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Kgatelopele Local Municipality
(Registration number NC086)
Annual Financial Statements
for the year ended 30 June 2018

Index

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

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
INEP	Integrated National Electrification Programme
FMG	Finance Management Grant
IPSAS	International Public Sector Accounting Standards
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Infrastructure Grant
MWIG	Municipal Water Infrastructure Grant
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

Accounting Officer's Responsibilities and Approval

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

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

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

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

The accounting officers have reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is mostly dependent on conditional grants fro continuous funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2018 and were signed on its behalf by:

M January
Accounting Officer

Audit Committee Report

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

Audit Committee Report

Audit Committee Report

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

Towards the end of this year marked the start of the new dawn since my appointment as the Head of Administration and Accounting Officer of Kgatelopele Local Municipality. It is my pleasure to have lead the transition during a disclaimer of opinion with a lean structure; limited skills and a demoralised workforce into a strong organisation backed by competent and dynamic workforce who have hit the ground running, in order to ensure that the municipality fulfils its function and has a positive impact on the quality of services provided to its citizens.

In this municipality we believe that in everything we do, we should provide quality services efficiently, effectively and on time. However, to be able to do so, significant investment needs to be made in the organisation, in stakeholder relations, processes and systems.

The administrative operations of the municipality struggled to provide a stable environment, due to the fact that the Kgatelopele local municipality is a human resource driven municipality it is essential that the vacancy rates are maintained at a very low level. The vacancy rate that existed affected the mandate of the municipality in providing quality services to its residents at the most economical manner. In the last quarter of the financial year we managed to appoint key strategic officials namely the Municipal Manager, Chief Financial Officer and Senior Administration officer responsible for Legal, Compliance & Corporate Services. However, it needs to be mentioned that these appointments include positions that have been vacated during the year.

The municipality developed a strategy by which the residents would direct their complaints to the customer care so it would be immediately directed to the relevant officials for quick action. This will ensure we avert the frustrated community from protesting by creating a communication channel between the community and the municipality. This strategy fulfils the mandate of local government with specific reference to ensuring closeness to the community, to the municipal operations and provide a platform where the community can interact with the municipality.

The municipality is engaged in Local municipal function as set out in the Constitution (Act 117 of 1996) and operates in Danielskuil, South Africa.

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

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

Net surplus of the municipality was R 23 208 092 (2017: deficit R 4 203 835).

2. Going concern

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

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

3. Subsequent events

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

A contingency has been resolved subsequent to the year-end and a provision is included as an adjusting event in the financial statements of the municipality.

Accounting Officer's Report

4. Accounting Officers' interest in contracts

In terms of the Supply Chain Management Policy of the municipality, councillors and officials are prohibited from entering into commercial transactions with the municipality.

Councillors and officials are required to disclose any business interest which they may have elsewhere.
The register of declaration of interest is available for inspection at the office of the Chief Whip.

Consistent with the Supply Chain Management Policy of the municipality, none of the councillors or officials entered into any commercial transactions with the municipality during the period of reporting. The Accounting Officer does not have any interest in contracts.

No significant challenges were experienced in the operations of supply chain management. However, it needs to be noted that the finalisation of the extension of the waste water treatment project was delayed due to specific requirements from the department of water & sanitation that had a direct impact on the quality of work performed. The technicalities around awarding the bid to the lowest price presented much concerns relating the sustainability of the projects. It was important for the municipality to ensure that the proposed service providers are able to render sustainable services that will ensure the achievement of the set project objectives. Full compliance to bidding process has been ensured.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Non-current assets

There were specific changes in the physical nature of non-current assets of the municipality during the year. The additions of refuse trucks and cherry picker with the main aim of improving the quality of services to the community. The non-current assets are disclosed accordingly as per the required GRAP standards.

7. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Changes
AM Motswana	Contract ended, 31 January 2018
M January	Appointed Thursday, 01 March 2018

8. Auditors

The Auditor General will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	5 494 540	4 310 867
Receivables from exchange transactions	4	17 809 490	15 005 404
Receivables from non-exchange transactions	16	8 450 942	15 043 205
VAT receivable	6	6 020 714	7 692 564
Cash and cash equivalents	7	14 242 249	6 473 440
		52 017 935	**48 525 480**
Non-Current Assets			
Investment property	8	43 219 406	42 791 490
Property, plant and equipment	9	283 637 833	274 876 889
Intangible assets	10	973 467	1 043 573
Heritage assets	11	886 058	886 059
		328 716 764	**319 598 011**
Total Assets		**380 734 699**	**368 123 491**
Liabilities			
Current Liabilities			
Finance lease obligation	13	2 497	133 037
Payables from exchange transactions	14	32 803 181	43 028 467
Consumer deposits	15	1 493 864	1 415 182
Employee benefit obligation	17	269 193	163 000
Unspent conditional grants and receipts	18	10 967 741	5 464 558
Accrued employee benefits	20	1 925 053	1 858 894
Bank overdraft	7	-	1 581 523
		47 461 529	**53 644 661**
Non-Current Liabilities			
Employee benefit obligation	17	1 160 287	1 138 000
Provisions	19	2 704 540	2 170 688
		3 864 827	**3 308 688**
Total Liabilities		**51 326 356**	**56 953 349**
Net Assets		**329 408 343**	**311 170 142**
Accumulated surplus		329 408 343	311 170 142

* See Note 54 & 53

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	37 047 955	37 862 374
Interest received (trading)		61 480	90 563
Licences and permits		2 460 983	364 192
Commissions received		-	1 093 489
Rental income		1 097 756	181 991
Other income		623 540	529 091
Interest received - investment	26	850 591	375 732
Fair value adjustments		427 915	651 450
Actuarial gains		104 912	75 185
Gains with inventory valuation		818 676	-
Total revenue from exchange transactions		**43 493 808**	**41 224 067**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	12 282 764	6 533 755
Transfer revenue			
Government grants & subsidies	22	47 637 819	38 757 492
Public contributions and donations	23	8 489 424	10 396 601
Fines, Penalties and Forfeits		12 136	17 509
Total revenue from non-exchange transactions		**68 422 143**	**55 705 357**
Total revenue		**111 915 951**	**96 929 424**
Expenditure			
Employee related costs	27	(23 606 394)	(23 802 201)
Remuneration of councillors	28	(2 243 859)	(2 197 163)
Depreciation and amortisation	29	(17 031 514)	(15 141 296)
Impairment loss/ Reversal of impairments	30	(4 535 644)	(12 011 248)
Finance costs	31	(1 316 988)	(2 804 525)
Bulk purchases	32	(21 794 781)	(17 472 643)
Contracted services	33	(4 592 575)	(2 494 910)
Loss on disposal of assets and liabilities		-	(1 226 881)
General Expenses	34	(13 586 104)	(15 574 722)
Total expenditure		**(88 707 859)**	**(92 725 589)**
Surplus for the year		**23 208 092**	**4 203 835**

* See Note 54 & 53

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	298 894 421	298 894 421
Adjustments		
Correction of errors	8 071 886	8 071 886
Balance at 01 July 2016 as restated*	**306 966 307**	**306 966 307**
Changes in net assets		
Surplus for the year	4 203 835	4 203 835
Total changes	4 203 835	4 203 835
Opening balance as previously reported	311 170 144	311 170 144
Adjustments		
Correction of errors	(4 969 893)	(4 969 893)
Restated* Balance at 01 July 2017 as restated*	**306 200 251**	**306 200 251**
Changes in net assets		
Surplus for the year	23 208 092	23 208 092
Total changes	23 208 092	23 208 092
Balance at 30 June 2018	**329 408 343**	**329 408 343**

Note(s)

* See Note 54 & 53

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		46 234 748	26 938 791
Grants		68 234 825	46 841 210
Interest income		850 591	375 732
		115 320 164	74 155 733
Payments			
Employee costs		(25 616 861)	(25 761 179)
Suppliers		(49 031 876)	(22 114 617)
Finance costs		(1 316 988)	(2 804 525)
		(75 965 725)	(50 680 321)
Net cash flows from operating activities	37	**39 354 439**	**23 475 412**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(29 493 931)	(29 412 015)
Proceeds from sale of property, plant and equipment	9	(427 916)	10 455 152
Purchase of other intangible assets	10	48 280	(995 117)
Purchases of heritage assets	11	-	(11 059)
Net cash flows from investing activities		**(29 873 567)**	**(19 963 039)**
Cash flows from financing activities			
Movement in accrued leave benefits		-	(637 552)
Finance lease payments		(130 540)	64 920
Net cash flows from financing activities		**(130 540)**	**(572 632)**
Net increase/(decrease) in cash and cash equivalents		**9 350 332**	**2 939 741**
Cash and cash equivalents at the beginning of the year		4 891 917	1 952 176
Cash and cash equivalents at the end of the year	7	**14 242 249**	**4 891 917**

* See Note 54 & 53

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	40 826 000	2 701 000	**43 527 000**	37 047 955	**(6 479 045)**	
Rental of facilities and equipment	137 000	1 614 000	**1 751 000**	1 097 756	**(653 244)**	
Interest received (trading)	-	-	**-**	61 480	**61 480**	
Agency services	700 000	-	**700 000**	623 540	**(76 460)**	
Licences and permits	53 000	-	**53 000**	2 460 983	**2 407 983**	
Other income	2 981 000	3 722 000	**6 703 000**	-	**(6 703 000)**	
Interest received - investment	391 000	44 000	**435 000**	850 591	**415 591**	
Gains on disposal of assets	300 000	-	**300 000**	-	**(300 000)**	
Total revenue from exchange transactions	**45 388 000**	**8 081 000**	**53 469 000**	**42 142 305**	**(11 326 695)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	14 165 000	(545 000)	**13 620 000**	12 282 764	**(1 337 236)**	
Transfer revenue						
Government grants & subsidies	23 042 000	149 000	**23 191 000**	21 812 033	**(1 378 967)**	
Public contributions and donations	-	-	**-**	8 489 424	**8 489 424**	
Fines, Penalties and Forfeits	1 018 000	(516 000)	**502 000**	12 136	**(489 864)**	
Capital transfer and subsidies	12 099 000	23 200 000	**35 299 000**	25 825 786	**(9 473 214)**	
Total revenue from non-exchange transactions	**50 324 000**	**22 288 000**	**72 612 000**	**68 422 143**	**(4 189 857)**	
Total revenue	**95 712 000**	**30 369 000**	**126 081 000**	**110 564 448**	**(15 516 552)**	
Expenditure						
Personnel	(28 308 000)	2 339 000	**(25 969 000)**	(23 606 394)	**2 362 606**	
Remuneration of councillors	(2 348 000)	63 000	**(2 285 000)**	(2 243 859)	**41 141**	
Depreciation and amortisation	(9 018 000)	-	**(9 018 000)**	(17 031 514)	**(8 013 514)**	
Finance costs	-	-	**-**	(1 316 988)	**(1 316 988)**	
Debt Impairment	(5 774 000)	-	**(5 774 000)**	(4 535 644)	**1 238 356**	
Bulk purchases	(17 423 000)	(4 710 000)	**(22 133 000)**	(21 794 781)	**338 219**	
Contracted Services	(6 328 000)	(121 000)	**(6 449 000)**	(4 592 575)	**1 856 425**	
General Expenses	(12 055 000)	(3 420 000)	**(15 475 000)**	(13 586 104)	**1 888 896**	
Other materials	(2 069 000)	(1 483 000)	**(3 552 000)**	-	**3 552 000**	
Total expenditure	**(83 323 000)**	**(7 332 000)**	**(90 655 000)**	**(88 707 859)**	**1 947 141**	
Operating surplus	**12 389 000**	**23 037 000**	**35 426 000**	**21 856 589**	**(13 569 411)**	
Fair value adjustments	-	-	**-**	427 915	**427 915**	
Actuarial gains/losses	-	-	**-**	104 912	**104 912**	
Gains with inventory revaluation	-	-	**-**	818 676	**818 676**	
	-	**-**	**-**	**1 351 503**	**1 351 503**	
Surplus before taxation	**12 389 000**	**23 037 000**	**35 426 000**	**23 208 092**	**(12 217 908)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**12 389 000**	**23 037 000**	**35 426 000**	**23 208 092**	**(12 217 908)**	

Kgatelopele Local Municipality

(Registration number NC086)
Trading as Kgatelopele Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	5 494 540	**5 494 540**	
VAT receivable	-	-	**-**	6 020 714	**6 020 714**	
Consumer debtors	17 801 000	-	**17 801 000**	26 260 432	**8 459 432**	
Cash and cash equivalents	314 000	-	**314 000**	14 242 249	**13 928 249**	
	18 115 000	**-**	**18 115 000**	**52 017 935**	**33 902 935**	
Non-Current Assets						
Investment property	-	-	**-**	43 219 406	**43 219 406**	
Property, plant and equipment	234 341 000	-	**234 341 000**	283 637 833	**49 296 833**	
Intangible assets	-	-	**-**	973 467	**973 467**	
Heritage assets	-	-	**-**	886 058	**886 058**	
	234 341 000	**-**	**234 341 000**	**328 716 764**	**94 375 764**	
Total Assets	**252 456 000**	**-**	**252 456 000**	**380 734 699**	**128 278 699**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	2 497	**2 497**	
Payables from exchange transactions	19 825 000	-	**19 825 000**	32 803 182	**12 978 182**	
Consumer deposits	1 209 000	-	**1 209 000**	1 493 864	**284 864**	
Employee benefit obligation	-	-	**-**	269 193	**269 193**	
Unspent conditional grants and receipts	-	-	**-**	10 967 741	**10 967 741**	
Accrued employee benefits	-	-	**-**	1 925 053	**1 925 053**	
	21 034 000	**-**	**21 034 000**	**47 461 530**	**26 427 530**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	1 160 287	**1 160 287**	
Provisions	6 212 000	-	**6 212 000**	2 704 540	**(3 507 460)**	
	6 212 000	**-**	**6 212 000**	**3 864 827**	**(2 347 173)**	
Total Liabilities	**27 246 000**	**-**	**27 246 000**	**51 326 357**	**24 080 357**	
Net Assets	**225 210 000**	**-**	**225 210 000**	**329 408 342**	**104 198 342**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	225 210 000	-	**225 210 000**	329 408 345	**104 198 345**	
Undefined Difference	-	-	-	(3)	(3)	
Total Net Assets	**225 210 000**	**-**	**225 210 000**	**329 408 345**	**104 198 345**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

The municipality implemented the Municipal Standard Chart of Accounts (mSCOA) during the year ended 30 June 2018, as required by National Treasury through directives and guidelines issued.

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the increase in usage assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

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 19 - Provisions.

Useful lives of waste and water network and other assets

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate plus 2% 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.

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.

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

Accounting Policies

1.5 Investment property (continued)

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.

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.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- Housing to employees in service of the municipality

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 8).

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.

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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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.

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	10-100 years
Housing	Straight line	15-100 years
Plant and machinery	Straight line	5-15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	5-20 years
Office equipment	Straight line	3-5 years
IT equipment	Straight line	3-5 years
Roads infrastructure	Straight line	7-100 years
Sanitation infrastructure	Straight line	20-100 years
Solid waste infrastructure	Straight line	10-50 years
Sport and recreation facilities	Straight line	15-30 years
Storm water infrastructure	Straight line	20-50 years
Water supply infrastructure	Straight line	15-80 years
Heritage assets	Straight line	Indefinite

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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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.

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 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Licenses and franchises	Straight line	1 year
Computer software	Straight line	3 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

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

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

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

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

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

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

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

Accounting Policies

1.8 Heritage assets (continued)

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

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

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

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

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

Derecognition

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

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

1.9 Financial instruments

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

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

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables for exchange transactions	Financial asset measured at amortised cost
Receivables for non-exchange transactions	Financial asset measured at amortised cost

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.9 Financial instruments (continued)

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity 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.

1.9 Financial instruments (continued)

Financial liabilities

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

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

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

Presentation

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

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

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

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

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

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

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

1.10 Statutory receivables (continued)

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

Accrued interest

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

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

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

Impairment losses

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

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

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

Accounting Policies

1.10 Statutory receivables (continued)

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

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

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

Derecognition

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

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

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

1.11 Leases

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

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

Finance leases - lessee

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

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

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

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

1.12 Inventories

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

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

Accounting Policies

1.12 Inventories (continued)

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.13 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.13 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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

Accounting Policies

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

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 current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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

Restoration cost approach

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

Accounting Policies

1.14 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 assesses 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.

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

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

Redesignation

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

1.15 Employee benefits

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

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

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

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.16 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

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

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

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

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

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Accounting Policies

1.17 Commitments (continued)

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

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

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

Taxes

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

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

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

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

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

Fines

Fines are 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.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related 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.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Comparative figures

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

With the adoption of MSCOA the municipality reclassified certain balances in order to comply with the instruction notes issued by National Treasury.

The result of the reclassification is set out below and in the relevant Notes to the financial statements.

1.23 Unauthorised expenditure

Unauthorised expenditure means:

Accounting Policies

1.23 Unauthorised expenditure (continued)

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

Irregular expenditure as defined in the Muncipal Finance Management Act (Act 56 of 2003) is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

Accounting Policies

1.26 Revaluation reserve

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

1.27 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

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

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity’s financial statements to understand the effect of related party transactions on its annual financial statements.

Accounting Policies

1.29 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.

2. New standards and interpretations

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

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

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

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

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

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

GRAP 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).

2. New standards and interpretations (continued)

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual 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 expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources 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:

2. New standards and interpretations (continued)

- 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; 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 a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, 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 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 108: Statutory Receivables

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

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

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

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. New standards and interpretations (continued)

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Inventories

Land held for sale	3 425 410	3 425 410
Maintenance materials	1 646 278	497 964
Water	422 852	387 493
	5 494 540	**4 310 867**

Inventories recognised as an expense during the year	682 336	1 121 103

Inventory pledged as security

No inventory is pledged as security to financial instruments held by the municipality.

4. Receivables from exchange transactions

Trade debtors	15 346 943	13 254 327
Other receivables	1 479 164	1 751 077
Prepaid expenses	983 383	-
	17 809 490	**15 005 404**

Trade and other receivables pledged as security

No trade and other receivables have been pledged as security.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2018, R 9 850 084 (2017: R 12 255 993) were past due but not impaired.

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

1 month past due	2 053 583	4 665 879
2 months past due	648 650	217 882
3 months past due	465 906	118 372
4 months past due	6 681 945	11 453 160

5. Reconciliation of trade receivables for exchange transactions

Gross balances		
Electricity	8 191 841	7 791 347
Water	18 379 138	15 621 436
Sewerage	8 135 991	6 653 962
Refuse	8 983 871	7 853 132
Housing rental	15 880	14 992
Sundries & VAT	8 637 068	7 780 656
	52 343 789	**45 715 525**

Less: Allowance for impairment		
Electricity	(6 267 124)	(5 423 034)
Water	(16 164 676)	(10 513 328)
Sewerage	(6 848 306)	(5 754 895)
Refuse	(7 206 197)	(7 338 200)
Housing rental	-	(17 090)
Sundries	(478 914)	(3 414 652)
	(36 965 217)	**(32 461 199)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Reconciliation of trade receivables for exchange transactions (continued)

Net balance		
Electricity	1 924 717	2 368 313
Water	2 214 462	5 108 108
Sewerage	1 287 685	899 067
Refuse	1 777 674	514 932
Housing rental	15 747	(2 098)
Sundries	8 158 154	4 366 004
	15 378 439	**13 254 326**

6. VAT receivable

VAT	6 020 714	7 692 564

VAT is payable / receivable on the cash basis. VAT is paid over to SARS once payment is received from debtors and claimed from SARS once suppliers have been paid. This amount is the net effect of the municipalities control accounts for debtors and creditors (inclusive of VAT on capital goods) for which debtor payments were received and creditor payments have been made.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 060 664	-
Short-term deposits	12 181 585	6 473 440
Bank overdraft	-	(1 581 523)
	14 242 249	**4 891 917**
Current assets	14 242 249	6 473 440
Current liabilities	-	(1 581 523)
	14 242 249	**4 891 917**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - MIG Call account 62021476313	11 002 066	5 422 969	59 570	11 002 066	5 130 017	59 570
First National Bank - INEP Call account 62289233547	199	50 912	432 951	199	2 704 307	432 951
First National Bank - Business Cheque Account 52003878794	3 040 877	325 922	361 069	2 060 664	-	361 069
First National Bank - MSIG Call account 62627395347	57	349 325	-	57	349 325	-
First National Bank - FMG Call account 62627396155	799 788	301 833	-	799 788	34 262	-
First National Bank - EPWP Call account 62627396915	53 760	40 148	-	53 760	40 148	-
First National Bank - Library Call account 62627394498	181 367	182 135	-	181 367	182 135	-
First National Bank - WSIG Call account 62714846500	22 111	-	-	22 111	-	-
Total	**15 100 225**	**6 673 244**	**853 590**	**14 120 012**	**8 440 194**	**853 590**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	43 219 406	-	43 219 406	42 791 490	-	42 791 490

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	42 791 490	427 916	43 219 406

Reconciliation of investment property - 2017

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	49 165 940	(6 798 127)	423 677	42 791 490

Pledged as security

No investment property was pledged as security to financial instruments held.

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.

Amounts recognised in surplus or deficit

	2018	2017
From Investment property that generated rental revenue		
Repairs and maintenance	453 160	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Other assets	17 787 809	(7 158 647)	10 629 162	17 787 809	(6 534 689)	11 253 120
Plant and machinery	1 090 945	(458 813)	632 132	1 090 944	(366 495)	724 449
Furniture and fixtures	1 060 414	(383 571)	676 843	1 060 415	(265 066)	795 349
Motor vehicles	3 316 881	(370 777)	2 946 104	2 876 780	(980 268)	1 896 512
Office equipment	889 167	(393 706)	495 461	883 275	(297 323)	585 952
IT equipment	1 810 263	(401 352)	1 408 911	1 640 586	(421 397)	1 219 189
Community	19 276 201	(9 321 354)	9 954 847	19 276 201	(8 942 389)	10 333 812
Electrical infrastructure	107 180 084	(53 665 049)	53 515 035	106 171 624	(49 309 635)	56 861 989
Roads infrastructure	184 670 475	(88 399 094)	96 271 381	182 897 528	(81 464 818)	101 432 710
Sanitation infrastructure	49 229 018	(21 606 222)	27 622 796	49 229 018	(19 764 919)	29 464 099
Solid waste infrastructure	4 613 688	(1 663 020)	2 950 668	3 775 469	(1 413 987)	2 361 482
Water infrastructure	71 538 774	(19 951 780)	51 586 994	67 962 060	(16 737 758)	51 224 302
Leased assets	-	-	-	137 010	(137 010)	-
Work in progress	24 947 499	-	24 947 499	6 723 924	-	6 723 924
Total	**487 411 218**	**(203 773 385)**	**283 637 833**	**461 512 643**	**(186 635 754)**	**274 876 889**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Total
Other assets	11 253 120	-	-	(623 958)	-	10 629 162
Plant and machinery	724 449	-	-	(92 317)	-	632 132
Furniture and fixtures	795 349	-	-	(118 287)	(219)	676 843
Motor vehicles	1 896 512	1 430 098	-	(380 506)	-	2 946 104
Office equipment	585 952	5 892	-	(96 383)	-	495 461
IT equipment	1 219 189	411 631	-	(190 213)	(31 696)	1 408 911
Community	10 333 812	-	-	(378 965)	-	9 954 847
Electrical infrastructure	56 861 989	1 008 459	-	(4 355 413)	-	53 515 035
Roads infrastructure	101 432 710	1 772 947	-	(6 934 276)	-	96 271 381
Sanitation infrastructure	29 464 099	-	-	(1 841 303)	-	27 622 796
Solid waste infrastructure	2 361 482	304 367	533 852	(249 033)	-	2 950 668
Water infrastructure	51 224 302	3 576 714	-	(3 214 022)	-	51 586 994
Work in progress	6 723 924	18 223 575	-	-	-	24 947 499
	274 876 889	**26 733 683**	**533 852**	**(18 474 676)**	**(31 915)**	**283 637 833**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Other assets	14 184 125	386 771	(2 865 311)	-	-	(452 465)	-	11 253 120
Plant and machinery	811 900	4 305	-	-	-	(91 756)	-	724 449
Furniture and fixtures	660 820	234 444	-	-	-	(99 915)	-	795 349
Motor vehicles	2 159 063	-	-	-	-	(262 551)	-	1 896 512
Office equipment	488 239	205 022	-	-	-	(107 309)	-	585 952
IT equipment	658 049	771 473	-	-	-	(210 333)	-	1 219 189
Community	10 422 865	155 227	(14 607)	-	-	(229 673)	-	10 333 812
Electrical infrastructure	56 297 237	7 120 801	(1 051 084)	-	-	(4 508 194)	(996 771)	56 861 989
Roads infrastructure	105 767 213	-	-	-	-	(4 334 503)	-	101 432 710
Sanitation infrastructure	30 410 782	-	-	-	-	(946 683)	-	29 464 099
Solid waste infrastructure	2 953 228	-	-	-	(328 337)	(263 409)	-	2 361 482
Water infrastructure	27 053 297	680 604	-	25 238 951	-	(1 748 550)	-	51 224 302
Leased assets	42 667	-	-	-	-	(42 667)	-	-
Work in progress	18 399 477	13 563 398	-	(25 238 951)	-	-	-	6 723 924
	270 308 962	**23 122 045**	**(3 931 002)**	**-**	**(328 337)**	**(13 298 008)**	**(996 771)**	**274 876 889**

Other assets includes land and building and the depreciation related only to the building portion of other assets.

Pledged as security

No property plant and equipment was pledged as security to financial instruments.

Depreciation rates

Depreciation rates and estimated useful lives to property plant and equipment was reviewed during the financial year and included in the accounting policy to the property plant and equipment.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	6 723 925	6 723 925
Additions/capital expenditure	22 456 208	22 456 208
Transferred to completed items	(4 232 634)	(4 232 634)
	24 947 499	**24 947 499**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	18 399 477	18 399 477
Additions/capital expenditure	14 132 456	14 132 456
Transferred to completed items	(25 808 007)	(25 808 007)
	6 723 926	**6 723 926**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Buildings	69 400	51 843
Community buildings	6 353	-
Electrical infrastructure	119 932	34 375
Furniture and fittings	1 770	1 200
Machinery equipment	19 964	10 414
Motor vehicles	590 632	463 433
Roads infrastructure	558	401 251
Sewerage infrastructure	121 550	279 701
Water infrastructure	295 391	148 108
	1 225 550	**1 390 325**

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

10. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Licenses and franchises	490 237	(177 264)	312 973	464 394	(81 315)	383 079
Servitudes	660 494	-	660 494	660 494	-	660 494
Total	**1 150 731**	**(177 264)**	**973 467**	**1 124 888**	**(81 315)**	**1 043 573**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Licenses and franchises	383 079	25 843	(95 949)	312 973
Servitudes	660 494	-	-	660 494
	1 043 573	**25 843**	**(95 949)**	**973 467**

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Licenses and franchises	70 222	387 508	(74 651)	383 079
Servitudes	660 494	-	-	660 494
	730 716	**387 508**	**(74 651)**	**1 043 573**

Pledged as security

No intangible assets are pledged as security to financial instruments held.

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

11. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Conservation areas	25 000	-	25 000	25 000	-	25 000
Historical buildings	861 058	-	861 058	861 059	-	861 059
Total	**886 058**	**-**	**886 058**	**886 059**	**-**	**886 059**

Reconciliation of heritage assets 2018

	Opening balance	Total
Conservation areas	25 000	25 000
Historical buildings	861 058	861 058
	886 058	**886 058**

Reconciliation of heritage assets 2017

	Opening balance	Total
Conservation areas	25 000	25 000
Historical buildings	861 058	861 058
	886 058	**886 058**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Heritage assets (continued)

Pledged as security

No heritage assets are pledged as security to financial instruments held.

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.

12. Operating lease asset (accrual)

Operating leases comprise of lease contracts to employees for housing. These houses are registered in the municipality's name and monthly rent is payable by the lessee in accordance with the contract for the period of occupation.

Due to the fact that the housing is made available for the employment period of the employee, the lease period is undeterminable and no operating lease accrual or operating lease asset is accounted for through the straight-lining of leases, as is permitted by GRAP 13.

The operating lease revenue as presented in the Statement of Financial Performance is accounted for on the accrual basis in accordance with the Standards of GRAP and presents a more reliable indication of revenue that has accrued to the municipality.

13. Finance lease obligation

	2018	2017
Minimum lease payments due		
- within one year	2 519	138 345
- in second to fifth year inclusive	-	2 519
	2 519	140 864
less: future finance charges	(22)	(7 827)
Present value of minimum lease payments	**2 497**	**133 037**

	2018	2017
Present value of minimum lease payments due		
- within one year	2 497	130 540
- in second to fifth year inclusive	-	2 497
	2 497	**133 037**

It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 2 years and the average effective borrowing rate was 4% (2017: 4%).

Interest rates are linked to prime at the contract date. All leases escalate at 8% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 13.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Payables from exchange transactions

Trade payables	22 207 111	30 652 613
Accrual creditors	10 194	1 907 172
Prepaid services sold not utilised	11 339	77 987
Accrued expenses	5 545 920	4 343 144
Deposits received	3 923 760	1 851 233
Debtors with credit balances	1 431 131	1 825 063
Salary control account	(79 148)	487 446
Community hall	750	750
Unknown bank transfers	(247 876)	1 883 059
	32 803 181	**43 028 467**

15. Consumer deposits

Electricity	1 493 864	1 415 182

Consumer deposits consists of electricity deposits received.

16. Receivables from non-exchange transactions

Legal claims	177 948	177 948
Salary control	-	566 594
Other receivables - traffic collections	1 822 028	1 822 028
Consumer debtors - Rates	15 146 780	21 172 449
Consumer debtors - Other (Specified)	(8 695 814)	(8 695 814)
	8 450 942	**15 043 205**

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions have been pledged as security to financial instruments held.

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 3 106 001 (2017: R 21 186 625) were impaired and provided for.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Employee benefit obligations

Long service awards

Completed years of service	Long service leave award (working days	Long service bonus award (% of annual salary)	Total long service benefit award (% of annual salary)	Formula used to calculate long service benefit award
10	10	3%	7%	(10 / 250 +3%)
15	10	4%	8%	(10 / 250 +4%)
20	15	5%	11%	(15 / 250 +5%)
25,30,35,40 and 45	15	6%	12%	(15 / 250 +6%)

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of assets

As at the valuation date, the long service leave award liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles as prescribed by GRAP 25 and in discussion with the actuary.

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

	Assumed value 30 June 2018	**Assumed value 30 June 2017**
Discount rate	Yield curve	Yield curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal salary increase rate	CPI +1%	CPI +1%
Net effective discount rate	Yield-curve based	Yield-curve based
Non-current liabilities	(1 160 287)	(1 138 000)
Current liabilities	(269 193)	(163 000)

Discount rate

GRAP 25 defines the determination of the discount rate assumption to be used as follows: “The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.”

We use the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

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

The disount rate asssumed for the valuation was 8.44%. The Net Effective disount rate is 2.25%.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Employee benefit obligations (continued)

Normal salary inflation rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period.

Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2017 of 6%. As at the time of this valuation South African Municipal salaries' negotiations were still in progress. Therefore, for the purpose of performing this valuation, we have assumed an incrase rate of 6.05% (2017: 6.79%) in this year's valuation. Due to the increases not being finalised by SALGBC.

Average retirement age

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

Normal retirement age

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

Mortality rates

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

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

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

Total eligible employees	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20-29	21	187 768	2,68	3 477
30-39	40	170 875	5,87	11 541
40-49	23	181 273	13,41	28 055
50-59	15	179 018	15,23	16 636
60+	2	191 581	31,27	-
	101	**910 515**	**68**	**59 709**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Employee benefit obligations (continued)

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

Opening balance	1 301 000	1 138 000
Net expense recognised in the statement of financial performance	128 480	163 000
	1 429 480	**1 301 000**

Net expense recognised in the statement of financial performance

Current service cost	163 000	151 000
Interest cost	137 000	118 000
Actuarial (gains) losses	(104 912)	(75 185)
Benefits paid	(66 608)	(30 815)
	128 480	**163 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(104 912)	(75 185)

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent portion of conditional grant - MIG	10 483 941	5 210 726
Unspent portion of conditional grant - Housing grant	66 792	66 792
Unspent portion of conditional grant - FMG	417 008	37 784
Unspent portion of conditional grant - Library grant	-	149 256
	10 967 741	**5 464 558**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 22 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	2 170 688	533 852	2 704 540

Reconciliation of provisions - 2017

	Opening Balance	Total
Environmental rehabilitation	2 170 688	2 170 688

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on environmental rehabilitation, based on prior experience and knowledge of experts.

Environmental rehabilitation provision

The environmental rehabilitation provision is based on the report of the engineers.

As per the available data to the consulting engineers, the landfill site in Danielskuil is not licensed.
The rehabilitation site consists of 12,376m² with a rehabilitation volume of 4,950m³
.
The remaining useful life until closure of the site as at 30 June 2018 is estimated to be 9 years.

Key financial assumptions have been used to estimate the value of the provision of the environmental provision.

The major key assumptions are:
Discount rate (Bond rate) 7.93%
Escalatation rate (SAFCEC) 7.15%
Net effective discount rate 0.78%

The closure of the environmental rehabilitation site remains uncertain and have been provided for in accordance with the Standards of GRAP, Provisions and contingencies.

The amount of the asset as at 30 June 2018 has been calculated as R 3,981,821 (2017: R 3,447,977). The asset and its value is also disclosed in the note to property, plant and equipment as is prescribed by the Standards of GRAP.

It is to be noted that the non-licensing of a environmental rehabilitation site is in contravention of the National Waste Management Act, Act 59 of 2008.

This legislation sets out the penalties and offences of managing a non-licensed environmental rehabilitation site and stipulates that this offence may result in a penalty fine not exceeding R 10,000,000 or imprisonment of a period not exceeding 10 years, or both such fines and penalties.

Due to the contingent liability that may arise from the unlicensed environmental rehabilitation site, a contingent liability is disclosed in the notes to the financial statements - Contingent Liabilities.

20. Accrued employee benefits

	2018	2017
Employee benefit - leave provision	1 291 666	1 243 658
Employee benefit - bonus provision	633 387	615 235
	1 925 053	**1 858 893**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Property rates

Rates received

Residential	4 811 772	1 652 278
Commercial	1 203 068	1 048 995
State	338 240	240 641
Small holdings and farms	2 478 448	242 401
Mining	3 451 236	3 349 440
	12 282 764	**6 533 755**

Valuations

Residential	1 603 415 100	1 603 415 100
Commercial	106 713 606	106 713 606
State	107 852 300	107 852 300
Municipal	3 736 300	3 736 300
Mining	235 425 500	235 425 500
	2 057 142 806	**2 057 142 806**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2013. The municipality did receive extension from the MEC. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2019.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies

Operating grants		
Equitable share	18 974 000	17 778 624
MSIG grant	-	699 353
FMG grant	1 965 777	2 286 993
Library grant	872 256	1 552 917
	21 812 033	**22 317 887**
Capital grants		
MIG grant	20 825 786	15 462 274
MWIG grant	4 000 000	-
EPWP grant	1 000 000	977 331
	25 825 786	**16 439 605**
	47 637 819	**38 757 492**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	28 663 819	20 978 868
Unconditional grants received	18 974 000	17 778 624
	47 637 819	**38 757 492**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 500 in excess of twice the pensionable amount of the applicant, which is funded from the grant.

The equitable share allocation was received in full during the year with no outstanding allocations due to the municipality.

Municipal Infrastructure Grant

Balance unspent at beginning of year	5 210 726	4 321
Current-year receipts	26 099 000	20 673 000
Conditions met - transferred to revenue	(20 825 785)	(15 470 916)
Other	-	4 321
	10 483 941	**5 210 726**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions to provide for new, rehabilitated and upgraded municipal infrastructure.

Municipal Systems Infrastructure Grant

Balance unspent at beginning of year	-	699 353
Current-year receipts	-	(699 353)
	-	**-**

Conditions still to be met - remain liabilities (see note 18).

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

The Municipal Systems Infrastructure Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems.

Municipal Water Infrastructure Grant

Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	(4 000 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 18).

The Municipal Water Infrastructure Grant was allocated for the water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions to provide for new, rehabilitated and upgraded municipal infrastructure.

Housing grant

Balance unspent at beginning of year	66 792	66 792

Conditions still to be met - remain liabilities (see note 18).

The housing grant is allocated to the municipality for providing housing to beneficiaries within the municipal boundaries.

Finance Management Grant

Balance unspent at beginning of year	37 784	314 777
Current-year receipts	2 345 000	2 010 000
Conditions met - transferred to revenue	(1 965 776)	(2 286 993)
	417 008	**37 784**

Conditions still to be met - remain liabilities (see note 18).

The Financial Management Grant was allocated to promote and support municipal finance management reforms and assist municipalities with the implementation and governance processes as prescribed by the Municipal Finance Management Act (Act 56 of 2003).

Library grant

Balance unspent at beginning of year	149 256	519 173
Current-year receipts	723 000	1 183 000
Conditions met - transferred to revenue	(872 256)	(1 552 917)
	-	**149 256**

Conditions still to be met - remain liabilities (see note 18).

The Library grant was allocated to improve and expand library services in the community.

Expanded Public Works Programme

Balance unspent at beginning of year	-	79 810
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 079 810)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 18).

The Expanded Public Works Programme Grant was allocated to the municipality to assist in funding of the approved projects of the municipality as contained within the annual financial statements.

23. Public contributions and donations

Public contributions and donations	8 489 424	10 396 601

Reconciliation of conditional contributions		
Current-year receipts	8 489 424	10 396 601
Conditions met - transferred to revenue	(8 489 424)	(10 396 601)
	-	-

Public contributions and donations comprises of audit fees paid by Provincial Treasury on behalf of the municipality.

24. Service charges

Sale of electricity	20 234 251	20 544 631
Sale of water	7 512 917	5 893 736
Solid waste	3 809 047	6 554 690
Sewerage and sanitation charges	5 491 740	4 869 317
	37 047 955	**37 862 374**

25. Other revenue

Commissions received	-	1 093 489
Rental income - third party	1 097 756	181 991
Other income	623 540	529 091
	1 721 296	**1 804 571**

26. Investment revenue

Interest revenue		
Bank	850 591	375 732

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Employee related costs

Basic	15 993 635	15 808 168
Bonus	1 095 258	1 176 666
Medical aid - company contributions	1 279 208	1 162 652
UIF	135 710	140 922
SDL	222 526	212 020
Other payroll levies	8 828	11 028
Leave pay provision charge	111 662	436 521
Group insurance	11 105	11 233
Standby allowances	183 283	309 077
Defined contribution plans	2 505 073	2 475 851
Travel, motor car, accommodation, subsistence and other allowances	77 235	114 740
Overtime payments	1 318 636	1 096 944
Long-service awards	285 580	151 000
Acting allowances	286 426	664 258
Housing benefits and allowances	81 029	24 900
	11 200	6 221
	23 606 394	**23 802 201**

Remuneration of Municipal Manager: AM Motswana

Annual Remuneration	444 387	666 345
Travel Allowance	108 710	186 360
Contributions to UIF, Medical and Pension Funds	6 999	9 939
Other	29 095	40 688
Leave pay	58 638	-
Subsistance	4 200	-
	652 029	**903 332**

Mr AM Motswana's term ended 31 January 2018, upon which one month lapsed where no Municipal Manager was appointed.

The schedule above incorporates the salaries paid to municipal managers and is included in the employee related costs.

Remuneration of Municipal Manager: M January

Annual Remuneration	230 664	-
Travel Allowance	64 787	-
Contributions to UIF, Medical and Pension Funds	66 454	-
Subsistance	32 490	-
	394 395	**-**

Mr M January was appointed on 01 March 2018 as Municipal Manager. The schedule above incorporates the salaries paid to municipal managers and is included in the employee related costs.

Remuneration of Chief Finance Officer: ON Louw

Annual Remuneration	238 620	-
Travel Allowance	47 646	-
Acting allowances	-	140 023
Contributions to UIF, Medical and Pension Funds	5 002	-
Other	5 066	-
	296 334	**140 023**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Employee related costs (continued)

Ms ON Louw was appointed as Chief Finance Officer on 01 March 2018.

No Chief Finance Officer was in office during the year ending 30 June 2017.

The schedule above incorporates the salaries paid to the Chief Financial Officer and is included in the employee related costs.

Remuneration of Acting Chief Financial Officer

Annual Remuneration	-	281 089
	-	
	-	-

E Chadinha acted as Chief Financial Officer from the period of July 2016 to February 2017.

28. Remuneration of councillors

Councillors	2 243 859	2 197 163

In-kind benefits

The Mayor is appointed as full-time employee. A number of councilors are provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council-owned vehicle for official duties and Council-owned laptop. Each councillor is also provided with a laptop and a 3G modem.

The Mayor has a full-time driver for executing official duties, at the cost of the Council.

Councillor remuneration is in line with the upper limits as Gazetted in the framework envisaged in section 219 of the Constitution.

29. Depreciation and amortisation

Property, plant and equipment	17 031 514	15 141 296

30. Impairment of assets

Impairments		
Trade and other receivables	4 535 644	12 011 248
The recoverability of trade receivables was assessed based on their current payment rates.		

31. Finance costs

Trade and other payables	1 316 988	2 401 403
Current borrowings	-	403 122
	1 316 988	**2 804 525**

32. Bulk purchases

Electricity	21 794 781	17 472 643

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Contracted services

Other Contractors	4 592 575	2 494 910

34. General expenses

Advertising	87 183	176 409
Auditors remuneration	2 774 113	2 143 354
Bank charges	315 936	213 589
Consulting and professional fees	2 432 899	1 764 097
Consumables	102 379	383 607
Entertainment	45 939	50 709
Fines and penalties	800 000	-
Insurance	276 045	851 996
Levies	490 630	500 000
Fuel and oil	-	438 419
Postage and courier	116 877	79 079
Printing and stationery	429 433	829 908
Subscriptions and membership fees	5 540	3 363
Telephone and fax	490 122	407 754
Training	302 250	248 953
Travel - local	685 162	661 380
Assets expensed	843 399	-
Uniforms	129 435	289 252
MSCOA	-	378 212
Workman compensation	-	1 243
Municipal systems and management	2 940 111	5 900 105
System support	318 651	253 293
	13 586 104	**15 574 722**

35. Fair value adjustments

Investment property	427 915	587 737

36. Auditors' remuneration

Fees	2 774 113	2 143 354

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Cash generated from operations

Surplus	23 208 092	4 203 835
Adjustments for:		
Depreciation and amortisation	17 031 514	15 141 296
Gain on sale of assets and liabilities	-	1 226 881
Fair value adjustments	(1 246 592)	(651 450)
Impairment deficit	4 535 644	12 011 248
Movements in retirement benefit assets and liabilities	128 480	163 000
Movements in provisions	533 852	(328 337)
Movement in employee benefit accruals	66 160	228 287
Changes in working capital:		
Inventories	(1 183 673)	(184 656)
Receivables from exchange transactions	(7 339 730)	(12 011 248)
Consumer debtors	-	(7 705 416)
Other receivables from non-exchange transactions	6 592 263	(5 709 419)
Payables from exchange transactions	(10 225 286)	15 359 380
VAT	1 671 850	(1 691 327)
Unspent conditional grants and receipts	5 503 183	3 379 030
Consumer deposits	78 682	44 308
	39 354 439	**23 475 412**

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	21 468 522	43 499 326
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	11 418 182	37 212 692
Total capital commitments		
Already contracted for but not provided for	21 468 522	43 499 326
Not yet contracted for and authorised by accounting officers	11 418 182	37 212 692
	32 886 704	**80 712 018**

This committed expenditure relates to plant and equipment and infrastructure and will be financed by available bank facilities, retained surpluses, rights issue of shares, existing cash resources, funds internally generated and grants received.

There has been some adjustment in the Solid Waste Project Contract amount, where the scope of work has been increased and the project was found to be behind the deadline.

All contracts are authorised by the Accounting Officer as per the procurement plan of 2018 and were contracted for during the year.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Contingencies

Litigation

Claim for services rendered
Litigation is in the process against the municipality relating to a service provider for services rendered. The plaintiff is claiming an amount of R 1,420,465.43.

The matter has been defended and pleadings must still be exchanged.

The financial exposure to the municipality regarding this matter is R 20,000.00 for costs and disbursements.
The municipality's lawyers and management are currently attempting to settle this matter.

Claim for services rendered
Litigation is in the process against the municipality relating to a service provider for services rendered. The plaintiff is claiming an amount of R 800,000.00 plus interest at the prevailing interest rates
.
The matter has been defended and finalisation of the matter is awaited.
Management is of the opinion that the financial exposure regarding this matter can be estimated at R 200,000.00 in respect of goods and services delivered.

Claim for services rendered
LItigation is in the process against the municipality relating to a service provider for services rendered. The plaintiff is claiming an amount of R 645,191.87 and VAT, plus interest at the prevailing interest rates.

The municipality entered into litigation due to breach of contract.
Management is of the opinion that there is no financial exposure regarding this matter as the attorneys of the plaintiff indicated that they do not want to proceed with the matter.

Interdict from high court
Kgatopele Local Municipality requested an interdict from the high court against the council in order to proceed with Municipal operations and functions.
Trial date have been arranged and is scheduled for 21 August 2018.

Management is of the opinion that the financial exposure regarding this matter can be estimated at R 80,000, inclusive of costs and disbursements.

Claim for damages
The municipality is in litigation against a plaintiff for claim of damages to an amount of R 100,000.00 plus interest at prevailing interest rates.
The discovery of alleged damage must take place in order to schedule a trial date.
Management is of the opinion that the financial exposure relating to this matter is R 30,000.00 in respect of disbursements and costs.

Claim for damages
The municipality is in litigation against a plaintiff for claim of damages to an amount of R 100,000.00 plus interest at prevailing interest rates.

The discovery of alleged damage must take place in order to schedule a trial date.

Management is of the opinion that the financial exposure relating to this matter is R 30,000.00 in respect of disbursements and costs.
79

Contingent assets

Subsequent to year-end a labour court case was finalised and damages pertaining to legal fees became receivable to the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

40. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Members of key management	M January ON Louw NI Williams SG Edwards RC Lessing R Losper MG Ngesi N Prince EM Sulliman

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

From the above it is also required by the municipality to disclose the following interests of relatives of related parties that contracts with the municipality.

One of the councillors disclosed on 01 March 2017 that his son is in a partnership that was contracting with the municipality on that date. Complete disclosure of this interest was made at the date of awarding the tender.The councillor disclosed other interests on 01 March 2017.

The municipality currently has two contracts with the related parties:
(a) A subcontract for the extension of the waste water infrastructure project, and
(b) Management of the landfill site

Declarations of interest pertaining to both tenders have been submitted on the prescribed documentation prior to the award of the tender.

The said councillor has no direct or indirect financial interest relevant to the decisionmaking in the tender processes of the municipality and also has no interest relating to the businesses and the operations thereof nor the decisionmaking of the relevant entities as indicated above.

Related party balances

Amounts included in Trade receivable regarding related parties		
Adams, AS	-	906
Baaitjies, J	-	3 530
Sulliman, EM	14 693	-
Edwards, SG	767	-
Kerneels, Y	-	8 648
Lottering, J	-	9 004
Mgcera, PM	-	481
Sehularo, OH	-	2 177

Amounts included in trade receivables are in respect of services rendered and billed by the municipality for municipal services.

Provision for bad debts is in accordance with the municipality's policy and based on the repayment rate of the account holder.

Services billed to related parties		
Adams, AS	-	13 561
Baaitjies, J	-	4 080
Edwards, SG	4 488	-
Kerneels, Y	-	8 064
Lottering, J	-	10 510
Sehularo, OH	-	2 596

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
40. Related parties (continued)		
Sulliman, EM	57 476	-
Receipts from related parties		
Adams, AS	-	13 626
Baaitjies, J	-	916
Edwards, SG	574	-
Kerneels, Y	-	1 378
Lottering, J	-	4 047
Sehularo, OH	-	811
Sulliman, EM	62 620	-

Interest paid by related parties relates to interest levied on accounts in arrears, as per the approved municipal policy.

Purchases by related parties relate to the services rendered and billed to the related parties in accordance with the approved policies of the municipality.

Only related parties that have a property registered in their name reflects in this disclosure, as per GRAP 20.

Key management information

Class	Name and surname
Acting Chairperson	NI Williams
Councillor	SG Edwards
Councillor	RC Lessing
Councillor	R Losper
Councillor	MG Ngesi
Councillor	N Prince
Councillor	EM Sulliman
Accounting Officer	M January
Chief Finance Officer	ON Louw

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

Remuneration of management

2018

Name	Remuneration	Cellphone allowance	Other benefits received	Total
Adams, AS	157 231	27 200	1 708	186 139
Edwards, SG	39 007	6 800	-	45 807
Lessing, R	215 895	37 400	2 349	255 644
Losper, R	235 846	40 800	2 562	279 208
Mgcera, P	19 654	3 400	214	23 268
Ngesi, MG	303 203	40 800	3 236	347 239
Prince, N	335 276	40 800	3 865	379 941
Sulliman, EM	235 846	40 800	2 562	279 208
Williams, NI	363 198	40 800	3 881	407 879
	1 905 156	**278 800**	**20 377**	**2 204 333**

2017

Name	Remuneration	Cellphone allowance	Other benefits received	Total
Adams, AS	213 939	20 868	1 400	236 207
Baaitjies, J	35 657	3 478	-	39 135
Kerneels, Y	25 530	2 574	-	28 104
Kgoronyane, G	103 901	2 490	550	106 941
Lottering, J	25 530	2 574	-	28 104
Losper, R	189 407	18 475	1 700	209 582
Mgcera, PM	213 939	20 868	-	234 807
Ngesi, MG	239 921	18 475	1 550	259 946

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

Prince, N	454 728	18 475	35 706	508 909
Sehularo, OH	25 530	2 574	4 066	32 170
Sulliman, EM	136 953	13 359	-	150 312
Williams, NI	189 407	18 475	1 850	209 732
	1 854 442	**142 685**	**46 822**	**2 043 949**

Remuneration of the Accounting officer and Chief Financial Officer is disclose under Employee related cost in note 27.

41. Comparative figures

Certain comparative figures have been reclassified.

The reason for reclassification of comparatives are mainly attributed to the implementation of MSCOA, as was required by National Treasury - with effective date 01 July 2017.

The effects of the reclassification are disclose in note 54 to the extend posible as a result of the above implementation.

42. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

42. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

43. Going concern

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

The management of the municipality have concluded that the existence of a combination of circumstances represent a material uncertainty that casts significant doubt about the municipalities ability to continue as a going concern. Nevertheless, after making enquiries about considering the uncertainties described below, the management of the municipality have a reasonable expectation that the municipality will have adequate resources to continue in operational existence for the foreseeable future.

For these reasons the municipality continues to adopt the going concern basis in preparing the the annual financial statements of the municipality.
The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

44. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

45. Unauthorised expenditure

	2018	2017
Opening balance	40 947 940	34 963 618
Unauthorised expenditure - current year	-	5 984 322
	40 947 940	**40 947 940**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

46. Fruitless and wasteful expenditure

Opening balance	2 581 615	1 392 508
Fruitless and wasteful expenditure - current year	4 104 399	1 189 107
	6 686 014	**2 581 615**

Fruitless and wasteful expenditure in respect of the current year was incurred due to outstanding account owed to Eskom. Despite the payment arrangement made with the service provider, the interest was due to the inability to settle the account in full within the prescribed payment terms of the service provider.

47. Irregular expenditure

Opening balance	43 881 966	36 381 089
Add: Irregular Expenditure - current year	7 890 241	7 500 877
	51 772 207	**43 881 966**

Analysis of expenditure awaiting condonation per age classification

Current year	-	406 636
Prior years	29 377 431	28 970 795
	29 377 431	**29 377 431**

The municipality has tabled a report of irregular expenditure to be referred to MPAC for investigation, resultantly to be condoned upon the results of the investigation. This amount dates back to expenditure incurred from 2010 to current years. In terms of section 32(2)(b) irregular expenditure may only be written-off by Council if, after an investigation by a council committee, the irregular expenditure is certified as irrecoverable. In other words, writing-off is not a primary response, it is subordinate to the recovery processes, and may only take place if the irregular expenditure is certified by Council as irrecoverable, based on the findings of an investigation. Particulars of any criminal or disciplinary steps taken as a consequence of above expenditure is included in the report.

48. Deviation from supply chain management regulations

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

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

Reaon for deviation	**2018**	**2017**
Sole supplier of goods and services	2 517 673	95 693
Acquisition of special works, art/specification	44 649	49 279
Exceptional case to follow SCM processes	3 900	8 500
	2 566 222	**153 472**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

49. In-kind donations and assistance

The chair person of the audit committee is employed by Provincial Treasury and renders its services as an assistance and inkind benefit receiving no remuneration for audit commitee sittings.

The benefit received is therefore in kind and included in the financial statements.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	482 500	500 000
Current year subscription / fee	(482 500)	(500 000)
	-	-

Contributions to organised local government comprises of SALGA levies.

Material losses through criminal conduct

There were no material losses through criminal conduct incurred during the year ending 30 June 2018, and no amounts were to be recovered in respect of the prior year.

Audit fees

Opening balance	6 897 424	7 165 068
Current year subscription / fee	3 614 893	3 147 714
Amount paid - current year	(2 042 189)	(3 415 358)
Interest levied on outstanding accounts	524 804	-
Amount paid / credit notes - previous years	(7 441 350)	-
	1 553 582	**6 897 424**

PAYE and UIF

Opening balance	3 484 612	3 061 811
Current year subscription / fee	(3 484 612)	(3 061 811)
	-	-

Pension and Medical Aid Deductions

Opening balance	4 141 203	3 751 336
Current year subscription / fee	(4 141 203)	(3 751 336)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Sulliman, EM	13 258	366	13 624
Edwards, SG	767	-	767
Ngesi, MG	690	-	690
	14 715	**366**	**15 081**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Adams, AS	906	-	906
Losper, R	194	7 040	7 234
Mgcera, P	481	-	481
Ngesi, MG	1 302	4 177	5 479
Prince, N	2 461	744	3 205
Sulliman, EM	4 837	4 123	8 960
	10 181	**16 084**	**26 265**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

51. Distribution losses

Water losses
Water losses were 20.5% (2017: 18%) comprising of bulk water reticulation losses. The percentages unaccounted for is water distributed from the treatment plant (reservoirs) to points of connection. Losses can mainly be attributed to bursts and leaks in distribution networks due to the delapidated infrastructure and efficiencies in the metering system

During the year the purification plant did not take readings of water distributed to points of connection. Management considered to use averages between the 2016 and 2017 readings to determine best estimates through significant judgement to ensure compliance with the Municipal Finance Management Act, Section 125(2)(d).

GRAP 12.40 prescribes that estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

GRAP 01.135 prescribes that an entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Management is of the opinion that the key assumptions used in determining the material losses will not result in any material adjustment to assets, liabilities or net assets as the disclosure of distribution losses is not accounted for as an expense or revenue in the financial statements..

Value R 1,627,852 (2017: R 663,451) ; Quantity of losses were 269,107kL (2017: 136,794kL)

Electricity losses
Electricty losses were 22.1% (2017: 20%) consisting out of technical and non-technical losses. The technical losses of electricity are inherent to the supply of electricty via lines, conditions, status and ageing of electricity networks, weather conditions and loads on the system. Non-technical losses is mainly due to theft, cable bridging and delapidated prepaid meters.

Value R 3,487,121 (2017: R 1,481,478) ; Quantity of losses were 3,965,472 units (1,179,607 units)

52. Change in estimate

Property, plant and equipment

In the current period management have revised their estimate of certain classes of property, plant and equipment.

This change in estimate has resulted from the asset verification and was based on condition assessments as well as the industry norms. The impact of the change in estimate on depreciation charges is unknown as it is impracticable to foresee the conditions and industry norms.

The municipality is however confident that with the forecasted economic growth and industry norms predicted by economists that there will not be a material change in estimate on future depreciation charges.

There is no impact on tax as the municipality is not registered for income tax.
The impact on the cash flow statement will be equal to the impact on the Statement of Financial Performance on future years.

53. Prior period errors

Prior period errors were corrected on certain sections of the financial statements.

In accordance with GRAP 3.30, GRAP 3.41 and GRAP 3.51 disclosure to the effect of the prior period error corrections are included in the financial statements.

Where errors were identified but considered to be immaterial, no prior period error adjustment were made, as is allowed by GRAP 3.05.

Error 1: Consumer Deposits
Consumer deposits pertaining to deposits held by the municipality were overstated in the previous published financial statements.

The error eminated from receipts not properly indicating the nature. The municipality has during the year embarked on a process to ensure the accuracy of the liability and concluded its result.

Value of the understatement: R 4 424.56.

Error 2: Investment properties
The municipality has conducted a complete asset verification on non-movable assets during which it was found that investment properties were overstated.

Value of the overstatement: R 10,518,864

Error 3: Community assets
The municipality has identified an understatement in community assets during its non-movable asset verification.

The understatement of community assets eminated from an understatement in cost as well as accumulative depreciation.

Value of the understatement: R 7,591,576

Error 4: Heritage assets
The municipality has identified an understatement in heritage assets during its non-movable asset verification.
The understatement of the community assets eminated from an understatement in its cost price.

Value of the understatement: R 11,059.

Error 5: Servitudes (Intangible assets)
During the non-movable asset verification an understatement in intangible assets was identified.
The understatement eminated from the exclusion of servitudes held by the municipality as an intangible asset.

Value of the understatement: R 660,493.

Error 6: Land
During the non-movable asset verification an understatement in land (other assets) was identifed.
The understatement eminated from the cost of land as registered under the name of the municipality.

Value of the understatement: R 3,030,861.

Error 7: Buildings
An overstatement of buildings was identified during the non-movable assets' verification. The overstatement eminated from both the MSCOA reclassfication of buildings as well as errors identified.

Value of the overstatement: R 6,833,549.

Error 8: Finance lease obligation
An understatement of the finance lease obligation was identified during the preparation of the financial statements.
The lease schedules were reviewed and found that the leases only expire at end of July 2018. One month extension was

Notes to the Annual Financial Statements

53. Prior period errors (continued)
communicated to the service providers.

Value of the understatement: R 133,037.

Error 9: Electrical infrastructure
An overstatement of the electrical infrastructure was identified during the preparation of the financial statements. The overstatement eminated from both the cost and accumulative depreciation.

Value of the overstatement: R 9,796,795.78.

Error 10: Solid waste infrastructure
An overstatement of solid waste infrastructure was identified during the preparation of the financial statements. The overstatement eminated from both the cost and accumulative depreciation.

Value of the overstatement: R 775,359.14.

Error 11: Roads infrastructure
An overstement in roads infrastructure was identified during the preparation of the financial statements. The overstatement eminated from both the cost and accumulative depreciation.

Value of the overstatement: R 14,068,247.43.

Error 12: Storm water infrastructure
An overstatement in storm water infrastructure was identified during the preparation of the financial statements. The overstatement eminated from both the cost and the accumulative depreciation.

Value of the overstatement: R 103,852.41.

Error 13: Sanitation infrastructure
An understatement in sanitation infrastructure was identified during the preparation of financial statements. The understatement stems from the cost and accumulative depreciation.

Value of the understatement: R 1,552,608.38
.
Error 14: Water supply infrastructure
An understatement in water supply infrastructure was identified during the preparation of the financial statements. The understatement stems from the cost and accumulative depreciation.

Value of the understatement: R 3,820,453.34.

Error 15: Computer equipment
An overstatement of the carry value of computer equipment was identified during the preparation of the financial statements. The overstatement eminated from the understatement of accumulative depreciation in previous years.

Value of the the overstatement: R 241,954.28.

Error 16: Motor vehicles
An overstatement of the carry value of motor vehicles was identified during the preparation of the financial statements. The overstatement eminated from the understatement of accumulative depreciation in previous years.

Value of the overstatement: R 989,996.38.

Error 17: Plant and machinery
An overstatement of the carry value of plant and machinery was idetified during the preparation of the financial statements. The overstatement eminated from the understatement of accumulative depreciation in previous years.

Value of the overstatement: R 246,464.60.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

53. Prior period errors (continued)

Error 18: Office equipment
An overstatement of the carry value of office equipment was identified during the preparation of the financial statements. The overstatement eminated from the understatement of accumulative depreciation in previous years.

Value of the overstatement: R 231,842.84.

Error 19: Furniture and fittings
An overstatement of the carry value of furniture and fittings was identified during the preparation of the financial statements. The overstatement eminated from the understatement of accumulative depreciation in previous years.

Value of the overstatement: R 165,789.29.

Error 20: Contingent asset receivable
A contingent asset receivable in respect of recoverable legal fees.

Value of the understatement of receivables: R 177,948.17.

Error 21: Call accounts
Being an overstatement of the call account held in the respect of the FMG grant.

Value: R 2,402,507.

Error 22: Trade payables
Being an overstatement of trader payables due to incorrect allocation.

Value: R 4 ,481,72***0***

Error 23: Receivables from Non-exchange Transactions
In previous year the provision for impairment was overstated in relation to rates for a certian category of customers.

Value of the amount R 8 ,851,726.

The correction of the error(s) results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

53. Prior period errors (continued)

Statement of financial position		
Consumer deposits	-	4 425
Investment properties	-	(10 518 864)
Community assets	-	7 591 576
Heritage assets	-	11 059
Intangible assets	-	660 493
Land	-	3 030 861
Buildings	-	(6 833 549)
Finance lease obligation	-	(133 037)
Electrical infrastructure	-	(9 796 796)
Solid waste infrastructure	-	(775 359)
Roads infrastructure	-	(14 068 247)
Storm water infrastructure	-	(103 852)
Sanitation infrastructure	-	1 562 608
Water supply infrastructure	-	3 820 453
Computer equipment	-	241 954
Motor vehicles	-	989 996
Plant and machinery	-	246 465
Office equipment	-	231 843
Furniture and fittings	-	165 789
Contingent asset receivable	-	177 948
Call accounts	-	(2 402 507)
Trade payables	-	(4 481 720)
Receivables from Non-exchange Transactions	-	8 851 726
Opening Accumulated Surplus or Deficit	-	14 405 934
Statement of financial performance		
Increase in public contributions	-	7 120 801

54. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

54. Prior-year adjustments (continued)

2017

	Note	As previously reported	Correction of error	Restated
Consumer deposits		(1 419 606)	4 425	(1 415 181)
Investment properties		53 310 355	(10 518 864)	42 791 491
Community assets		2 236 548	7 591 576	9 828 124
Heritage assets		875 000	11 059	886 059
Intangible assets		383 079	660 493	1 043 572
Land		6 079 501	3 030 861	9 110 362
Buildings		10 208 486	(6 833 549)	3 374 937
Finance lease obligation		-	(133 037)	(133 037)
Computer equipment		1 018 180	241 954	1 260 134
Motor vehicles		492 565	989 996	1 482 561
Plant and machinery		7 863	246 465	254 328
Office equipment		322 231	231 843	554 074
Furniture and fittings		442 268	165 789	608 057
Electrical infrastructure		53 933 551	(9 796 796)	44 136 755
Roads infrastructure		72 563 399	(14 068 247)	58 495 152
Storm water infrastructure		14 697 222	(103 852)	14 593 370
Sanitation infrastructure		31 016 707	1 562 608	32 579 315
Solid waste infrastructure		3 502 598	(775 359)	2 727 239
Water supply infrastructure		56 481 807	3 820 453	60 302 260
Call accounts		-	(2 402 507)	(2 402 507)
Contingent receivable		-	177 948	177 948
Trade payables		-	(4 481 720)	(4 481 720)
Receivables from Non-exchange Transactions		7 764 608	8 851 726	16 616 334
Public donations		3 138 911	7 120 801	10 259 712
		317 055 273	**(14 405 934)**	**302 649 339**