



Greater Tzaneen Municipality
Financial statements
for the year ended 30 June 2017

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

General Information

Nature of business and principal activities

Greater Tzaneen Municipality is a local municipality performing the functions as set out in the constitution (Act no 105 of 1996).

GTEDA is a municipal entity performing the functions consistent with that of an entity.

Jurisdiction within which the Municipality operates

The Greater Tzaneen Municipality is situated in the eastern quadrant of the Limpopo Province in the Mopani District Municipality Area of Jurisdiction. It comprises a land area of approximately 3240 km², and extends from Haenertsburg in the west, to Rubbervale in the east (85km), and just south of Modjadjiskloof in the north, to Trichardsdal in the South (47km).

Executive committee

Mayor

Members of the Executive Committee

Councillor M. Mangena

Councillor M. Mangena

Councillor TT. Maunatlala (Finance)

Councillor M. Letsoalo (Sport, Recreation, Art and Culture)

Councillor G. Ntimbane (Infrastructure)

Councillor M. Hlangwane (Health, Environment and Social Development)

Councillor C. Machimana (Public Transport and Safety and Security)

Councillor S. Tiba (Economic Development, Housing and Spatial Development Plan)

Councillor S. Mbhalati (Corporate Gov. and Shared Services)

Councillor DJ. Mmetle (Speaker)

Councillor C. Nhembo (Chief Whip)

Councillor M. Prinsloo (Exco)

Councillor S. Sekwela (Exco)

Ordinary Councillors

Councillor DJ. Mmetle

Councillor MG. Mangena

Councillor CS. Nhembo

Councillor MM. Letsoalo

Councillor C. Machimana

Councillor TT. Maunatlala

Councillor NJ. Mbhalati

Councillor GE. Ntimbane

Councillor M. Prinsloo

Councillor MM. Sekhwela

Councillor MS. Tiba

Councillor ML. Hlangwane

Councillor MS. Baloyi

Councillor J. Banyini

Councillor OK. Banyini

Councillor PW. Cronje

Councillor DG. Kgafane

Councillor MR. Kgatla

Councillor MG. Kgatla

Councillor LK. Lepulana

Councillor MJ. Maake

Councillor MH. Mafokwane

Councillor NM. Mahasha

General Information

Councillor JT. Makhubele
Councillor GP. Makhubele
Councillor MM. Makwala
Councillor SC. Makwala
Councillor MA. Makwela
Councillor MM. Makwela
Councillor TE. Malatji
Councillor GM. Malatji
Councillor DG Malemela (MPAC Chairperson)
Councillor SM. Mapitja
Councillor SP. Masetla
Councillor NA. Masila
Councillor NP. Mathebula
Councillor MM. Mathekga
Councillor TL. Matita
Councillor NG. Maunatlala
Councillor MF. Mbhalati
Councillor TJ. Mcclintock
Councillor DG. Mkhabele
Councillor MF. Mochabela
Councillor F. Mohlaba
Councillor SN. Mohonone
Councillor MJ. Mokgoloboto
Councillor MC. Morwatshehla
Councillor T. Mpenyana
Councillor NG. Mukansi
Councillor TH. Mushwana
Councillor ET. Ngobeni
Councillor SE. Ngobeni
Councillor JL. Ngobeni
Councillor MC. Nkwashu
Councillor N. Nkwashu
Councillor ME. Phakula
Councillor RE. Pohl
Councillor ML. Pudikabekwa
Councillor MS. Rakganya
Councillor PJ Ramodipa
Councillor SB Ramoshaba
Councillor O. Raolane
Councillor KI. Rapatsa
Councillor RS. Rapitsi
Councillor JM. Ratopola
Councillor CT Shisinga
Councillor O. Sithole
Councillor NH. Zandamele

Grading of local authority

Grade 4: High Capacity

Acting Chief Finance Officer (CFO)

Johan Biewenga

Accounting Officer: Acting

BM Mathebula (contract terminated
in July 2017)

Greater Tzaneen Municipality
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General Information

Registered office	38 Agatha Street Civic Center Tzaneen 0850
Business address	38 Agatha Street Civic Center Tzaneen 0850
Postal address	PO Box 24 Tzaneen 0850
Bankers	ABSA
Website address	www.tzaneen.gov.za
Audit committee	SA Ngobeni (Chairperson) HN Masedi L Lankalebalela JM Mofokeng
Level of rounding	Rounding to the nearest Rand
Auditor	Auditor General of South Africa (AGSA) Polokwane Office Telephone number: 015 283 9338

Greater Tzaneen Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
GTEDA	Greater Tzaneen Economic Development Agency
RAL	Roads Agency Limpopo

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Greater Tzaneen Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, the municipality's external auditors are responsible for expressing an opinion of the financial statements.

The financial statements set out on pages 7 to 118, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:


29/11/2017

M.S. Lelope
Acting Municipal Manager

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The Greater Tzaneen Municipality is situated in the eastern quadrant of the Limpopo Province within the Mopani District Municipality Area of Jurisdiction. It comprises a land area of approximately 3240 km, and extends from Haenertsburg in the West, to Rubbervale in the East (85km), and just South of Modjadjikloof in the North, to Trichardsdal in the South, (47 km).

Financial review

This review highlights the Municipality's performance for the past year but does not in any way attempt to provide detail of the performance. Full detail appear in the annual financial statements.

Overview of the Municipality's Results:

The Municipality's overall actual operating results against the corresponding approved budget figures are scheduled in Appendix E1 of the Annual Financial Statements.

The Statement of Financial Performance reflects a summary of income and expenditure items, while the segmental operating results per service are shown in appendix D of the annual financial statements. Over the past financial year the operating revenue increased from R 1 084 980 340 to R 1 122 430 884 while the operating expenditure increased from R 1 091 007 074 to R 1 114 243 756.

The Municipality reported a net operating surplus of R 7 806 619 (2016 R (9 161 757)), for the financial year under review.

The main revenue sources of the Municipality are:

- Property rates;
- Service charges and
- Government grants and subsidies

Whilst the highest expenditure items are:

- Employee related costs;
- Bulk purchases and
- Repairs and maintenance

Council has embarked on implementing a range of revenue collecting strategies to optimise the collection of debt owned by consumers. The outstanding consumer debtors as at 30 June 2017 amounts to R 365 669 046 (2016: R 324 325 388) of which R 258 633 917 (2016: R 207 233 176) were impaired. Indigent debtors to the amount of R - (2016: R 5 699 788) have been written off as uncollectable. The total provision for impairment increased from R 207 233 176 in the previous financial year to R 258 633 917 in the current financial year.

Unspent conditional grants and receipts decreased from R 19 434 127 (2016) to R 19 163 806 in the 2016/2017 financial year with a 89.80% spending on the Municipal Infrastructure Grant. All grant funding allocated to the Municipality with the exception of R 1 102 195 due to poor performance on the local Government Financial Management Grant and the Energy Efficiency and Demand Side Management Grant (EEDSM) have been received.

With regards to expenditure management the cost containment measures approved by Cabinet on 23 October 2013 has been annually updated from 2014/2015 through the budget process and are complied with.

The outstanding loans which have been taken-up to finance capital projects amount to R 119 493 383 (2016: R 155 491 448) and the detail of this amount is contained in Note 12 and Appendix A.

2. Going concern

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Election of Councillors

The election of councillors took place during August 2016 and a detailed list of councillors and political management is disclosed on page 1.

5. Accounting Officer

The acting accounting officer of the municipality at the date of this report is as follows:

Name	Nationality
BM Mathebula	South African

6. Auditors

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

Report of the Auditor General

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Notes	2017	2016 Restated*
Assets			
Current Assets			
Inventories	3	14 753 202	16 293 576
Other financial assets	4	2 908 489	2 145 732
Operating lease asset	5.2	149 816	96 889
Receivables from exchange transactions	6	220 788 581	183 252 043
Receivables from non-exchange transactions	5.1	76 141 854	45 691 683
Consumer debtors	7	107 035 129	117 092 212
Cash and cash equivalents	8	31 839 163	54 369 420
		453 616 234	418 941 555
Non-Current Assets			
Investment property	9	149 081 753	141 940 000
Property, plant and equipment	10	1 560 691 424	1 620 118 989
Intangible assets	11	916 838	581 125
Other financial assets	4	25 174 276	20 939 720
		1 735 864 291	1 783 579 834
Total Assets		2 189 480 525	2 202 521 389
Liabilities			
Current Liabilities			
Other financial liabilities	12	17 075 913	27 864 801
Finance lease obligation	13	1 758 832	253 825
Payables from exchange transactions	14	178 141 419	170 058 068
VAT payable	15	33 376 034	29 844 327
Consumer deposits	16	23 129 385	23 146 904
Unspent conditional grants and receipts	17	19 163 806	19 434 127
Provisions	18	606 890	688 535
		273 252 279	271 290 587
Non-Current Liabilities			
Other financial liabilities	12	102 417 471	127 626 647
Finance lease obligation	13	3 558 300	-
Employee benefit obligations	19	84 223 104	85 763 760
Provisions	18	4 205 927	3 823 570
		194 404 802	217 213 977
Total Liabilities		467 657 081	488 504 564
Net Assets		1 721 823 444	1 714 016 825
Accumulated surplus		1 721 823 444	1 714 016 825

* See Note 60

Greater Tzaneen Municipality
Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Notes	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	447 720 635	450 104 468
Rental of facilities and equipment		1 644 365	1 333 677
Interest received (trading)	53	15 321 021	12 312 153
Agency services		6 304 686	8 004 170
Licences and permits		824 244	721 783
Other income	21	44 716 716	33 834 159
Interest received - investment	53	8 253 077	6 850 014
Total revenue from exchange transactions		524 784 744	513 160 424
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	80 787 849	74 146 340
Property rates - penalties imposed	22	8 157 882	5 186 759
Transfer revenue			
Government grants & subsidies	23	464 786 239	456 451 570
Fines, penalties and forfeits	54	43 914 170	36 035 247
Total revenue from non-exchange transactions		597 646 140	571 819 916
Total revenue	25	1 122 430 884	1 084 980 340
Expenditure			
Employee related costs	26	267 338 994	258 534 229
Remuneration of councillors	27	22 457 384	21 089 938
Depreciation and amortisation	57	126 138 849	123 126 612
Impairment loss/ reversal of impairments	29	822 923	35 542 607
Finance costs	30	12 802 343	11 035 120
Debt impairment	58	58 399 127	63 863 737
Collection costs		421 406	2 151 410
Repairs and maintenance	31	35 018 928	25 110 558
Bulk purchases	32	321 519 584	301 974 600
Contracted services	33	46 904 302	38 524 348
Transfers and subsidies	34	123 608 707	130 745 852
General expenses	35	98 811 209	79 308 063
Total expenditure		1 114 243 756	1 091 007 074
Operating surplus (deficit)		8 187 128	(6 026 734)
Loss on disposal of property, plant and equipment	55	(923 404)	(1 510 073)
Fair value adjustments	52	-	(1 146 000)
Gain (loss) on disposal of stands held for sale (inventories)	55	542 895	(478 950)
		(380 509)	(3 135 023)
Surplus (deficit) for the year		7 806 619	(9 161 757)

* See Note 60

Greater Tzaneen Municipality
 Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Note	Accumulated surplus	Total net assets
Opening balance as previously reported		1 755 225 237	1 755 225 237
Adjustments			
Prior year adjustments	60	(32 046 655)	(32 046 655)
Balance at 01 July 2015 as restated*		1 723 178 582	1 723 178 582
Changes in net assets			
Surplus for the year		(9 161 757)	(9 161 757)
Total changes		(9 161 757)	(9 161 757)
Opening balance as previously reported		1 748 971 838	1 748 971 838
Adjustments			
Prior year adjustments	60	(34 955 013)	(34 955 013)
Restated* Balance at 01 July 2016 as restated*		1 714 016 825	1 714 016 825
Changes in net assets			
Surplus for the year		7 806 619	7 806 619
Total changes		7 806 619	7 806 619
Balance at 30 June 2017		1 721 823 444	1 721 823 444

* See Note 60

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Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Notes	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Taxation		69 332 445	64 262 939
Sale of goods and services		508 665 495	497 523 861
Grants		477 979 917	428 926 506
Interest income	53	8 253 077	6 850 014
		<u>1 064 230 934</u>	<u>997 563 320</u>
Payments			
Employee costs		(291 337 034)	(270 185 229)
Suppliers		(670 754 666)	(634 126 361)
Finance costs	30	(12 358 859)	(10 704 593)
Transfer of property, plant and equipment (non-cash item)	10	54 400 869	94 136 380
		<u>(920 049 690)</u>	<u>(820 879 803)</u>
Net cash flows from operating activities	36	<u>144 181 244</u>	<u>176 683 517</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(122 747 823)	(175 957 528)
Proceeds from sale of property, plant and equipment	10	184 998	1
Purchase of investment property	9	(7 141 753)	(6 700 000)
Purchase of other intangible assets	11	(631 368)	(542 641)
Proceeds from sale of financial assets		(4 997 314)	(14 044 173)
Net cash flows from investing activities		<u>(135 333 260)</u>	<u>(197 244 341)</u>
Cash flows from financing activities			
Long term liabilities		-	61 300 000
Repayment of other financial liabilities		(35 998 064)	(13 439 849)
Finance lease payments		4 619 823	(907 405)
Net cash flows from financing activities		<u>(31 378 241)</u>	<u>46 952 746</u>
Net increase/(decrease) in cash and cash equivalents		<u>(22 530 257)</u>	<u>26 391 922</u>
Cash and cash equivalents at the beginning of the year		54 369 420	27 977 498
Cash and cash equivalents at the end of the year	8	<u>31 839 163</u>	<u>54 369 420</u>

* See Note 60

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	518 881 261	-	518 881 261	447 720 635	(71 160 626)	Note 51
Rental of facilities and equipment	1 072 100	-	1 072 100	1 644 365	572 265	Note 51
Interest received - outstanding receivables	12 000 000	-	12 000 000	15 321 021	3 321 021	
Income from agency services	49 264 291	-	49 264 291	6 304 686	(42 959 605)	Note 51
Licences and permits	651 000	-	651 000	824 244	173 244	Note 51
Other income	8 465 046	-	8 465 046	44 716 716	36 251 670	Note 51
Interest received - external investment	2 101 000	-	2 101 000	8 253 077	6 152 077	Note 51
Total revenue from exchange transactions	592 434 698	-	592 434 698	524 784 744	(67 649 954)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	72 000 000	-	72 000 000	80 787 849	8 787 849	Note 51
Property rates - penalties imposed	5 000 000	-	5 000 000	8 157 882	3 157 882	Note 51
Transfer revenue						
Government grants and subsidies	416 697 004	82 695 586	499 392 590	464 786 239	(34 606 351)	Note 51
Fines	3 805 136	-	3 805 136	43 914 170	40 109 034	Note 51
Total revenue from non-exchange transactions	497 502 140	82 695 586	580 197 726	597 646 140	17 448 414	
Total revenue	1 089 936 838	82 695 586	1 172 632 424	1 122 430 884	(50 201 540)	
Expenditure						
Employee cost	(293 508 270)	-	(293 508 270)	(267 338 994)	26 169 276	Note 51
Remuneration of councillors	(23 035 604)	-	(23 035 604)	(22 457 384)	578 220	
Depreciation and amortisation	(128 674 868)	-	(128 674 868)	(126 138 849)	2 536 019	
Impairment loss/ Reversal of impairments	-	-	-	(822 923)	(822 923)	Note 51
Finance costs	(14 853 686)	-	(14 853 686)	(12 802 343)	2 051 343	Note 51
Debt impairment	(24 141 000)	-	(24 141 000)	(58 399 127)	(34 258 127)	Note 51
Collection costs	(200 000)	-	(200 000)	(421 406)	(221 406)	Note 51
Repairs and maintenance	(31 214 273)	(2 041 000)	(33 255 273)	(35 018 928)	(1 763 655)	Note 51
Bulk purchases	(332 500 000)	-	(332 500 000)	(321 519 584)	10 980 416	Note 51
Contracted services	(48 213 872)	(891 000)	(49 104 872)	(46 904 302)	2 200 570	
Transfer and subsidies paid	(35 673 499)	(9 495 586)	(45 169 085)	(123 608 707)	(78 439 622)	Note 51
General Expenses	(108 187 317)	2 932 000	(105 255 317)	(98 811 209)	6 444 108	
Total expenditure	(1 040 202 389)	(9 495 586)	(1 049 697 975)	(1 114 243 756)	(64 545 781)	
Operating surplus	49 734 449	73 200 000	122 934 449	8 187 128	(114 747 321)	
Gain (Loss) on disposal of assets	2 129 450	-	2 129 450	(923 404)	(3 052 854)	Note 51
Gain on non-current assets held for sale or disposal groups	-	-	-	542 895	542 895	Note 51
	2 129 450	-	2 129 450	(380 509)	(2 509 959)	
Surplus before taxation	51 863 899	73 200 000	125 063 899	7 806 619	(117 257 280)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	51 863 899	73 200 000	125 063 899	7 806 619	(117 257 280)	

Greater Tzaneen Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	19 649 273	-	19 649 273	14 753 202	(4 896 071)	Note 51
Other financial assets	1 683 054	-	1 683 054	2 908 489	1 225 435	Note 51
Operating lease asset	110 161	-	110 161	149 816	39 655	
Receivables from exchange transactions	178 400 974	-	178 400 974	220 788 581	42 387 607	Note 51
Receivables from non-exchange transactions	2 604 326	-	2 604 326	76 141 854	73 537 528	Note 51
Consumer debtors	113 328 361	-	113 328 361	107 035 129	(6 293 232)	Note 51
Cash and cash equivalents	12 342 983	10 383 539	22 726 522	31 839 163	9 112 641	Note 51
	328 119 132	10 383 539	338 502 671	453 616 234	115 113 563	
Non-Current Assets						
Investment property	164 945 000	-	164 945 000	149 081 753	(15 863 247)	Note 51
Property, plant and equipment	1 829 845 610	87 093 822	1 916 939 432	1 560 691 424	(356 248 008)	Note 51
Intangible assets	742 384	-	742 384	916 838	174 454	Note 51
Other financial assets	15 388 328	-	15 388 328	25 174 276	9 785 948	Note 51
	2 010 921 322	87 093 822	2 098 015 144	1 735 864 291	(362 150 853)	
Total Assets	2 339 040 454	97 477 361	2 436 517 815	2 189 480 525	(247 037 290)	
Liabilities						
Current Liabilities						
Other financial liabilities	15 903 794	-	15 903 794	17 075 913	1 172 119	
Finance lease obligation	-	-	-	1 758 832	1 758 832	Note 51
Payables from exchange transactions	140 610 729	-	140 610 729	178 141 419	37 530 690	
VAT payable	30 823 249	-	30 823 249	33 376 034	2 552 785	
Consumer deposits	24 132 333	-	24 132 333	23 129 385	(1 002 948)	
Unspent conditional grants and receipts	15 000 000	(4 115 000)	10 885 000	19 163 806	8 278 806	Note 51
Provisions	2 796 168	-	2 796 168	606 890	(2 189 278)	Note 51
	229 266 273	(4 115 000)	225 151 273	273 252 279	48 101 006	
Non-Current Liabilities						
Other financial liabilities	110 761 302	-	110 761 302	102 417 471	(8 343 831)	Note 51
Finance lease obligation	3 399 522	-	3 399 522	3 558 300	158 778	
Employee benefit obligations	85 758 570	-	85 758 570	84 223 104	(1 535 466)	Note 51
Provisions	4 205 927	-	4 205 927	4 205 927	-	
	204 125 321	-	204 125 321	194 404 802	(9 720 519)	
Total Liabilities	433 391 594	(4 115 000)	429 276 594	467 657 081	38 380 487	
Net Assets	1 905 648 860	101 592 361	2 007 241 221	1 721 823 444	(285 417 777)	

Greater Tzaneen Municipality
 Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 905 648 860	101 592 361	2 007 241 221	1 721 823 444	(285 417 777)	Note 51

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation revenue	65 450 000	-	65 450 000	69 332 445	3 882 445	Note 51
Sale of goods and services	492 322 838	-	492 322 838	508 665 495	16 342 657	Note 51
Grants	416 697 000	65 000 000	481 697 000	477 979 917	(3 717 083)	
Interest income	10 501 000	-	10 501 000	8 253 077	(2 247 923)	Note 51
	984 970 838	65 000 000	1 049 970 838	1 064 230 934	14 260 096	
Payments						
Employee costs	(296 973 541)	-	(296 973 541)	(291 337 034)	5 636 507	Note 51
Suppliers	(553 296 754)	-	(553 296 754)	(670 754 666)	(117 457 912)	Note 51
Finance costs	(14 876 264)	-	(14 876 264)	(12 358 859)	2 517 405	Note 51
Transfer of property, plant and equipment	-	-	-	54 400 869	54 400 869	Note 51
	(865 146 559)	-	(865 146 559)	(920 049 690)	(54 903 131)	
Net cash flows from operating activities	119 824 279	65 000 000	184 824 279	144 181 244	(40 643 035)	
Cash flows from investing activities						
Additions to property, plant and equipment	(129 988 000)	(85 658 822)	(215 646 822)	(122 747 823)	92 898 999	Note 51
Transfers from Work in Progress	2 005 888	-	2 005 888	-	(2 005 888)	
Proceeds on disposal of property, plant and equipment	-	-	-	184 998	184 998	Note 51
Loss on disposal of property, plant and equipment	(6 920 000)	-	(6 920 000)	-	6 920 000	
Additions to investment property	(3 000 000)	(1 435 000)	(4 435 000)	(7 141 753)	(2 706 753)	Note 51
Additions of other intangible assets	(700 000)	-	(700 000)	(631 368)	68 632	
Additions to other financial assets	-	-	-	(4 997 314)	(4 997 314)	Note 51
Net cash flows from investing activities	(138 602 112)	(87 093 822)	(225 695 934)	(135 333 260)	90 362 674	
Cash flows from financing activities						
Net movement on other financial liabilities	8 121 161	-	8 121 161	-	(8 121 161)	Note 51
Repayment of other financial liabilities	-	-	-	(35 998 064)	(35 998 064)	Note 51
Finance lease payments	-	-	-	4 619 823	4 619 823	Note 51
Net cash flows from financing activities	8 121 161	-	8 121 161	(31 378 241)	(39 499 402)	
Net increase/(decrease) in cash and cash equivalents	(10 656 672)	(22 093 822)	(32 750 494)	(22 530 257)	10 220 237	Note 51
Cash and cash equivalents at the beginning of the year	23 000 000	32 477 361	55 477 361	54 369 420	(1 107 941)	Note 51
Cash and cash equivalents at the end of the year	12 343 328	10 383 539	22 726 867	31 839 163	9 112 296	

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1. Basis of preparation

The 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 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.

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

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

1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Rounding

All financial figures have been rounded off to the nearest Rand.

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

Trade receivables and loans and receivables

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Subsequent to initial measurement, investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date, determined by the external valuator.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and 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 inflation interest and economic conditions.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post-retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

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

Allowance for doubtful debts

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

1.5 Investment property

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

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Notes to the Financial Statements: Accounting Policies

1.5 Investment property (continued)

Fair value

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

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

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

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

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

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

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

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

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

Item	Depreciation method	Average useful life
Infrastructure	Straight line	
• Roads and paving		10 -30
• Pedestrian malls		20
• Electricity		10 - 30
• Water		15-20
• Sewage		15-20
• Housing		30
Community	Straight line	
• Improvements		30
• Recreational facilities		20
• Security		3 - 5
Other assets	Straight line	
• Buildings		30
• Specialist vehicles		20
• Other vehicles		5 - 7
• Office equipment		3-5
• Furniture and fittings		7-10
• Watercraft		15
• Bins and containers		5-10
• Specialised plant and equipment		5-15
• Other items of plant and equipment		5

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

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

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

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

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

Assets which the municipality 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. 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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	3-5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.8 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.

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.

Classification

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

Class	Category
Consumer debtors	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The municipality 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 municipality 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.

Subsequent measurement of financial assets and financial liabilities

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

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

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

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, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Reclassification

The municipality 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.

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

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

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

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

Presentation

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

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

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

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

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

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

1.9 Leases

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

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.9 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 municipality's incremental borrowing rate.

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

Inventories consist of work in progress, consumables and finished goods. Inventory is measured at lower of cost, and net realisable value or current replacement cost. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at cost.

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. Redundant and slow moving inventories are identified and written down with regard to their cost. Consumables are written down according to their age, condition and utility.

Stands available for sale during the next 12 months are recognised as inventory.

1.11 Impairment of cash-generating assets

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

Identification

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

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

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

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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.

1.12 Impairment of non-cash-generating assets

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

Identification

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized 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.

Notes to the Financial Statements: Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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.

1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.14 Employee benefits

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 employee 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 employee render the related service; and

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Notes to the Financial Statements: Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are benefits (other than termination benefits) which a municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to the employee services in the current and prior periods

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

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

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

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

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

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Notes to the Financial Statements: Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Notes to the Financial Statements: Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognized when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognized as revenue in the invoicing period.

Revenue arising from application of the approved tariff of changes in recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licenses and permits.

Service charges relating to solid waste, sanitation and sewerage are levied monthly in terms of the approved tariffs.

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

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

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

1.18 Revenue from non-exchange transactions

Revenue from non-exchange transaction refers to transaction where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Recognition

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

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

Measurement

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

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

Taxes

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

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Notes to the Financial Statements: Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

Transfers

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

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

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

Fines

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

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

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

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 municipality, 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 municipality and the fair value of the assets can be measured reliably.

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.20 Comparative figures

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

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Notes to the Financial Statements: Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

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

1.24 Departmental information

A departmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendixes C and D. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Departmental information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.25 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.26 Related parties

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements: Accounting Policies

1.27 Events after reporting date

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

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

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

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

1.28 VAT

The municipality accounts for VAT on the payment basis. Output VAT is only payable as and when the purchase consideration is received and input tax can be claimed as and when payments are made.

1.29 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality 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. The liability is transferred to revenue as and when the conditions attached to the grants are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not yet effective or relevant to its operations:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

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

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

The impact of this standard is currently being assessed.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

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

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

The impact of this standard is currently being assessed.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

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

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

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

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

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

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

The impact of this standard is currently being assessed.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of this interpretation is currently being assessed.

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

The impact of this amendment is currently being assessed.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions between Entities Not under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

The impact of this amendment is currently being assessed.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

2. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

The impact of this amendment is currently being assessed.

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2018

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

The impact of this amendment is currently being assessed.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

The impact of this amendment is currently being assessed.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of this amendment is currently being assessed.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

The impact of this amendment is currently being assessed.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

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

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2018.

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

2. New standards and interpretations (continued)

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

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

The impact of this standard is currently being assessed.

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

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

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

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

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

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

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

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

Greater Tzaneen Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
3. Inventories		
Consumable stores	9 333 202	9 873 576
Stands	5 420 000	6 420 000
	14 753 202	16 293 576
The carrying value of consumable stores is disclosed at cost while the carrying value of stands is disclosed at net realisable value.		
4. Other financial assets		
At amortised cost		
Stand sale arrangements	2 908 489	2 145 732
Fixed deposits - listed	25 174 276	20 939 720
	28 082 765	23 085 452
Non-current assets		
At amortised cost	25 174 276	20 939 720
Current assets		
At amortised cost	2 908 489	2 145 732
Financial assets at amortised cost		
Council's valuation of listed investments		
Liberty	9 635 115	8 941 855
Standard Bank	15 539 163	11 997 865
	25 174 278	20 939 720
Reconciliation of stand sale arrangements		
Stand sale arrangement	2 908 489	2 145 732
Less: Current portion	(2 908 489)	(2 145 732)
Non-current portion of stand sale arrangements	-	-

Fair value of investments are at book value as at 30 June 2017.

No non-current investments defaulted and no terms of any of the non-current investments were re-negotiated.

The maximum exposure to credit risk at the reporting date is the fair value of each class of financial asset mentioned above.

Fixed deposits of R 9 635 115 and R 15 539 163 have been made with Liberty and Standard Bank of South Africa respectively to repay loans of R 15 000 000 and R 30 000 000 on maturity date.

Loans to staff and the public

To comply with the requirements of the MFMA, no loan has been made after 1 March 2004.

Stand sale arrangements

As from 1 March 2004 no loan agreement has been entered into for the sale of stands. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into.

Arrangements were made to enable people to purchase stands from the Council. These arrangements are repayable within 60 days.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

Figures in Rand				2017	2016	
5. Receivables from non-exchange transactions						
5.1 Traffic fines						
Fines				76 141 854	45 691 683	
Reconciliation of traffic fines	Balance at the beginning of the year	Issued	Less: Withdrawn	Less: Fines received	Less: Provision for Impairment	Balance at the end of the year
2017 fines	45 691 683	46 681 400	(3 237 571)	(4 796 500)	(8 197 158)	76 141 854
2016 fines	23 132 759	35 618 850	(96 400)	(4 546 992)	(8 416 534)	45 691 683
Reconciliation of provision for traffic fines						
Opening balance				18 601 155	10 184 621	
Provision for impairment				8 197 158	8 416 534	
				26 798 313	18 601 155	

Receivables from non-exchange transactions

The accounting Standard Board amended GRAP 1 applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. GRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent even when assessing impairment.

Fine revenue of all fines issued during the current year amounted to R 43 982 129 (2016: R 34 984 150). The outstanding fines were assessed for impairment based on the payment history of fines issued and measures put in place to recover the outstanding amount.

Credit quality of receivables from non-exchange transactions

Traffic fines are payable as determined by the fine. The credit period granted is considered to be consistent with the established practices and legislation.

The municipality's historical experience in collection of traffic fines fall within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's receivables from non-exchange transactions.

5.2. Operating lease asset (accrual)

Current assets	149 816	96 889
Municipality as lessor: Future minimum lease repayments receivable		
Less than one year	406 659	76 865
Between one year and five years	2 001 513	183 764
More than five years	139 250	165 822
	2 547 422	426 451

Operating leases relate to property owned by the municipality with lease terms of between one (1) and twenty (20) years, with an option to extend the lease. The lessee does not have an option to purchase the property at the expiry of the lease period. The properties are maintained by the tenant, at their cost. No investment property has been disposed of since the date of the financial statements.

Greater Tzaneen Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
Operating lease asset (accrual) (continued)		
The municipality has operating lease agreements for the following classes of assets which are only significant collectively.		
<ul style="list-style-type: none"> • Municipal buildings • Vacant land 		
No restrictions have been imposed on the municipality in terms of the operating lease agreements		
6. Receivables from exchange transactions		
Trade debtors	207 385 192	173 827 496
Prepayments	7 890 298	7 440 868
Land deposit	-	340 004
Other receivables	27 281 662	24 732 377
Bursary loans	588 430	467 071
	243 145 582	206 807 816
Provision for impairment of receivables	(22 357 001)	(23 555 773)
	220 788 581	183 252 043
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	23 555 773	17 984 661
Provision for impairment	(1 198 772)	5 571 112
	22 357 001	23 555 773
Credit quality of receivables from exchange transactions		
Trade and other debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivable on initial recognition is not deemed necessary.		
Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.		
7. Consumer debtors		
Gross balances		
Rates	131 662 346	112 049 061
Electricity	175 552 844	161 876 524
Refuse	58 453 856	50 399 803
	365 669 046	324 325 388
Less: Allowance for impairment		
Rates	(114 151 077)	(95 439 974)
Electricity	(92 784 584)	(67 162 665)
Refuse	(51 698 256)	(44 630 537)
	(258 633 917)	(207 233 176)
Net balance		
Rates	17 511 269	16 609 087
Electricity	82 768 260	94 713 859
Refuse	6 755 600	5 769 266
	107 035 129	117 092 212

Greater Tzaneen Municipality
Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

Figures in Rand	2017	2016
7. Consumer debtors (continued)		
Included in above is receivables from exchange transactions		
Electricity	82 768 260	94 713 859
Water	6 755 600	5 769 266
	89 523 860	100 483 125
Included in above is receivables from non-exchange transactions		
Rates	17 511 269	16 609 087
	107 035 129	117 092 212
Rates		
Current (0 -30 days)	7 709 831	6 795 326
31 - 60 days	3 864 824	3 475 652
61 - 90 days	3 193 455	2 802 586
91 - 120 days	3 016 564	2 712 943
121 - 365 days	113 877 672	96 262 554
	131 662 346	112 049 061
Electricity		
Current (0 -30 days)	58 882 402	71 373 805
31 - 60 days	8 433 616	9 222 798
61 - 90 days	4 757 065	4 794 641
91 - 120 days	6 137 955	3 406 481
121 - 365 days	97 341 806	73 078 799
	175 552 844	161 876 524
Refuse		
Current (0 -30 days)	2 913 936	2 787 826
31 - 60 days	1 372 924	1 248 986
61 - 90 days	1 144 078	1 049 988
91 - 120 days	1 094 429	1 023 947
121 - 365 days	51 928 489	44 289 056
	58 453 856	50 399 803

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

Figures in Rand

2017

2016

7. Consumer debtors (continued)

Summary of debtors by customer classification

Residential property: Ageing

Current (0 -30 days)	26 455 989	23 262 040
31 - 60 days	6 264 761	6 877 589
61 - 90 days	4 364 409	4 223 445
91 - 120 days	4 186 060	3 975 749
121 - 365 days	156 002 950	141 505 466
	197 274 169	179 844 289

Industrial and commercial: Ageing

Current (0 -30 days)	38 850 588	52 032 851
31 - 60 days	5 338 111	4 670 459
61 - 90 days	2 984 711	3 181 516
91 - 120 days	4 635 149	2 475 393
121 - 365 days	88 222 067	66 800 727
	140 030 626	129 160 946

National and provincial government: Ageing

Current (0 -30 days)	1 033 180	1 060 342
31 - 60 days	125 944	138 454
61 - 90 days	655 391	456 737
91 - 120 days	594 319	382 680
121 - 365 days	10 236 592	11 305 268
	12 645 426	13 343 481

Other: Ageing

Current (0 -30 days)	3 569 463	4 601 722
31 - 60 days	1 400 430	2 260 933
61 - 90 days	1 175 342	785 519
91 - 120 days	959 902	309 550
121 - 365 days	8 613 688	(5 981 053)
	15 718 825	1 976 671

Total

365 669 046 **324 325 388**

Consumer debtors pledged as security

No porting of accounts receivables was pledge as security for any financial liabilities

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor impaired can be assessed by reference to historical information about counterparty default rates:

Consumer debtors are payable within 30 days. This credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of consumer debtors on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to consumer debtors are limited due to the municipality's large number of customers. The municipality's historical experience in collection of consumer debtors falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's consumer debtors.

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7. Consumer debtors (continued)

Fair value of consumer debtors

The fair value of accounts receivable approximates their carrying amounts.

Consumer debtors

No security is held for any of the accounts receivable.

Consumer debtors impaired

As of 30 June 2017, consumer debtors of R 258 633 917 (2016: R 207 233 176) were impaired and provided for.

No indigent debtors have been written off as uncollectable during the current financial year. An amount of R 5 699 788 was written off during the 2015/2016 financial year as uncollectable.

The amounts best represent the maximum exposure to credit risk at the end of the reporting period without taking into account of any collateral held or other credit enhancements.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	207 233 176	163 056 873
Allowance for impairment	51 400 741	49 876 091
Amounts written off as uncollectable	-	(5 699 788)
	<u>258 633 917</u>	<u>207 233 176</u>

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	<u>31 839 163</u>	<u>54 369 420</u>
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No cash and cash equivalents, or portion thereof, was pledged as security for any financial liabilities.

No restrictions exist regarding the use of cash.

Greater Tzaneen Municipality

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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
Consolidated cash book balance	-	-	-	31 839 163	54 369 420	27 977 498
ABSA BANK - Cheque number - 126 085 0527 Primary Bank Account	-	-	-	-	-	-
ABSA BANK - Cheque account number - 404 896 4222	3 313 689	22 965 320	27 911 345	-	-	-
ABSA BANK - Cheque Account number - 908 197 4990	1 510 568	317 479	66 153	-	-	-
ABSA BANK - Cheque Account number - 405 144 4332	-	-	-	-	-	-
ABSA BANK - Liquidity plus Account - 9312433930 (MIG)	22 534 572	8 228 881	-	-	-	-
ABSA BANK - Liquidity plus Account - 9312434237 (INEP)	4 480 334	22 857 740	-	-	-	-
Total	31 839 163	54 369 420	27 977 498	31 839 163	54 369 420	27 977 498

The Municipality has two bank accounts to control MIG and INEP funds separately.

Credit quality of Cash and cash equivalents

The credit quality of cash and cash equivalents that are neither past due nor impaired can be assessed by reference to the municipality's going concern ratio's which include current ratio, debt ratio and net income to net sales ratio.

9. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	149 081 753	-	149 081 753	141 940 000	-	141 940 000

Reconciliation of investment property - 2017

	Opening balance	Additions	Total
Investment property	141 940 000	7 141 753	149 081 753

Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Change in valuation	Total
Investment property	137 786 000	6 700 000	(1 400 000)	(1 146 000)	141 940 000

Pledged as security

No investment properties was pledged as security for liabilities.

Greater Tzaneen Municipality

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9. Investment property (continued)

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

Details of valuation

The Greater Tzaneen Municipal valuations is based on the valuation roll which is review every four years. The last valuation roll came into effect on 1 July 2013. Supplementary valuations are issued and processed annually to take into account changes in individual property value due to alterations and subdivisions.

10. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	108 830 310	-	108 830 310	108 830 310	-	108 830 310
Infrastructure	2 295 441 571	(1 028 625 790)	1 266 815 781	2 263 705 946	(912 136 694)	1 351 569 252
Community	124 569 696	(25 678 024)	98 891 672	103 663 381	(22 561 144)	81 102 237
Work in progress	58 988 033	-	58 988 033	52 887 258	-	52 887 258
Other assets	70 163 998	(50 305 782)	19 858 216	66 990 723	(44 599 702)	22 391 021
Leased assets	14 349 107	(7 041 695)	7 307 412	12 373 186	(9 034 275)	3 338 911
Total	2 672 342 715	(1 111 651 291)	1 560 691 424	2 608 450 804	(988 331 815)	1 620 118 989

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10. Property, plant and equipment (continued)
Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	108 830 310	-	-	-	-	-	108 830 310
Infrastructure	1 351 569 252	32 169 913	(213 377)	-	(115 887 084)	(822 923)	1 266 815 781
Community	81 102 237	20 906 323	-	-	(3 116 888)	-	98 891 672
Work in progress	52 887 258	60 501 644	-	(54 400 869)	-	-	58 988 033
Other assets	22 391 021	3 451 423	(153 202)	-	(5 831 026)	-	19 858 216
Leased assets	3 338 911	5 718 520	(741 823)	-	(1 008 196)	-	7 307 412
	1 620 118 989	122 747 823	(1 108 402)	(54 400 869)	(125 843 194)	(822 923)	1 560 691 424

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	108 830 310	-	-	-	-	-	108 830 310
Infrastructure	1 417 833 834	82 699 247	-	-	(113 430 586)	(35 533 243)	1 351 569 252
Community	59 692 145	23 838 572	-	-	(2 428 480)	-	81 102 237
Work in progress	79 488 617	67 535 021	-	(94 136 380)	-	-	52 887 258
Other assets	26 381 167	1 884 688	(110 074)	-	(5 764 760)	-	22 391 021
Leased assets	4 049 365	-	-	-	(710 454)	-	3 338 911
	1 696 275 438	175 957 528	(110 074)	(94 136 380)	(122 334 280)	(35 533 243)	1 620 118 989

Pledged as security

None of the property, plant and equipment has been pledged as security for any liabilities.

Greater Tzaneen Municipality

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10. Property, plant and equipment (continued)

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

The prior period balances were restated for prior year errors. Refer to note 60 for detail.

A detailed breakdown of property plant and equipment by asset class can be found in Annexure "B"

11. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 454 305	(1 537 467)	916 838	1 822 937	(1 241 812)	581 125

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	581 125	631 368	(295 655)	916 838

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	840 181	542 641	(792 332)	(9 365)	581 125

Pledged as security

No intangible assets have been pledged as security for any liability.

Greater Tzaneen Municipality

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12. Other financial liabilities		
At Amortised cost		
Other		
DBSA local registered loan stock	15 000 000	15 000 000
Loan Stock - Standard Bank	30 000 000	30 000 000
	45 000 000	45 000 000
Annuity loans		
Annuity loan - DBSA	33 411 167	35 050 211
Annuity loan - ABSA	19 673 107	20 862 705
Annuity loan - INCA	5 523 180	8 685 323
Annuity loan - Standard Bank	8 147 524	14 593 209
Annuity loan - DBSA	7 738 405	31 300 000
	74 493 383	110 491 448
Total other financial liabilities	119 493 383	155 491 448
Non-current liabilities		
At amortised cost		
Other	45 000 000	45 000 000
Annuity loans	57 417 471	82 626 647
	102 417 471	127 626 647
Current liabilities		
At amortised cost	17 075 913	27 864 801

Annuity loan - Standard Bank

This loan has been split into two allocations of R21 011 000 and R13 281 000 and was taken up on 30 June 2012. These loans bear interest at rates of 11,8% and 10,96% respectively and will be fully redeemed on 30 June 2019 and 30 June 2017 respectively.

Annuity loan - ABSA

This loan has been split into two allocations of R25 140 000 and R9 640 000 and was taken up on 15 August 2010. These loans bear interest at rates of 10,62% and 6,75% respectively and will be fully redeemed on 31 July 2025 and 30 June 2016 respectively.

Annuity loan - DBSA

A loan of R41 000 000 of which R 35 010 350 has been allocated during the 2010 / 2011 financial year was taken up to finance capital projects. This loan bears interest at a rate of 6,75% per annum and will be fully redeemed on 31 October 2030.

Annuity loan - INCA

The loan has been taken up to finance the purchase of land. It bears interest at a rate of 12,5% per annum and will be fully redeemed on 31 December 2018.

Loan stock: DBSA (Excelsior 1 000 investment)

An annual investment of R855 619 has been made with Liberty to repay a loan of R15 000 000 on maturity date. The loan bears interest at a variable rate and will be redeemed on 30 September 2019.

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12. Other financial liabilities (continued)

Annuity loan: DBSA

A loan of R 31 300 000 has been allocated to the municipality during May 2016 by DBSA. The loan bears interest at 9% and will be fully redeemed on 30 June 2018. The loan is in respect of the DBSA, INEP frontloading programme as proposed by the Department of Energy (DOE)

Loan Stock: Standard Bank

A loan of R 30 000 000 has been taken up to finance capital projects. The loan bears interest at a rate of 12.09 % per annum and will be redeemed on 16 October 2025.

Undrawn borrowings

There were no undrawn borrowing facilities that were available for future activities or to settle capital commitments at 30 June 2017.

None of the loans are secured by any fixed or movable assets of the Greater Tzaneen Municipality.

The municipality did not default on any of the borrowings in respect of capital or interest portions.

No terms attached to the financial liabilities were re-negotiated.

13. Finance lease obligation

Minimum lease payments due

- within one year	2 443 258	267 567
- in second to third year inclusive	4 054 507	-
	<u>6 497 765</u>	<u>267 567</u>
less: future finance charges	(1 180 633)	(13 742)
Present value of minimum lease payments	<u>5 317 132</u>	<u>253 825</u>

Present value of minimum lease payments due

- within one year	1 758 832	253 825
- in second to third year inclusive	3 558 300	-
	<u>5 317 132</u>	<u>253 825</u>

Non-current liabilities

Current liabilities	3 558 300	-
	1 758 832	253 825
	<u>5 317 132</u>	<u>253 825</u>

The average lease term was 2 to 3 years. Interest rates are fixed at the contract date. Certain leases have fixed repayments and other escalate. No arrangements have been entered into for contingent rent.

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

The municipality did not default on any of the interest or capital repayments of the finance leases.

No terms and conditions of the finance leases were re-negotiated during the reporting period.

The municipality entered into new finance leases for:

- Photo Copiers
- Telephone system.