity is the current bid price.

The fair value of investment property is determined on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The fair value of items of land and buildings is determined from market-based evidence by appraisal. An appraisal of the value of the asset is undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

The fair value of a heritage asset is the price at which the heritage asset could be exchanged between knowledgeable. willing parties in an arm's length transaction. The fair value of a heritage asset is determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

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

The entity 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. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as exchange rates, inflation rates and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 26 - Provisions.

Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effect is material.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 - Property, plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 or income include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity 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 post retirement obligations. In determining the appropriate discount rate, the entity 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 post retirment benefit liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 27.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipal entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipal entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipal entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipal entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable surplus will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.4 Investment property

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

- use in the production or supply of goods or services or for

1.4 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

Cost is the amount of cash or cash equivalents or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

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

Fair value

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

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

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

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

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

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

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

1.5 Property, plant and equipment (continued)

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 an item of property, plant and equipment. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

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

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

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, buildings, zoo animals and electrical infrastructure which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity by registered valuators for every class separately.

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

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

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

The revaluation reserve included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

The revaluation reserve included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment:

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

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management

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 shall be depreciated separately. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property, plant and equipment on the cost model is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life (years)
Buildings	Straight line	30-53
Other vehicles	Straight line	3-55
Fire arms	Straight line	5-40
Environmental facilities	Straight line	15
Roads and stormwater	Straight line	5-100
Equipment under finance lease	Straight line	3-5
Security	Straight line	8-12
Specialised plant and equipment	Straight line	3-55
Sewerage and mains	Straight line	40-100
Water and sewerage network	Straight line	7-100
Community / Recreational facilities	Straight line	6-100
Quarries	Straight line	20-30
Landfill sites	Straight line	20-69
Housing	Straight line	50
Other assets	Straight line	3-35
Electrical infrstructure	Straight line	3-50

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.

Derecognition:

Items of entity are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

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

Property, plant and equipment which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

The entity 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 entity 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 entity 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.

Accounting Policies

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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 entity 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 entity; and
- the cost or fair value of the asset can be measured reliably.

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

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

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

Intangible assets are initially recognised at cost.

Subsequent measurement:

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

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

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

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

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the date that the asset is derecognised.

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

Item	Useful life
Computer software	3-30 years
Servitudes	Indefinite

Derecognition:

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

The gain or loss is the dfference between the net disposal proceeds, if any, and the carrying amount. The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.8 Heritage assets

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

Accounting Policies

1.8 Heritage assets (continued)

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

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

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses. It is not expected that the fair values will differ signifcantly from year to year. Fair value assessments therefore will be done with sufficient regularity.

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

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

Impairment

The heritage assets of the entity shall not be depreciated, but the entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Derecognition

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

The gain or loss arising from the derecognitions of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised.

1.9 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the entity; plus
- any costs directly attributable to the purchase of the controlled entity.

1.10 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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

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

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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.

Accounting Policies

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Financial instruments measured at fair value
- Financial instruments measured at amortised cost
- Financial instruments measured at cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value, plus in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

1.10 Financial instruments (continued)

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

The entity assess financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an entity includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recongnised, are not included in the collective assessment of impairment.

For collective assessments of impairment, assets with similar credit risk characteristics are grouped together. The credit risk characteristics are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

In making this assessment management may consider the following indicators as guidance for possible impairment:

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
  - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
  - National or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)
- Accounts in arrears for a period longer that the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments;
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

Refer to notes 6, 7, 8 and 9 for the impact of the above application.

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 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 by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

1.10 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

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

1.10 Financial Instruments (continued)

Presentation

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

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

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

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

1.11 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

VAT

The entity accounts for VAT on the accrual basis, and is liable for VAT on the payment basis. The entity is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The entity accounts for VAT on a monthly basis.

1.12 Leases

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

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

Accounting Policies

1.12 Leases (continued)

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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.

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

1.13 Inventories

The entity recognises inventories as an asset when;
(a) it is probable that future economic benefits or service potential associate with the item will flow to the entity; and
(b) the cost of the inventory can be measured reliably.

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

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

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

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

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

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

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

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

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.

1.14 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

All assets of the entity are accounted for as non-cash generating assets.

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity 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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity 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.

1.14 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity 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 entity 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.

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.15 Impairment of non-cash-generating assets

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

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

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).

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

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

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

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

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

Useful life is either:

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

All assets of the entity are accounted for as non-cash generating assets.

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

Identification

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

The entity 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 entity estimates the recoverable service amount of the asset.

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

Value in use

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

The present value of the remaining service potential of a non-cash-generating assets is determined using the approach based on the availability of data and the nature of the impairment.

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

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

The entity 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 entity estimates the recoverable service amount of that asset.

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

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

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

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

Redesignation

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

1.16 Advance receipts

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

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

All receipts received in advance that cannont be directly linked to a service are classified as non-exchange transactions as no approximate equal value is exchanged between the parties. Refer to note 20 Payables from non-exchange transactions where these receipts in advance are disclosed.

1.17 Employee benefits

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

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

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

1.17 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the entity expects to pay in exchange for that service and had accumulated at the reporting date.

Post-employment benefits

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

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

1.17 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

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

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

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

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

1.17 Employee benefits (continued)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Actuarial assumptions are included in note 27 - Employee benefit obligations.

1.17 Employee benefits (continued)

Other post retirement obligations

The entity 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 entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.18 Provisions and contingencies

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 57.

1.18 Provisions and contingencies (continued)

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

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

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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 1.14 and 1.15.

If the related asset is measured using the revaluation model:

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

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

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

1.19 Commitments

Where the entity has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 56.

The commitments as disclosed are the contractual amount less any payments made in respect of the contract.

Accounting Policies

1.20 Housing development arrangements

The entity grants the right to use properties to third parties by means of contractual agreements. These agreements are classified into two categories, namely the FRESHCO Agreement and the Land Availability Agreements.

The following properties, owned by the entity, are used by third parties to provide public services subject to the entity's control of the asset.
Brandwag Property;
Hillside View Property;
Vista Park Extension 2 Property; and
Vista Park Extension 3 Property.

These agreements are binding arrangements between the entity and the third party in which:
- The third party uses the specified asset to provide a public service on behalf of the entity for a specified period of time; and
- The third party is compensated for its services over the period of the arrangement, and/or upon completion of conditions specified within the contract, and/or upon the completion of the project.

The Properties are assets used to provide public services, in an arrangement, that:
- Are provided by the entity which:
  - Are existing assets of the entity; or
  - Are upgrade to existing assets of the entity; or
- Are provided by the third party which:
  - Are existing assets of the third party; or
  - Are constructed, developed, or acquired from a third party.

The entity shall recognize an asset provided by the third party and/or an upgrade to an existing asset of the entity if:
- The entity controls or regulates what services the third party must provide with the asset, to whom it must provide them, and at what price; and
- The entity controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

The entity shall initially measure the assets recognised at fair value.

The assets received shall subsequently be accounted for in accordance with the GRAP Standard applicable to the classification of the asset received. Including but not limited to GRAP 16 – Investment Property; GRAP 17 - Property, Plant, and Equipment; and GRAP 12 – Inventory.

Where the entity recognises an asset, the entity shall also recognise a liability.

The liability recognised shall be initially measured at the same amount as the asset, adjusted by the amount of any other consideration (e.g. cash) from the entity to the third party, or from the third party to the entity.

Where the entity does not have an unconditional obligation to pay cash or another financial asset to the third party for the construction, development, acquisition, or upgrade of the property, and grants the third party the right to earn revenue from other third-party users or another revenue-generating asset, the entity shall account for the liability recognised as the unearned portion of the revenue arising from the exchange of assets between the entity and the third party.

The entity shall recognize revenue and reduce the liability recognised according to the economic substance of the arrangement.

The entity shall account for the revenues from the third party in accordance with GRAP 9 - Revenue from Exchange Transactions.

1.21 Internal reserves

Other non-distributable reserve (NDR)

The muncipal entity has a non-distributable reserve held in accordance with the requirements of the agreement between the municipal entity and the National Energy Regulator of South Africa (NERSA).

Self insurance reserve

The entity has a Self Insurance Reserve to set aside amounts to offset potential losses or claims, which are not insured externally. The balance of the Self Insurance Reserve is determined based on the insurance risk carried by the entity, which is calculated by the council's insurance broker and is reinstated or increased by a transfer from the accumulated surplus/(deficit).

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

1.21 Internal reserves (continued)

Compensation for occupational injuries and diseases (COID) reserve

The Compensation for Occupational Injuries and Diseases Act, (Act 130 of 1993) is to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is determined by the Compensation Commissioner. The entity is an exempt employer in terms of Section 84 (1) (a)(ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the entity is mandated to establish its own fund and administers this fund in terms of the COID Act.

Amounts are transferred to the COID reserve from the accumulated surplus/(deficit) based on the amounts as approved in the annual budget and determined by the Compensation Commissioner as well as additional amounts deemed necessary to ensure that the balance of the reserve is adequate to offset potential claims.

Claims are paid as determined by the Compensation Commissioner. Claims are settled by transferring a corresponding amount from the COID reserve to the accumulated surplus/(deficit).

1.22 Revaluation reserve

The surplus arising from the revaluation of land and buildings, zoo animals and electrical infrastructure is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Any impairment loss of a revalued asset shall be treated as a revaluation decrease. To the extent that the impairment loss exceeds the revaluation surplus for the same asset, the impairment loss is recognised in the accumulated surplus/(deficit).

1.23 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 entity 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.

Revenue from exchange transactions consists primarily of services charges, rentals, interest received and other services rendered.

When considering the probability of the future economic benefits that will flow to the entity, consideration is given to the requirements as outlined in IGRAP 1.

Measurement

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

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.

Sale of goods

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

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity 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 entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.23 Revenue from exchange transactions (continued)

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 entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Rendering of services consist out of solid waste, sanitation, sewerage and water services.

Interest

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 entity, and
- The amount of the revenue can be measured reliably.

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

Rental income

Leases revenue from operating leases shall be reconised as revenue on a straigh-line basis over the lease term in accordance with the accounting policy on Leases.

Revenue arising from the use by others of entity assets yielding rental income is recognised when:

- It is probable that the economic benefits or service poetntial associated iwht the transaction will flow to the entity; and
  The amount of the revenue can be measured reliably.

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.24 Revenue from non-exchange transactions

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

Revenue from non-exchange transactions consists primarily of grants from National - and Provincial Government, and property rates.

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 entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

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

1.24 Revenue from non-exchange transactions (continued)

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 entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

Recognition

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

As the entity 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 entity.

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

Taxes

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

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

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

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

Accounting Policies

1.24 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The entity recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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

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 entity.

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

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably.

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 entity 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 entity 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.

1.25 Conditional grants and receipts

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

1.26 Investment income

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

1.27 Borrowing costs

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

1.28 Bonus pensionable service and medical boardings

The benefits of Bonus Pensionable Service and Medical Boardings are afforded to members of certain funds in terms of the applicable rules of the relevant funds. The payments are accounted for in the statement of financial performance in the period in which it is paid.

Accounting Policies

1.29 Comparative figures

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

The comparative figures have been restated.

Accounting Policies

1.30 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.

Detailed disclosures are made in note 63 to the financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.31 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.

Detailed disclosures are made in note 64 to the financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.32 Irregular expenditure

Irregular expenditure as defined in section 1 of the Municipal Finance Management Act, (Act No. 56 of 2003) is expenditure incurred by a municipality or municipal entity that is not in accordance with or in contravention of:
a) the MFMA, and which has not been condoned in terms of section 170;
b) the Municipal Systems Act, (Act 32 of 2000) and which has not been condoned in terms of that act;
c) the Public Office-Bearers Act, (Act No.20 of 1998)
d) the requirements of a supply chain management policy of the municipality or municipal entity or in accordance with the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law.

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.

Detailed disclosures are made in note 65 to the financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

1.33 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by nature classification. The approved budget and the annual financial statements are not prepared on the same classification basis.

The approved budget covers the fiscal period from 1 July 2015 to 30 June 2016.

The annual budget figures included in the annual financial statements are for the entity and do not include budget information relating to subsidiaries or associates. The separate budget for the entity has been recompiled for the presentation in the annual financial statements. The recompilation does not constitute changes or revisions of the consolidated budget as approved by the Council.

The Statement of comparative and actual information has been included in the consolidated annual financial statements as the recommended disclosure when the consolidated annual financial statements and the budget are on the same basis of accounting as determined by National Treasury. Explanatory comments to material differences are provided in note 70 to the annual financial statements.

1.34 Related parties

The entity 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 local sphere of government are considered to be related parties.

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

The entity regards all individuals from the level of Accounting Officer and Council members as well as managers and directors reporting directly to the accounting officer as key management per the definition of the financial reporting standard.

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 entity.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered to be at arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

1.35 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.36 Segment Information

Segmental information on property, plant and equipment, as well as income and expenditure is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The entity operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements. GRAP 18 has not been considered in developing these policies.

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

The entity 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.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 105: Transfers of functions between entities under common control	1 April 2015	It is unlikely that the standard will have a material impact on the annual financial statements.
GRAP 106: Transfers of functions between entities not under common control	1 April 2015	It is unlikely that the standard will have a material impact on the annual financial statements.
GRAP 107: Mergers	1 April 2015	It is unlikely that the standard will have a material impact on the annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	No date has been determined	It is unlikely that the standard will have a material impact on the annual financial statements. Municipalities and municipal entities are not required to apply or early adopt GRAP 18 Segment Reporting as the Minister of Finance has not yet determined the effective date for application by these entities.
• GRAP 20: Related parties	No date has been determined	The main impact is expected to affect the disclosure of a more disaggregated councillor remuneration
• GRAP 32: Service Concession Arrangements: Grantor	No date has been determined	The most significant change relates to the separate disclosure of service concession assets included in Property, Plant and Equipment. It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 108: Statutory Receivables	No date has been determined	It is unlikely that the standard will have a material impact on the annual financial statements.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	No date has been determined	The impact of the amendment is not material
• GRAP 16 (as amended 2015): Investment Property	1 April 2016	It is unlikely that the standard will have a material impact on the annual financial statements as the amendments provide additional clarity on the identification of investment property

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 17 (as amended 2015): Property, Plant and Equipment	1 April 2016	The most significant change relates to the additional disclosure regarding capital work in progress impacting the various asset categories
• GRAP 109: Accounting by Principals and Agents	1 April 2017	It is unlikely that the standard will have a material impact on the annual financial statements.
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	1 April 2017	The amendments provide additional guidance on distinguishing cash-generating assets vs non-cash generating assets. The amendments also require additional disclosure on assumptions made
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	1 April 2017	The amendments provide additional guidance on distinguishing cash-generating assets vs non-cash generating assets. The amendments also require additional disclosure on assumptions made
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	1 April 2018	This directive will not have an effect on the annual financial statements as is it issued for Public Entities, and will not be applicable to municipalities

3. Change in estimate

Property, plant and equipment

In the current reporting period as part of the preparation of the Annual Financial Statement the entity reviewed the useful lives and conditions of its assets. This resulted in the adjustment of the remaining useful lives of various assets. The effect of the revision is a decrease in depreciation for the current year amounting to R14,387,275. It is impracticable to estimate the effect on future periods as the remaining useful lives is reviewed at each reporting date.

Intangible assets

Entity
In the current period management have revised their estimated useful life of the Freshmark System. The remaining useful life of the system is estimated to be 2 years from 30 June 2016. The effect on the amortisation for the current year is a decrease from R1,968 to R655 for the year.

Municipal Entity
The municipal entity re-assessed the remianing useful lives of all intangible assets, which led to a change in the amortisation for the current year. The aggregate effect of the changes a decrease in the future amortisation from R13,846,841 to R12,648,481 for the remaining useful lives.

4. Consolidation adjustments

These financial statements has been prepared taking into account the AFS for the individual entity as well as those of the muncipal entity. Errors that occurred on the individual AFS have been corrected resulting in the adjustment of Property, plant and equipment.

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2016	2015

5. Inventories

Raw materials, components	87,739,099	67,137,369
Consumable stores	9,467,720	7,688,982
Maintenance materials	1,343,546	948,999
Water	2,366,673	2,059,790
Unsold Properties Held for Resale	337,613,280	241,450,290
Fuel (Diesel, Petrol)	375,918	1,989,782
	438,906,236	**321,275,212**

Inventory recognised as an expense

Inventories recognised as an expense during the year	78,583,966	99,198,384
Inventory written off	2,791,245	1,335,710
	81,375,211	**100,534,094**

Inventory pledged as security

No inventory was pledged as security for any financial liability

6. Other receivables from non-exchange transactions

Fines Receivables	192,120,152	148,107,402
Impairment of Fines Receivables	(187,666,060)	(147,297,357)
	4,454,092	**810,045**

Fines Receivables consists out of debtors raised from Fines Revenue as disclosed in note 35

Other receivables from non-exchange pledged as security

None of the other receivables from non-exchange transactions were pledged as security for any financial liability.

Credit quality of other receivables from non-exchange transactions

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

None of the financial assets that are fully performing have been renegotiated in the last year.

The entity does not hold any collateral as security.

Other receivables from non-exchange transactions impaired

As of 30 June 2016, other receivables from non-exchange transactions of R 187,666,060 (2015: R 147,297,357) were impaired and provided for.

The amount of the provision was R 187,666,060 as of 30 June 2016 (2015: R 147,297,357).

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

Opening balance	147,297,357	73,752,531
Provision for impairment	40,368,703	73,544,826
	187,666,060	**147,297,357**

Figures in Rand	2016	2015

7. Other receivables from exchange transactions

	2016	2015
Deposits	824,195	725,341
DOE Grant - Southern Free State Towns	5,066,942	5,087,728
Insurance debtor	112,797	112,797
Interest on investment	18,873	26,204
Kopanong Local Municipality	11,679,112	14,618,595
Mohakare Local Municipality	23,570,114	18,384,364
Naledi Local Municipality	18,211,738	15,434,905
Prepaid expenses	540,543	509,299
Receipt reversal	407,504	2,665
Staff leave days receivable	1,754,701	1,294,038
Vendors	3,886,687	3,054,423
Sundry debtors	45,307,500	37,867,347
Sundry debtors - Impairment	(15,113,779)	(14,255,929)
Sundry debtors - Impairment	-	5,273,434
	96,266,927	**88,135,211**

Other receivables from exchange transactions pledged as security

None of the other receivables from exchange transactions were pledged as security for any financial liability.

Credit quality of other receivables from exchange transactions

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

None of the financial assets that are fully performing have been renegotiated in the last year.

Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 2,345,855 (2015: R 3,701,341) were past due but not impaired.

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

	2016	2015
1 month past due	1,475,176	2,314,914
2 months past due	870,679	1,386,427

Other receivables from exchange transactions impaired

As of 30 June 2016, other receivables from exchange transactions of R 15,104,883 (2015: R 14,255,929) were impaired and provided for.

The amount of the provision was R 15,104,883 as of 30 June 2016 (2015: R 14,255,929).

The ageing of these receivables is as follows:

	2016	2015
Over 3 months	15,104,883	14,255,929

Reconciliation of provision for impairment of other receivables from exchange transactions

	2016	2015
Opening balance	14,255,929	7,575,331
Provision for impairment	(1,561,167)	27,369,209
Amounts written off as uncollectible	2,410,120	(20,688,611)
	15,104,882	**14,255,929**

Sundry debtors consist out of debtors raised from other income from exchange transactions recognised (refer to note 38).

Due to the limitations on the financial system it is impractical to disclose the impaired interest on other receivables from exchange transactions.

8. Consumer receivables from non-exchange transactions

	2016	2015
Rates	262,419,381	303,378,328

Notes to the Consolidated Annual Financial Statements

Figures in Rand	2016	2015

8. Consumer receivables from non-exchange transactions (continued)

Rates - Gross balance	837,068,534	856,415,246
Rates - Impairment	(574,649,153)	(553,036,918)
	262,419,381	**303,378,328**

Rates ageing		
Current (0 - 30 days)	61,791,905	59,950,027
31 - 60 days	36,556,563	47,711,977
61 - 90 days	30,863,664	41,033,025
91+ days	707,856,402	707,720,217
Gross balance	837,068,534	856,415,246
Less: Impairment	(574,649,153)	(553,036,918)
	262,419,381	**303,378,328**

Summary by customer classification		
Residential and sundry		
Current (0 - 30 days)	24,517,658	23,664,290
31 - 60 days	14,547,924	15,388,554
61 - 90 days	12,585,008	12,196,922
91+ days	357,515,168	302,176,753
Subtotal	409,165,758	353,426,519
Less: Impairment	(342,877,650)	(286,821,996)
	66,288,108	**66,604,523**

Business / Commercial		
Current (0 - 30 days)	24,444,997	27,551,034
31 - 60 days	11,868,048	19,464,416
61 - 90 days	9,556,792	16,356,896
91+ days	249,262,096	290,627,594
Subtotal	295,131,933	353,999,940
Less: Impairment	(231,771,503)	(266,214,922)
	63,360,430	**87,785,018**

Government		
Current (0 - 30 days)	12,829,250	8,734,703
31 - 60 days	10,140,591	12,859,007
61 - 90 days	8,721,864	12,479,207
91+ days	101,079,138	114,915,868
	132,770,843	**148,988,785**

Consumer receivables from non-exchange transactions pledged as security

None of the consumer receivables from non-exchange transactions were pledged as security for any financial liability.

Credit quality of consumer receivables from non-exchange transactions

The credit quality of consumer receivables from non-exchange transactions 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 receivables from non-exchange transactions are only due after 30 days. Interest shall be paid on accounts which have not been paid within 30 days from the date on which the account became due, at a rate of 1% higher than the prime rate for the period.

The credit quality of consumer receivables from non-exchange transactions was evaluated in terms of the risk group and aging of the individual receivable account.

8. Consumer receivables from non-exchange transactions (continued)

Consumer receivables from non-exchange transactions past due but not impaired

Consumer receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 67,420,227 (2015: R 88,745,002) were past due but not impaired.

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

	2016	2015
1 month past due	36,556,563	47,711,977
2 months past due	30,863,664	41,033,025

Consumer receivables from non-exchange transactions impaired

As of 30 June 2016, consumer receivables from non-exchange transactions of R 574,649,153 (2015: R 553,036,918) were impaired and provided for.

The ageing of these consumer receivables from non-exchange transactions is as follows:

	2016	2015
Over 3 months	574,649,153	553,036,918

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

	2016	2015
Opening balance	553,036,918	376,933,296
Provision for impairment	51,631,592	174,443,076
Amounts (written off as uncollectible) / recovered	(30,019,357)	1,660,546
	574,649,153	**553,036,918**

Due to the limitations on the financial system, it is impractical to disclose the impaired interest on consumer receivables from non-exchange transactions.

9. Consumer receivables from exchange transactions

Net balance	2016	2015
Electricity	353,980,856	217,339,796
Water	324,862,803	308,954,683
Sewerage	96,918,729	81,750,369
Refuse	27,179,292	23,022,668
Housing rental	1,728,745	1,665,149
Unallocated deposits	220,252	220,252
	804,890,677	**632,952,917**

Net balance reconciliation - 2016	**Gross balance**	**Impairment**	**Net balance**
Electricity	678,019,038	(324,038,182)	353,980,856
Water	1,495,444,326	(1,170,581,523)	324,862,803
Sewerage	337,876,855	(240,958,126)	96,918,729
Refuse	142,652,630	(115,473,338)	27,179,292
Housing rental	12,731,742	(11,002,997)	1,728,745
Unallocated deposits	220,252	-	220,252
	2,666,944,843	**(1,862,054,166)**	**804,890,677**

Net balance reconciliation - 2015	**Gross balance**	**Impairment**	**Net balance**
Electricity	627,528,958	(410,189,162)	217,339,796
Water	1,345,940,504	(1,036,985,821)	308,954,683
Sewerage	295,826,131	(214,075,762)	81,750,369
Refuse	129,054,630	(106,031,962)	23,022,668
Housing rental	8,587,589	(6,922,440)	1,665,149
Unallocated deposits	220,252	-	220,252
	2,407,158,064	**(1,774,205,147)**	**632,952,917**