Enoch Mgijima Local Municipality
(Registration number EC139)
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)
Nature of business and principal activities	Enoch Mgijima Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Mayor Nokuzola Tolashe
Executive Committee	Cllr Mzoxolo Peter (Speaker)
	Cllr Funeka Sybil Sopapaza-Lungisa (Chief Whip)
	Cllr Adele Hendricks (Public Safety Portfolio Head)
	Cllr Elizabeth Mqingwana (Human Settlement and Land Portfolio Head)
	Cllr Thembeka Bunu (SPU Portfolio Head)
	Cllr Noluthando Nqabisa (Corporate Services Portfolio Head)
	Cllr Sibusiso Eric Mvana (Technical Services Portfolio Head)
	Cllr Madoda Papiyana (Finance Portfolio Head & Acting IPED Portfolio Head)
	Cllr Marina Bennet (MPAC Chairperson)
Jurisdiction	Molteno, Hofmeyer, Sterkstroom, Tarkastad, Whittlesea, Queenstown
Accounting Officer	Chris Ntsokolo Magwangqana
Registered office	70 Cathcart Road Queenstown 5320
Postal address	Private Bag X7111 Queenstown 5320
Bankers	ABSA Bank First National Bank
Attorneys	Smith Tabata Bowes McDougall Incorporated Wheeldon, Rushmere and Cole Incorporated Bobotyana and Company Vuba Incorporated Jaques Du Preez

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

EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
INEG	Integrated National Electrification Grant
IPSAS	International Public Sector Accounting Standards
ISDG	Integrated Skills Development Grant
MDTG	Municipal Demarcation Transition Grant
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

In terms of the Provincial Gazette No. 3717, Provincial Notice 182 of 2016 Lukhanji Local Municipality, Tsolwana Local Municipality and Inkwanca Local municipality were disestablished with effect from 10 August 2016 and Enoch Mgijima Local Municipality was established.

The accounting officer has 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, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Mr Chris Magwangqana
Municipal Manager

Statement of Financial Position as at 30 June 2018

	Notes	2018 R	2017 Restated* R
Assets			
Current Assets			
Receivables from exchange transactions	3	54 709 773	52 460 532
Receivables from non-exchange transactions	4	30 937 160	17 536 026
VAT receivable	5	12 584 663	16 447 897
Cash and cash equivalents	6	995 331	50 789 089
		99 226 927	**137 233 544**
Non-Current Assets			
Biological assets that form part of an agricultural activity	7	4 866 700	6 151 100
Investment property	8	291 608 199	291 608 199
Property, plant and equipment	9	1 179 037 738	1 160 539 153
Intangible assets	10	235 547	286 633
Heritage assets	11	1 087 370	1 087 370
Other financial assets	12	365 682	346 431
		1 477 201 236	**1 460 018 886**
Total Assets		**1 576 428 163**	**1 597 252 430**
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	152 416 031	57 932 799
Consumer deposits	14	10 043 615	9 989 146
Employee benefit obligation	15	31 795 285	34 620 082
Unspent conditional grants and receipts	16	-	33 610 117
Bank overdraft	6	410 114	-
		194 665 045	**136 152 144**
Non-Current Liabilities			
Employee benefit obligation	15	41 217 953	95 981 000
Provisions	17	19 231 323	15 293 935
		60 449 276	**111 274 935**
Total Liabilities		**255 114 321**	**247 427 079**
Net Assets		**1 321 313 842**	**1 349 825 351**
Accumulated surplus		1 321 313 842	1 349 825 351

* See Note 41

Enoch Mgijima Local Municipality
(Registration number EC139)
Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Notes	2018 R	2017 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	18	236 300 787	245 445 967
Rental of facilities and equipment	19	2 803 997	2 466 661
Interest received on debtors	20	14 004 156	19 788 222
Income from agency services		4 743 434	4 673 941
Licences and permits		4 359 623	3 219 580
Other income	21	3 755 541	5 215 759
Interest received on investments	22	3 718 300	4 575 194
Total revenue from exchange transactions		**269 685 838**	**285 385 324**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	98 090 628	88 199 903
Transfer revenue			
Government grants and subsidies	24	241 410 764	203 061 508
Public contributions and donations		34 829 300	-
Fines		789 174	722 654
Total revenue from non-exchange transactions		**375 119 866**	**291 984 065**
Total revenue		**644 805 704**	**577 369 389**
Expenditure			
Employee related costs	25	(250 147 154)	(238 092 935)
Remuneration of councillors	26	(24 898 344)	(25 117 301)
Depreciation and amortisation	27	(50 786 376)	(48 587 305)
Finance costs	28	(9 355 402)	(3 190 836)
Debt Impairment		(59 162 477)	(79 862 930)
Bulk purchases	29	(211 476 954)	(189 807 435)
Contracted services	30	(15 056 547)	(14 410 065)
Transfers and Subsidies	31	-	(22 380 399)
General Expenses	32	(103 002 776)	(69 037 218)
Repairs and maintenance		(4 278 589)	(13 270 608)
Total expenditure		**(728 164 619)**	**(703 757 032)**
Operating deficit		**(83 358 915)**	**(126 387 643)**
Loss on disposal of assets and liabilities	33	(13 170 203)	(8 864 209)
Fair value adjustments	15	47 947 490	499 200
Actuarial gains/losses	15	20 233 580	-
Loss on biological assets	7	(163 461)	-
		54 847 406	**(8 365 009)**
Deficit for the year		**(28 511 509)**	**(134 752 652)**

* See Note 41

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 06 August 2016	**1 484 578 003**	**1 484 578 003**
Changes in net assets		
Deficit for the year	(134 752 652)	(134 752 652)
Total changes	(134 752 652)	(134 752 652)
Restated* Balance at 01 July 2017	**1 349 825 351**	**1 349 825 351**
Changes in net assets		
Surplus for the year	(28 511 509)	(28 511 509)
Total changes	(28 511 509)	(28 511 509)
Balance at 30 June 2018	**1 321 313 842**	**1 321 313 842**
Notes	37	

* See Note 41

Cash Flow Statement

	Notes	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Rates and services		280 154 392	296 179 646
Government grants and subsidies		207 800 647	213 071 351
Interest income		17 722 456	24 363 416
Other receipts		789 174	722 654
		506 466 669	534 337 067
Payments			
Employee costs		(275 045 498)	(263 210 236)
Suppliers		(224 746 547)	(266 236 156)
Finance costs		(9 355 402)	(3 190 836)
		(509 147 447)	(532 637 228)
Net cash flows from operating activities	35	**(2 680 778)**	**1 699 839**
Cash flows from investing activities			
Purchase of movable and immovable assets	9	(47 574 776)	(67 905 837)
Capitalised development costs	10	-	(69 006)
Proceeds from sale of Biological assets		70 933	-
Increase in Investments in Fixed deposits		(19 251)	(16 926)
Net cash flows from investing activities		**(47 523 094)**	**(67 991 769)**
Cash flows from financing activities			
Movement in finance leases		-	(185 374)
Net increase/(decrease) in cash and cash equivalents		**(50 203 872)**	**(66 477 304)**
Cash and cash equivalents at the beginning of the year		50 789 089	117 266 393
Cash and cash equivalents at the end of the year	6	**585 217**	**50 789 089**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	278 608 844	(12 784 980)	**265 823 864**	236 300 787	**(29 523 077)**	50.1
Rental of facilities and equipment	2 673 344	(45 270)	**2 628 074**	2 803 997	**175 923**	
Interest received on debtors	28 481 020	(2 966 195)	**25 514 825**	14 004 156	**(11 510 669)**	50.2
Income from agency services	4 712 205	135 221	**4 847 426**	4 743 434	**(103 992)**	
Licences and permits	4 915 922	(445 220)	**4 470 702**	4 359 623	**(111 079)**	
Other income	45 835 114	(18 058 842)	**27 776 272**	3 755 541	**(24 020 731)**	50.3
Interest received on investments	9 725 692	(2 000 000)	**7 725 692**	3 718 300	**(4 007 392)**	50.4
Total revenue from exchange transactions	**374 952 141**	**(36 165 286)**	**338 786 855**	**269 685 838**	**(69 101 017)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	100 833 428	(12 000 000)	**88 833 428**	98 090 628	**9 257 200**	50.5
Transfer revenue						
Government grants & subsidies	188 402 800	3 855 000	**192 257 800**	241 410 764	**49 152 964**	50.6
Public contributions and donations	-	-	**-**	34 829 300	**34 829 300**	
Fines, Penalties and Forfeits	2 264 405	460 382	**2 724 787**	789 174	**(1 935 613)**	50.7
Total revenue from non-exchange transactions	**291 500 633**	**(7 684 618)**	**283 816 015**	**375 119 866**	**91 303 851**	
Total revenue	**666 452 774**	**(43 849 904)**	**622 602 870**	**644 805 704**	**22 202 834**	
Expenditure						
Employee related costs	(237 823 654)	60 000	**(237 763 654)**	(250 147 154)	**(12 383 500)**	
Remuneration of councillors	(28 503 461)	2 020 000	**(26 483 461)**	(24 898 344)	**1 585 117**	
Depreciation and amortisation	(40 994 954)	21 172 881	**(19 822 073)**	(50 786 376)	**(30 964 303)**	50.8
Finance costs	(954 000)	26 000	**(928 000)**	(9 355 402)	**(8 427 402)**	50.9
Debt Impairment	(30 456 955)	14 000 746	**(16 456 209)**	(59 162 477)	**(42 706 268)**	50.10
Bulk purchases	(207 429 564)	-	**(207 429 564)**	(211 476 954)	**(4 047 390)**	50.11
Contracted Services	(41 862 430)	2 009 307	**(39 853 123)**	(15 056 547)	**24 796 576**	50.12
Transfers and Subsidies	(159 000)	-	**(159 000)**	-	**159 000**	50.13
General Expenses	(78 268 768)	4 560 982	**(73 707 786)**	(107 281 365)	**(33 573 579)**	50.14
Total expenditure	**(666 452 786)**	**43 849 916**	**(622 602 870)**	**(728 164 619)**	**(105 561 749)**	
Operating deficit	**(12)**	**12**	**-**	**(83 358 915)**	**(83 358 915)**	
Loss on disposal of assets and liabilities	-	-	**-**	(13 170 203)	**(13 170 203)**	50.15
Fair value adjustments	-	-	**-**	47 947 490	**47 947 490**	50.16
Actuarial gains/losses	-	-	**-**	20 233 580	**20 233 580**	50.17
Loss on biological assets and agricultural produce	-	-	**-**	(163 461)	**(163 461)**	50.18
	-	**-**	**-**	**54 847 406**	**54 847 406**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Deficit before taxation	**(12)**	**12**	**-**	**(28 511 509)**	**(28 511 509)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(12)**	**12**	**-**	**(28 511 509)**	**(28 511 509)**	

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.

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

1.1 Going concern assumption

In terms of Provincial Gazette No.3717, Provincial Notice 182 of 2016, Lukhanji Local Municipality, Tsolwana Local Municipality and Inkwanca Local Municipality were disestablished with effect from 06 August 2016 and Enoch Mgijima Local Municipality was established. These annual financial statements have been prepared on a going concern basis as it is expected that the Municipality will continue to operate for at least the next 12 months as part of Enoch Mgijima Local Municipality.

1.2 Mergers

Definitions

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

Combined municipality is a new reporting entity formed from the combination of two or more entities.

Combining entities are the entities that are combined for the mutual sharing of risks and benefits in a merger.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A merger is the establishment of a new combined municipality in which none of the former entities obtain control over any other and no acquirer can be identified.

Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined municipality.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A merger is the establishment of a new combined municipality in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an municipality having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

Identifying the combined entity and combining entities

For each merger a combined municipality and combining entities is identified. All relevant facts and circumstances are considered in identifying the combined municipality and combining municipality.

The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting municipality after the merger.

Accounting Policies

1.2 Mergers (continued)

Determining the merger date

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.

Inkwanca Local Municipality, Tsolwana Local Municipality and Lukhanji Local Municipality ceased to exist with effect from 06 August 2016 and merged to form Enoch Mgijima Local Municipality.

All relevant facts and circumstances are considered in identifying the merger date.

Assets acquired and liabilities assumed

The recognition of assets and liabilities by the entity as combined entity are subject to the following conditions:

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

1.2 Mergers (continued)

Accounting by the entity as the combined entity

Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the merger date.

The municipality considers all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the municipality can identify a reason for a change to provisional amounts.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a merger only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):

1.2 Mergers (continued)

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

The annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

1.3 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:

Trade receivables and other receivables

The municipality assesses its trade 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 is calculated on an individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults.

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 [name a key assumption] 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic 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 17 - Provisions.

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Effective interest rate

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of Property, plant and equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.4 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Biological assets are derecognised when disposed off. The gains or losses are then recognised through the Statement of Financial Performance.

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.

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.

The cost of self-constructed investment property is the cost at the date of completion.

1.5 Investment property (continued)

Cost model

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

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

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years
Air-conditioners	3-7 years

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

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

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.

The following criteria have been applied to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations:

- All properties held to earn market-related rentals or for capital appreciation, or for both, are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment property;
- Land held for currently undetermined future use. If the municipality has not determined that it will use the land as owner-occupied property, or for a short-term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by the municipality under finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held on to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, plant and equipment or Non-current assets held for sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as investment property;
- Property that is being leased out under finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and service delivery.

Property interest held under operating leases are classified and accounted for as investment property, if the property interest that is held by the lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied property held for sale is established by using criteria that it can utilise to exercise judgement consistently in accordance with the definition of investment property and with the related guidance.

Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the investment property.

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.

1.6 Property, plant and equipment (continued)

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 at acquisition date, or in the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition.

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.

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

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

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset or that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the expenditure will flow to the municipality and the cost can be measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity of future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

The Economic Useful Life ("EUL") of an asset has been determined with reference to the Local Government Capital Asset Management Guidelines and the Guidelines for Infrastructure Asset Management in Local Government and tailored to the Municipalities specific requirements where applicable.

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land		Indefinite years
Finance lease assets		
• Office equipment	Straight line	3 years
• Motor vehicles	Straight line	5 years
Infrastructure		
• Roads	Straight line	10 - 80 years
• Buildings	Straight line	25 - 60 years
• Electricity	Straight line	25 - 50 years
• Landfill sites	Straight line	10 - 50 years
Other property, plant and equipment		
• Motor vehicles	Straight line	5 - 15 years
• Office equipment	Straight line	5 - 10 years
• Furniture and fittings	Straight line	5 - 10 years
• Machinery and equipment	Straight line	5 - 10 years
• Computer equipment	Straight line	5 - 10 years

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

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

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

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

Incomplete construction work
Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

Finance leases
Assets capitalised under finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the assets management policy.

Infrastructure assets
Infrastructure assets are any assets that are part of a network or similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment assets
Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset
.
The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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.

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.

Intangible assets are initially recognised at cost

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

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

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

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

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

If the expectations from from previous estimates change, the change is treated as a change in accounting estimate.

Where an intangible asset is acquired in exchange for a non-monetary asset, or a combination of monetary and non-monetary assets, the asset is initially measured at fair value (cost). If the fair value cannot be determined, its deemed cost is the carrying amount of the assets given up.

Intangible assets are assessed annually for impairment, with any reduction in the carrying amount reflected through the surplus or deficit in the period incurred.

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

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

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 years

Where intangible assets are deemed to have an infinite useful life, such intangible assets are not amortised.

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. The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset.

1.8 Heritage assets

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.

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

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. The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset.

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.

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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.

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost

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

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

Gains and losses

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

Impairment and uncollectibility of financial assets

The municipality 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.

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

Financial assets measured at cost:

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

1.9 Financial instruments (continued)

Derecognition

Financial assets

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

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

Financial liabilities

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

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.

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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.

Accounting Policies

1.10 Leases

The Municipality as a lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts
equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 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.

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. 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.

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

Recognition and measurement (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.

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality 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.

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.

1.12 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.

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

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

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 of a potential impairment

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.

Recognition and measurement of non-cash generating units

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.

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.

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

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.

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

Redesignation

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

1.13 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:

- the municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality 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 municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- plus any liability that may arise as a result of a minimum funding requirement

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Provisions and contingencies

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

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

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

1.14 Provisions and contingencies (continued)

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

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in measuring a provision.

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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

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

1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed on the commitment note to the financial statements.

Accounting Policies

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

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.

1.16 Revenue from exchange transactions (continued)

Interest

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

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

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

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

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance Income

Interest earned on investment is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorisation tariff. This includes the issue of licenses and permits.

Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

1.17 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.

1.17 Revenue from non-exchange transactions (continued)

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.

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.

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

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

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

Recognition

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

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

Measurement

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

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

1.17 Revenue from non-exchange transactions (continued)

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

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

Transfers

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

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

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

Fines

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

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

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

1.17 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts or where the donation is in the form of; property, plant and equipment, when such items are available for use.

Public contributions

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not been met, a liability is recognised.

Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investment is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:
- receive goods and services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

1.18 Interest income

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

1.19 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.

1.20 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

1.20 Accounting by principals and agents (continued)

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

1.22 Unauthorised expenditure (continued)

- 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.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

1.23 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.

If the expenditure is not subsequently certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy.

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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

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

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

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

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

1.25 Revenue from recovery of unauthorised, Irregular, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.26 Offsetting

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

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 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.

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

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

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

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

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.

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.

Accounting Policies

1.30 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction if errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note to the financial statements where applicable.

1.31 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the municipality would recognise a payable for VAT.

The municipality accounts for VAT on a payment basis.

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Impact on the recognition of Investment Property

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	No effective date	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	No effective date	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	No effective date	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	No effective date	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	No effective date	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	No effective date	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	No effective date	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 107: Mergers	01 April 2019	Asset and liabilities at take on date of the merger will be disclosed as provisional amounts until such time as the accounting records can be determined to be complete.
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

3. Receivables from exchange transactions

Trade debtors	447 247 499	428 759 296
Other debtors	6 220 294	5 215 423
Impairment of debtors	(398 758 020)	(381 514 187)
	54 709 773	**52 460 532**

Notes to the Annual Financial Statements

	2018 R	2017 R

3. Receivables from exchange transactions (continued)

Ageing of receivables from exchange transactions - 2018	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Deposits	700	2 521	-	427 711	430 932
Electricity	-	11 210 598	5 807 824	42 822 932	59 841 354
Interest	1 825	1 555 820	1 500 390	141 701 184	144 759 219
Refuse	-	3 613 176	3 216 608	175 186 400	182 016 184
Sundries	55 294	309 094	429 115	59 406 307	60 199 810
	57 819	**16 691 209**	**10 953 937**	**419 544 534**	**447 247 499**

Ageing of receivables from exchange transactions - 2017	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Deposits	14 700	649	2 747	544 384	562 480
Electricity	3 483 423	9 965 042	3 975 590	56 731 690	74 155 745
Interest	(795)	645	1 538 866	97 605 272	99 143 988
Refuse	3 387 845	3 266 567	2 872 544	147 467 471	156 994 427
Sundries	(652)	3 790 791	1 391 641	93 507 817	98 689 597
	6 884 521	**17 023 694**	**9 781 388**	**395 856 634**	**429 546 237**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions have been pledged as security.

Credit quality of receivables from exchange transactions

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

	2018	2017
	R	R

3. Receivables from exchange transactions (continued)

Ageing of receivables from exchange transactions by type of debtor

Ageing by type of debtor - 2018	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Agriculture	-	163 696	123 661	5 035 524	5 322 881
Business	-	7 902 096	2 759 127	20 226 357	30 887 580
Church	-	9 373	11 578	471 871	492 822
Club	-	2 124	2 058	31 723	35 905
Domestic	1 636	5 481 680	5 832 145	359 849 373	371 164 834
Government	56 182	2 837 022	1 978 407	14 422 126	19 293 737
Industrial	-	214 934	178 194	17 466 867	17 859 995
Sundry	-	80 282	68 766	2 040 697	2 189 745
	57 818	**16 691 207**	**10 953 936**	**419 544 538**	**447 247 499**

Ageing by type of debtor - 2017	0 - 30 days	31- 60 days	61 - 90 days	90+ days	Total
Agriculture	-	126 894	173 844	4 330 391	4 631 129
Business	17 376	9 094 612	2 760 336	20 147 046	32 019 370
Church	-	15 064	5 086	173 689	193 839
Club	-	2 356	7 981	26 024	36 361
Domestic	20 135	5 295 308	4 520 238	324 836 235	334 671 916
Government	1 155	2 141 748	1 543 262	10 415 990	14 102 155
Industrial	-	52 611	151 954	14 804 341	15 008 906
School	-	483 431	308 866	1 605 152	2 397 449
Sundry	-	28 358	36 658	1 673 916	1 738 932
Unknown	-	313 570	580 124	23 852 486	24 746 180
	38 666	**17 553 952**	**10 088 349**	**401 865 270**	**429 546 237**

Receivables from exchange transactions past due but not impaired

At 30 June 2018, R 36 187 198 (2017: R 41 964 154) were past due but not impaired.

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

31-60 days	3 525 458	3 394 862
61-90 days	1 938 263	1 433 031
90+ days	30 723 477	37 136 261

Receivables from exchange transactions impaired

As of 30 June 2018, receivables from exchange transactions of R 398 758 020 (2017: R 381 514 187) were impaired and provided for.

The ageing of these amounts is as follows:

0-30 days	53 876	29 681
31-60 days	14 165 750	13 628 831
61-90 days	12 015 674	8 348 356
90+ days	372 522 720	359 507 318

	2018 R	2017 R

3. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of receivables from exchange transactions

	2018 R	2017 R
Opening balance	(381 514 187)	(354 879 738)
Provision for impairment	(31 099 474)	(26 634 449)
Amounts written off as uncollectible	13 855 641	-
	(398 758 020)	**(381 514 187)**

Debtors are required to settle within 30 days. Interest is charged after this date at prime + 1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Debtors are evaluated for impairment on an individual basis using their payment history and taking into consideration the nature of the debtor.

The fair value of trade and other receivables approximates their carrying value.

4. Receivables from non-exchange transactions

	2018 R	2017 R
Assessment rates	219 470 769	178 535 065
Impairment of debtors	(188 779 115)	(161 079 615)
Traffic fines	245 506	80 576
	30 937 160	**17 536 026**

Ageing of receivables from non-exchange transactions - 2018	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Assessment rates	13 939	5 752 334	4 265 661	209 438 835	219 470 769

Ageing of receivables from non-exchange transactions - 2017	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Assessment rates	5 993 303	4 877 994	3 705 779	163 957 989	178 535 065

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about debtor default rates.

Receivables from non-exchange transactions

Notes to the Annual Financial Statements

	2018	2017
	R	R

4. Receivables from non-exchange transactions (continued)

Ageing of receivables from non-exchange transactions by type of debtor

Ageing by type of debtor - 2018	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Agricultural	-	120 686	115 975	19 149 766	19 386 427
Business	-	1 409 631	728 805	24 240 276	26 378 712
Church	-	-	-	98 333	98 333
Domestic	13 939	3 698 238	2 891 207	126 224 405	132 827 789
Government	-	521 558	527 394	39 650 264	40 699 216
Industrial	-	2 222	2 280	17 890	22 392
Sundry	-	-	-	57 900	57 900
	13 939	**5 752 335**	**4 265 661**	**209 438 834**	**219 470 769**

Ageing by type of debtor - 2017	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Agricultural	83 673	129 555	161 585	13 965 706	14 340 519
Business	573 412	901 363	277 914	7 842 580	9 595 269
Church	-	44	411	28 517	28 972
Club	351	1 159	1 159	22 032	24 701
Domestic	779 392	3 295 230	2 691 306	114 687 179	121 453 107
Government	3 884 124	273 906	251 227	13 929 407	18 338 664
Industrial	24 786	236 289	230 700	6 447 953	6 939 728
Schools	647 564	40 448	37 134	2 319 705	3 044 851
Sundry	-	-	-	-	-
Unknown	-	-	54 343	4 744 881	4 799 224
	5 993 302	**4 877 994**	**3 705 779**	**163 987 960**	**178 565 035**

Receivables from non-exchange transactions past due but not impaired

At 30 June 2018, R 16 300 959 (2017: R 9 937 774) were past due but not impaired.

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

	2018	2017
31-60 days	457 258	293 114
61-90 days	339 081	222 677
90+ days	15 504 621	9 421 984

Receivables from non-exchange transactions impaired

As of 30 June 2018, receivables from non-exchange transactions of R 188 779 114 (2017: R 161 079 615) were impaired and provided for.

The ageing of these amounts is as follows:

	2018	2017
0-30 days	12 831	5 633 171
31-60 days	5 295 076	4 584 880
61-90 days	3 926 580	3 483 102
90+ days	179 544 627	147 378 461

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

	2018	2017
Opening balance	161 079 615	107 851 134
Provision for impairment	27 699 499	53 228 481
	188 779 114	**161 079 615**

	2018 R	2017 R

4. Receivables from non-exchange transactions (continued)

Debtors are required to settle within 30 days. Interest is charged after this date at prime + 1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Debtors are evaluated for impairment on an individual basis using their payment history and taking into consideration the nature of the debtor.

The fair value of trade and other receivables approximates their carrying value.

5. VAT receivable

	2018 R	2017 R
VAT	12 584 663	16 447 897

The Value Added Tax Act No. 89 of 1991requires the municipality to charge sales tax on goods and services traded and allows the sales tax on any goods or services acquired wholly for the purpose of consumption, use or supply in the course of making taxable supplies to be claimed back.

When the amount of VAT claimed on goods and services acquired exceeds the VAT charged on goods and services traded, a receivable is recognised.

The Act provides that where the Commissioner does not refund an amount of VAT within a period of 21 business days after the date upon which the vendor's VAT return in respect of a tax period is received by an office of SARS, interest is required to be paid thereon at the prescribed rate (the repurchase rate plus 100 basis points).

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018 R	2017 R
Cash on hand	38 082	38 082
Bank balances	-	3 449 267
Short-term deposits	957 249	47 301 740
Bank overdraft	(410 114)	-
	585 217	**50 789 089**
Current assets	995 331	50 789 089
Current liabilities	(410 114)	-
	585 217	**50 789 089**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	6 August 2016	30 June 2018	30 June 2017	6 August 2016
FNB BANK - Current Account - 624-38159-809	3 201 594	4 021 964	11 861 454	1 189 582	2 323 599	11 861 454
ABSA BANK - Current Account - 216-014-3854	33 076	834 047	34 354	(383 333)	417 638	34 354
FNB BANK - Current Account - 538-52257-262	-	51 856	-	(931 294)	(879 438)	-
STD BANK - Current Account - 280-670-893	-	(100)	395 905	(1 155 983)	(100)	395 905
FNB BANK - Call Account - 626-56734-392	1 000	10 723 914	-	1 000	10 724 074	-
FNB BANK - Call Account - 538-50009-219	-	(1 070)	-	-	2 008	-
FNB BANK - Call Account - 620-23697-157	-	2 134	-	-	19 206	-
STD BANK - Call Account - 280-661-061	-	716 549	71 017	870 914	1 587 568	71 017
FNB BANK - Call Account - 624-59044-162	613 215	5 335 740	69 108 268	613 215	5 200 686	69 108 268
FNB BANK - Call Account - 624-96427-967	334 900	1 000	18 224	334 900	1 000	18 224
FNB BANK - Call Account - 624-96432-635	1 000	1 783 444	63 158	1 000	1 783 444	63 158
FNB BANK - Call Account - 624-96436-265	1 000	1 000	33 823	1 000	1 000	33 823
FNB BANK - Call Account - FMG - 624-96439-607	1 000	1 000	1 000	1 000	1 000	1 000
FNB BANK - Call Account - 625-99305-763	3 950	1 232 360	3 028 380	3 950	1 232 360	3 028 380
FNB BANK - Call Account - 621-96097-995	-	16 046	-	-	88 462	-
FNB BANK - Call Account - 622-40939-100	-	1 084	-	-	5 684	-
FNB BANK - Call Account - 613-85739-623	-	80	-	-	19 751	-
FNB BANK - Call Account - 620-67415-127	-	(13)	-	-	1 931	-
FNB BANK - Call Account - 624-96441-842	1 000	28 221 134	5 327 246	1 000	28 221 134	5 327 246
Total	**4 191 735**	**52 942 169**	**89 942 829**	**546 951**	**50 751 007**	**89 942 829**

7. Biological assets that form part of an agricultural activity

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game animals	4 866 700	-	4 866 700	6 151 100	-	6 151 100

7. Biological assets that form part of an agricultural activity (continued)

Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Additions	Disposals	Total
Game animals	6 151 100	494 400	(1 778 800)	4 866 700

Reconciliation of biological assets that form part of an agricultural activity - 2017

	Opening balance	Additions through merger	Decreases due to sales	Gains arising from changes in fair value	Total
Game animals	-	5 651 900	(1 125 700)	1 624 900	6 151 100

Non-financial information

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the acquisition of biological assets.

All biological assets are located in the nature reserve and spa. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduces the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets
- Regular monitoring of game quantities by municipal staff.

7. Biological assets that form part of an agricultural activity (continued)

Methods and assumptions used in determining fair value

Game type	2018 Quantity	2017 Quantity	2018 Fair Value	2017 Fair value
Rhino	4	7	2 120 000	3 710 000
Giraffe	17	16	204 000	192 000
Eland	38	57	228 000	342 000
Kudu	48	53	216 000	238 500
Zebra	55	39	275 000	195 000
Nyala	34	15	170 000	75 000
Lechwe	29	29	435 000	435 000
Blesbok	109	94	130 800	112 800
Impala	168	102	201 600	122 400
Springbok	95	39	95 000	39 000
Fallow Deer	26	18	65 000	45 000
Gemsbok	40	47	180 000	211 500
Duiker	15	11	15 000	11 000
Steenbok	2	1	2 000	1 000
Black Wildebeest	105	101	189 000	181 800
Red Hartebeest	58	48	203 000	168 000
Ostrich	9	13	10 800	15 600
Mountain Reed Buck	26	37	39 000	55 500
White blesbok	25	-	87 500	-
	903	**727**	**4 866 700**	**6 151 100**

An active market exists for game therefore the fair value of the game was determined with reference to the price in the relevant market.

8. Investment property

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	291 608 199	-	291 608 199	291 608 199	-	291 608 199

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	291 608 199	291 608 199

Reconciliation of investment property - 2017

	Opening balance	Additions through transfer of functions / mergers	Total
Investment property	-	291 608 199	291 608 199

8. Investment property (continued)

Pledged as security

No Investment Property has been pledged as security.

Key judgements and assumptions regarding control over land

Property owned by the Municipality that has RDP houses built on it has not been included in Investment Property as the municipality does not control access to the land.

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

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	112 050 390	-	112 050 390	112 050 390	-	112 050 390
Buildings	63 336 324	(1 130 501)	62 205 823	62 046 639	(818 115)	61 228 524
Furniture and fixtures	6 115 580	(1 517 702)	4 597 878	3 585 755	(584 500)	3 001 255
Motor vehicles	62 430 432	(8 871 125)	53 559 307	77 592 915	(6 404 916)	71 187 999
Office equipment	-	-	-	2 182 502	(306 978)	1 875 524
IT equipment	3 188 007	(724 625)	2 463 382	2 612 896	(538 637)	2 074 259
Electricity	185 114 410	(15 472 424)	169 641 986	185 083 461	(7 046 276)	178 037 185
Roads and storm water	532 861 030	(47 929 325)	484 931 705	497 755 034	(23 013 868)	474 741 166
Leased assets	345 818	(94 754)	251 064	345 818	(94 754)	251 064
Landfill site	15 589 967	(777 196)	14 812 771	15 589 967	(472 041)	15 117 926
Work in progress	68 964 851	-	68 964 851	28 073 853	-	28 073 853
Community assets	221 094 215	(17 459 397)	203 634 818	217 090 326	(6 226 654)	210 863 672
Other equipment	2 567 069	(643 306)	1 923 763	2 435 311	(398 975)	2 036 336
Total	**1 273 658 093**	**(94 620 355)**	**1 179 037 738**	**1 206 444 867**	**(45 905 714)**	**1 160 539 153**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	112 050 390	-	-	-	-	-	112 050 390
Buildings	61 228 524	3 882 349	-	-	(2 905 050)	-	62 205 823
Furniture and fixtures	3 001 255	370 339	(16 905)	1 875 524	(632 335)	-	4 597 878
Motor vehicles	71 187 999	-	(13 150 074)	-	(4 478 618)	-	53 559 307
Office equipment	1 875 524	-	-	(1 875 524)	-	-	-
IT equipment	2 074 259	580 461	(3 359)	-	(187 979)	-	2 463 382
Electricity	178 037 185	30 949	-	-	(8 189 355)	(236 793)	169 641 986
Roads and storm water	474 741 166	35 105 996	-	-	(23 396 736)	(1 518 721)	484 931 705
Leased assets	251 064	-	-	-	-	-	251 064
Landfill sites	15 117 926	-	-	-	(305 155)	-	14 812 771
Work in progress	28 073 853	40 890 998	-	-	-	-	68 964 851
Community assets	210 863 672	1 411 225	-	-	(7 502 260)	(1 137 819)	203 634 818
Other equipment	2 036 336	131 758	136	-	(244 467)	-	1 923 763
	1 160 539 153	**82 404 075**	**(13 170 202)**	**-**	**(47 841 955)**	**(2 893 333)**	**1 179 037 738**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions through merger	Adjustments	Additions	Newly identified assets at fair value	Assets under construction capitalised	Disposals	Depreciation	Write off	Total
Land	-	112 096 384	(45 994)	-	-	-	-	-	-	112 050 390
Buildings	-	195 462 396	(134 648 314)	-	-	3 007 106	-	(2 592 664)	-	61 228 524
Furniture and fixtures	-	3 594 373	142 858	234 964	70 392	-	(376 910)	(664 422)	-	3 001 255
Motor vehicles	-	75 534 836	(627 450)	9 749 705	788 843	-	(7 194 431)	(7 063 504)	-	71 187 999
Office equipment	-	1 947 921	267 273	65 556	100 382	-	(162 112)	(343 496)	-	1 875 524
IT equipment	-	2 072 261	489 248	463 333	79 817	-	(382 877)	(647 523)	-	2 074 259
Electricity	-	163 968 119	5 916 864	-	-	15 198 478	-	(7 046 276)	-	178 037 185
Roads and storm water	-	497 260 245	(17 719 947)	-	-	18 214 736	-	(23 013 868)	-	474 741 166
Leased assets	-	350 302	-	-	-	-	(3 091)	(96 147)	-	251 064
Landfill sites	-	9 314 064	5 629 652	-	-	646 250	-	(472 040)	-	15 117 926
Work in progress	-	30 770 981	13 454 717	57 398 355	-	(71 776 067)	-	-	(1 774 133)	28 073 853
Community assets	-	44 249 761	138 131 068	-	-	34 709 497	-	(6 226 654)	-	210 863 672
Other equipment	-	2 590 564	293 875	125 905	235 273	-	(654 012)	(555 269)	-	2 036 336
	-	**1 139 212 207**	**11 283 850**	**68 037 818**	**1 274 707**	**-**	**(8 773 433)**	**(48 721 863)**	**(1 774 133)**	**1 160 539 153**

Pledged as security

No property, plant and equipment has been pledged as security.

Assets subject to finance lease (Net carrying amount)

Leased assets	345 818	345 818

Notes to the Annual Financial Statements

	2018 R	2017 R

9. Property, plant and equipment (continued)

Other information

Property, plant and equipment in the process of being constructed or developed

Reconciliation of Work-in-Progress 2018

	Capital expenditure	Total
Opening balance	29 847 986	29 847 986
Additions/capital expenditure	40 890 998	40 890 998
	70 738 984	**70 738 984**

Reconciliation of Work-in-Progress 2017

	Capital expenditure	Total
Opening balance	29 847 986	29 847 986

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
Computer software	971 087	(735 540)	235 547	971 088	(684 455)	286 633

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	286 633	(51 086)	235 547

Reconciliation of intangible assets - 2017

	Opening balance	Additions through merger	Adjustment to additions through merger	Additions	Amortisation	Total
Computer software	-	235 824	108 271	69 006	(126 468)	286 633

Pledged as security

No intangible assets have been pledged as security:

11. Heritage assets

	2018	2017

	2018 R	2017 R

11. Heritage assets (continued)

	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art, antiquities, exhibits and war memorials	1 087 370	-	1 087 370	1 087 370	-	1 087 370

Reconciliation of heritage assets 2018

	Opening balance	Total
Art, antiquities, exhibits and war memorials	1 087 370	1 087 370

Reconciliation of heritage assets 2017

	Opening balance	Additions through merger	Adjustment to additions through merger	Total
Art, antiquities, exhibits and war memorials	-	1 049 100	38 270	1 087 370

Pledged as security

No heritage assets have been pledged as security:

12. Other financial assets

	2018 R	2017 R
At amortised cost		
Fixed Deposits	365 682	346 431
Non-current assets		
At amortised cost	365 682	346 431

Financial assets at amortised cost

Fixed deposits consists of the following accounts from ABSA:

	2018 R	2017 R
ABSA - Fixed Deposit Account - 20-4601-2562	12 856	12 059
ABSA - Fixed Deposit Account - 20-5423-8637	19 475	18 094
ABSA - Fixed Deposit Account - 20-5441-0158	8 590	8 091
ABSA - Fixed Deposit Account - 20-5487-1867	7 382	7 382
ABSA - Fixed Deposit Account - 20-5488-0953	7 382	7 382
ABSA - Fixed Deposit Account - 20-5533-9377	11 657	10 610
ABSA - Fixed Deposit Account - 20-5759-5270	14 500	14 500
ABSA - Fixed Deposit Account - 20-5775-0882	26 524	24 644
ABSA - Fixed Deposit Account - 20-5868-1438	18 328	17 054
ABSA - Fixed Deposit Account - 20-5874-5343	14 177	14 177
ABSA - Fixed Deposit Account - 20-5874-5458	10 935	10 935
ABSA - Fixed Deposit Account - 20-5874-5521	8 266	8 266
ABSA - Fixed Deposit Account - 20-5923-6583	13 347	12 400
ABSA - Fixed Deposit Account - 20-5923-6672	29 853	27 737
ABSA - Fixed Deposit Account - 20-6432-5597	36 975	34 354
ABSA - Fixed Deposit Account - 20-6068-1802	55 412	51 484
ABSA - Fixed Deposit Account - 20-6068-1577	62 330	60 114
ABSA - Fixed Deposit Account - 20-6066-7315	7 693	7 148
	365 682	**346 431**

	2018 R	2017 R

12. Other financial assets (continued)

Financial assets pledged as collateral

Collateral

No financial assets have been pledged as collateral for any borrowings.

13. Payables from exchange transactions

	2018 R	2017 R
Trade payables	128 517 959	39 942 036
Payments received in advanced	15 356 230	10 213 639
Other payables	8 541 842	5 166 022
Retention fees	-	2 611 102
	152 416 031	**57 932 799**

14. Consumer deposits

	2018 R	2017 R
Electricity	10 043 615	9 989 146

15. Employee benefit obligations

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

	2018 R	2017 R
Carrying value		
Non-current portion of Post Retirement Medical Aid	(29 389 698)	(84 703 000)
Non-current portion of Long Service Awards	(11 828 255)	(11 278 000)
Current portion of Post Retirement Medical Aid	(1 543 694)	(2 197 000)
Current portion of Long Service Awards	(1 583 283)	(2 027 000)
Accrual for bonuses	(4 847 608)	(5 317 343)
Accrual for leave gratuity	(23 820 700)	(25 078 739)
	73 013 238	**130 601 082**
Non-current liabilities	(41 217 953)	(95 981 000)
Current liabilities	(31 795 285)	(34 620 082)
	(73 013 238)	**(130 601 082)**

Net expense recognised in the statement of financial performance

	2018 R	2017 R
Current service cost	6 605 000	6 605 000
Interest cost	9 940 000	9 940 000
Actuarial (gains) losses	(20 233 580)	-
Change in Medical Aid Policy	(47 947 490)	-
Benefits paid	(4 224 000)	-
	(55 860 070)	**16 545 000**

	2018 R	2017 R

15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Medical health gross discount rate	9.27 %	10.00 %
Maximum subsidy increase rate	10.00 %	6.90 %
Healthcare cost inflation rate	7.15 %	8.90 %
Medical health care net discount rate	1.98 %	1.01 %
Long service award gross discount rate	8.48 %	8.50 %
Long service award CPI rate	5.11 %	5.30 %
Long service award salary inflation rate	6.11 %	7.30 %
Long service award net discount rate	2.23 %	1.12 %

Other assumptions

Assumptions used as follows:

• Pre retirement mortality	SA 85-90L
• Post retirement mortality	PA (90)-1, with 1% p.a. mortality improvement from 2010
• Normal retirement age	63 years
• Spouse age differences (Male older than female)	3 years
• AIDS	No assumptions made
• Proportion with a spouse dependant at retirement	90%
• Continuation of membership at retirement	100%

The assumed general earnings, healthcare inflation rate and discount rate have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed general earnings would have the following effects:

	One percentage point increase	**One percentage point decrease**
General earnings		
Effect on the aggregate of the service cost and interest cost	2 911 900	1 553 400
Effect on defined benefit obligation	14 206 000	12 688 000
Discount rate		
Effect on the aggregate of the service cost and interest cost	6 556 500	7 031 300
Effect on defined benefit obligation	40 533 000	48 850 000
	47 089 500	**55 881 300**
Healthcare inflation rate		
Effect on the aggregate of the service cost and interest cost	15 744 000	12 032 000
Effect on defined benefit obligation	31 072 000	30 748 000
	46 816 000	**42 780 000**

Amounts for the current and previous year are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Employee benefit obligation	44 344 930	100 205 000	-	-	-
Surplus (deficit)	16 545 000	16 545 000	-	-	-

Notes to the Annual Financial Statements

	2018 R	2017 R

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018 R	2017 R
Unspent conditional grants and receipts		
Finance Management Grant	-	1 619
ISDG	-	1 694 006
Integrated National Electrification Grant	-	417 765
Municipal Infrastructure Grant	-	24 385 727
Municipal Demarcation Transition Grant	-	7 111 000
	-	**33 610 117**

Movement during the year

	2018 R	2017 R
Balance at the beginning of the year	36 305 274	7 079 111
Additions during the year	83 505 000	94 900 000
Amounts paid back to National Treasury	(40 039 351)	-
Income recognition during the year	(79 770 923)	(68 368 994)
	-	**33 610 117**

17. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Landfill site	15 293 935	3 937 388	19 231 323

Reconciliation of provisions - 2017

	Opening Balance	Additions through merger	Utilised during the year	Total
Landfill site	-	12 148 404	3 145 531	15 293 935

Environmental rehabilitation provision

The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The expected future cost to rehabilitate the landfill site is the best estimate of the expenditure required to settle the present obligation. This is determined as the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known

Accounting for landfills requires that significant estimates and assumptions be made regarding (i) the cost to construct and develop each landfill asset; (ii) the estimated fair value of capping, closure and post-closure asset retirement obligations, which must consider both the expected cost and timing of these activities; (iii) the determination of each landfill's remaining permitted and expansion airspace; and (iv) the airspace associated with each final capping event1.

Notes to the Annual Financial Statements

	2018 R	2017 R

18. Service charges

Sale of electricity	185 193 476	204 654 379
Refuse removal	51 107 311	40 791 588
	236 300 787	**245 445 967**

19. Rental of facilities and equipment

Garages and parking		
Rental of carports	2 547	2 430
Facilities and equipment		
Rental of facilities	-	207 689
Rental of container	20 678	17 148
Rental of municipal property	2 780 772	2 239 394
	2 801 450	**2 464 231**
	2 803 997	**2 466 661**

20. Interest received on debtors

Trade debtors	14 004 156	19 788 222

21. Other income

Advert costs	439	526
Building plan fees	250 094	367 547
Burial fees	885 753	831 699
Commission	45 492	44 603
Contract disbursement	-	215 083
Electricity reconnection fees	348 861	366 681
Gate Monies	38 253	55 508
Hunting	-	211 945
Lost books	-	360
Other income	400 716	555 791
Parking fees	116	-
Photocopies	317	64 612
Pound fees	1 521 888	1 290 827
Roadworthy certificates	23 218	236 328
Sale of plants	-	11 079
Sale of tender documents	209 807	-
Sundry revenue	30 587	963 170
	3 755 541	**5 215 759**

22. Interest received on investments

Interest revenue		
Bank	824 303	836 359
Investments	2 893 997	3 738 835
	3 718 300	**4 575 194**

Notes to the Annual Financial Statements

	2018 R	2017 R

23. Property rates

Rates received

	2018 R	2017 R
Property rates	98 090 628	88 199 903

Valuations

	2018 R	2017 R
Agricultural	3 034 678 653	3 034 678 653
Business	2 271 792 787	2 271 792 787
Church	8 935 335	8 935 335
Education	538 658 419	538 658 419
Vacant Land	249 930 175	249 930 175
Government	257 910 798	257 910 798
Industrial	29 350 350	29 350 350
Municipal	488 283 341	488 283 341
Residential	6 617 843 717	6 617 843 717
Other	147 748 342	147 748 342
	13 645 131 917	**13 645 131 917**

	2018 R	2017 R

24. Government grants and subsidies

Operating grants		
Equitable share	160 096 352	126 494 836
Other unconditional grants and subsidies	5 423 072	7 931 000
Conditional grant funding released	23 937 575	35 357 853
	189 456 999	**169 783 689**
Capital grants		
Conditional grant funding released	51 953 765	33 277 819
	241 410 764	**203 061 508**

Equitable Share

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

FMG

Balance unspent at beginning of year	1 619	1 619
Current-year receipts	5 945 000	5 460 000
Conditions met - transferred to revenue	(5 945 000)	(5 460 000)
Amounts paid back to National Treasury	(1 619)	-
	-	**1 619**

EPWP

Balance unspent at beginning of year	-	17 224
Current-year receipts	4 889 000	4 079 000
Conditions met - transferred to revenue	(4 889 000)	(4 096 224)
	-	**-**

ISDG

Balance unspent at beginning of year	1 694 006	240 414
Current-year receipts	-	2 800 000
Conditions met - transferred to revenue	-	(1 346 408)
Amount paid back to National Treasury	(1 694 006)	-
	-	**1 694 006**

INEG

Balance unspent at beginning of year	417 765	592 132
Current-year receipts	7 000 000	5 000 000
Conditions met - transferred to revenue	(7 417 765)	(5 112 235)
Amount paid back to National Treasury	-	(62 132)
	-	**417 765**

Notes to the Annual Financial Statements

	2018 R	2017 R

24. Government grants and subsidies (continued)

MIG

Balance unspent at beginning of year	24 385 727	8 212 977
Current-year receipts	44 536 000	56 668 000
Conditions met - transferred to revenue	(44 536 000)	(37 695 250)
Amount paid back to National Treasury	(24 385 727)	(2 800 000)
	-	**24 385 727**

Municipal Demarcation Transition Grant

Balance unspent at beginning of year	7 111 000	51 110
Current-year receipts	6 847 000	20 143 000
Conditions met - transferred to revenue	(6 847 000)	(13 083 110)
Amount paid back to National Treasury	(7 111 000)	-
	-	**7 111 000**

25. Employee related costs

Basic	153 114 329	119 039 930
Bonus	11 397 300	534 237
Casual labour	5 030 797	4 161 448
Contract workers	9 306 631	8 373 604
Group life insurance	767 184	661 198
Housing benefits and allowances	549 842	1 356 728
Leave pay provision charge	(571 019)	39 715 127
Long-service awards	635 000	-
Medical aid - company contributions	24 460 717	27 764 557
Night shift services	619 399	196 128
Other allowances	2 150	27 447
Overtime payments	10 376 769	8 064 430
Pension contribution	23 457 118	19 680 361
Telephone allowance	39 256	76 423
Transport allowances	8 550 363	6 088 549
UIF	1 224 110	1 098 272
WCA	1 187 208	1 254 496
	250 147 154	**238 092 935**

Remuneration of Municipal Manager

Annual remuneration	630 478	593 696
Backpay	56 808	14 356
Acting Allowance	-	55 323
Housing subsidy	-	60 000
Contributions to UIF, Medical and Pension Funds	79 571	72 892
Other allowances and contributions	58 301	25 790
	825 158	**822 057**

Notes to the Annual Financial Statements

	2018 R	2017 R

25. Employee related costs (continued)

Remuneration of Chief Finance Officer (Acting)

Annual remuneration	610 308	631 498
Backpay	-	12 840
Acting allowance	182 872	50 624
Structured bonuses	50 859	100 000
Contributions to UIF, Medical and Pension Funds	158 092	69 190
Leave payout	-	402 867
Other allowances and contributions	230 063	140 023
Long service award	18 309	-
	1 250 503	**1 407 042**

Annual remuneration	610 308	-
Acting allowance	20 845	-
Structured bonuses	50 859	-
Contributions to UIF, Medical and Pension Funds	168 606	-
Other allowances and contributions	161 319	-
	1 011 937	**-**

Remuneration of the Chief Financial Officer

Annual remuneration	96 588	-
Contributions to UIF, Medical and Pension Funds	1 123	-
	97 711	**-**

Remuneration of the Director: Technical Services

Annual Remuneration	701 724	532 565
Acting Allowance	346 128	118 804
Backpay	38 783	207 042
Contributions to UIF, Medical and Pension Funds	-	8 288
Other allowances and contributions	81 600	-
	1 168 235	**866 699**

Annual remuneration	78 576	-
Contributions to UIF, Medical and Pension Funds	18 163	-
Other allowances and contributions	792	-
	97 531	**-**

Remuneration of the Director: Community and Social Services

Annual Remuneration	609 356	537 007
Backpay	32 972	-
Acting Allowance	600 353	65 690
Bonuses	48 817	48 819
Contributions to UIF, Medical and Pension Funds	1 784	9 274
Other Allowances and contributions	210 339	171 994
	1 503 621	**832 784**

Notes to the Annual Financial Statements

25. Employee related costs (continued)

Remuneration of the Director: Corporate and Support Services

	2018 R	2017 R
Annual Remuneration	918 284	799 988
Backpay	53 811	9 184
Acting Allowance	47 769	-
Performance Bonuses	90 279	-
Contributions to UIF, Medical and Pension Funds	223 142	190 005
Other allowances and contributions	155 008	64 005
	1 488 293	**1 063 182**

Remuneration of the Director: Human Settlement

	2018 R	2017 R
Annual Remuneration	481 458	625 376
Acting Allowance	196 232	62 374
Performance Bonuses	40 122	-
Contributions to UIF, Medical and Pension Funds	134 899	130 935
Other Allowances and contributions	168 477	81 434
	1 021 188	**900 119**

Remuneration of the Director: Strategic Executive

	2018 R	2017 R
Annual Remuneration	868 506	758 966
Backpay	53 411	9 717
Bonuses	100 000	100 000
Contributions to UIF, Medical and Pension Funds	241 369	201 171
Other allowances and contributions	114 817	92 838
	1 378 103	**1 162 692**

Remuneration of the Director: IPED

	2018 R	2017 R
Annual Remuneration	935 851	690 715
Acting Allowance	137 105	34 656
Backpay	48 069	-
Contributions to UIF, Medical and Pension Funds	46 413	176 955
Other allowances and contributions	190 376	165 536
	1 357 814	**1 067 862**

Remuneration of the Director: Safety (Acting)

	2018 R	2017 R
Annual Remuneration	454 894	1 123 407
Backpay	30 908	11 736
Acting Allowance	312 598	110 342
Long service award	14 836	-
Contributions to UIF, Medical and Pension Funds	111 853	1 636
Other allowances and contributions	221 003	11 436
	1 146 092	**1 258 557**

	2018 R	2017 R
Annual remuneration	103 514	-
Leave payout	248 806	-
Contributions to UIF, Medical and Pension Funds	149	-
Other allowances and contributions	3 531	-
	356 000	**-**

	2018 R	2017 R

25. Employee related costs (continued)

Remuneration of the Acting Director: Legal Services

Annual Remuneration	701 724	622 227
Backpay	38 782	-
Acting allowance	376 854	21 806
Contributions to UIF, Medical and Pension Funds	155 660	130 935
Other allowances and contributions	99 312	81 494
	1 372 332	**856 462**

26. Remuneration of councillors

Honourable Mayor	879 159	717 539
M-PAC	653 256	515 654
Chief Whip	672 600	547 488
Speaker	707 981	578 505
Councillors salaries	17 355 550	16 090 335
Ward Committee Members	4 587 287	2 380 782
Executive Committee Members	5 191 067	4 286 997
	30 046 900	**25 117 300**

27. Depreciation and amortisation

Property, plant and equipment	50 786 376	48 587 305

28. Finance costs

Other interest paid	9 355 402	3 190 836

29. Bulk purchases

Electricity	211 476 954	189 807 435

30. Contracted services

Other Contractors	15 056 547	14 410 065

31. Transfers and subsidies

Other subsidies		
Grant expenditure	-	22 380 399

Notes to the Annual Financial Statements

	2018 R	2017 R

32. General expenses

Accomodation	5 637 588	2 744 102
Advertising	708 193	1 503 494
Assets expensed	(148 304)	488 195
Auditors remuneration	7 715 047	11 204 535
Bank charges	2 313 997	992 020
Capital expenditure	7 745 207	5 641 428
Chemical and laboratory services	48 947	91 953
Conferences and seminars	-	75 895
Consulting and professional fees	22 453 738	3 299 813
Consumables	1 038 685	1 031 583
Donations	100 000	137 500
Entertainment	678 257	907 157
Fuel and oil	8 857 017	8 719 654
Insurance	2 276 438	2 112 936
Levies	3 570 943	5 708 454
Medical expenses	5 567	9 692
Security services	5 932 031	-
Project expenditure	13 159 068	4 938 754
Other expenses	449 915	-
Postage and courier	309 439	561 944
Printing and stationery	1 376 413	1 269 166
Promotions	234 792	881 543
Protective clothing	394 452	347 128
Relocation costs	(101 997)	1 720 392
Rentals	2 407 573	2 562 299
Repairs and maintenance	4 278 589	13 270 608
Subscriptions and membership fees	19 200	19 015
Telephone and fax	7 965 873	5 422 047
Title deed search fees	27 876	-
Training	3 979 802	2 022 454
Travel - local	1 133 079	1 468 880
Utilities	1 546 870	1 456 779
Vehicle licenses	1 167 070	1 698 406
	107 281 365	**82 307 826**

33. Loss on disposal of assets and liabilities

Property, plant and equipment	(13 170 203)	(8 864 209)

In June 2018 Property, plant and equipment belonging to the municipality were seized by the sheriff and auctioned off as payment on an outstanding debt.

34. Auditors' remuneration

Fees	7 715 047	11 204 535

Notes to the Annual Financial Statements

	2018 R	2017 R

35. Cash (used in) generated from operations

	2018 R	2017 R
Deficit	(28 511 509)	(134 752 652)
Adjustments for:		
Depreciation and amortisation	50 786 376	48 587 305
Gain on sale of assets and liabilities	13 333 664	8 864 209
Fair value adjustments	(47 947 490)	(499 200)
Debt impairment	59 162 477	79 862 930
Movements in provisions	3 937 388	(20 728 097)
Actuarial gains / losses	(20 233 580)	-
Public donations	(34 829 300)	-
Changes in working capital:		
Decrease/(Increase) in Inventory	-	473 171
Decrease/(Increase) in Receivables from exchange transactions	(32 662 219)	3 832 646
Decrease/(Increase) in Receivables from non-exchange transactions	(41 100 633)	(60 892 943)
Increase/(decrease) in Trade and other payables	94 483 236	9 824 795
Increase/(decrease) in Employee benefit	10 593 226	53 020 297
VAT	3 863 234	4 018 132
Unspent conditional grants and receipts	(33 610 117)	10 009 843
Consumer deposits	54 469	79 403
	(2 680 778)	**1 699 839**

36. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	54 709 773	54 709 773
Receivables from non-exchange transactions	30 937 160	30 937 160
Cash and cash equivalents	995 331	995 331
Other financial assets	365 682	365 682
	87 007 946	**87 007 946**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	152 416 031	152 416 031
Consumer deposits	10 043 615	10 043 615
Bank overdraft	410 114	410 114
	162 869 760	**162 869 760**

2017

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	52 460 532	52 460 532
Receivables from non-exchange transactions	17 536 026	17 536 026
Cash and cash equivalents	50 789 089	50 789 089

Notes to the Annual Financial Statements

	2018 R	2017 R

36. Financial instruments disclosure (continued)

Other financial assets	346 431	346 431
	121 132 078	**121 132 078**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	57 932 799	57 932 799
Consumer deposits	9 989 146	9 989 146
	67 921 945	**67 921 945**

37. Mergers

Mergers occurring during the current reporting period

On 05 August 2016 a merger between Lukhanji Local Municipality, Inkwanca Local Municipality and Tsolwana Local Municipality took place establishing a new combining entity called Enoch Mgijima Local Municipality. No acquirer could be identified.

In accordance with GRAP 107 Mergers, the balances of the following assets and liabilities assumed at the take on are provisional until such time as all accounting information relating to the completeness of the balances has been obtained, as a result the initial accounting is deemed incomplete at the reporting date.

The circumstances that contributed towards the incomplete accounting at takeon date is mainly due to supporting records not being available to substantiate all of the balances and / or the major components of the balances as listed below:

Value of assets acquired and liabilities assumed

Assets acquired	**Balances taken on at 6 August 2016**	**2017 Adjustments**	**Previously reported**	**2018 Adjustments**	**Restated**
Receivables from exchange transactions	91 577 457	308 841 355	400 418 812	(355 167 882)	45 250 930
Receivables from non-exchange transactions	120 344 308	(20 282 907)	100 061 401	(108 281 193)	(8 219 792)
VAT	20 466 029	(9 156 593)	11 309 436	-	11 309 436
Cash and cash equivalents	117 266 393	86 461 273	203 727 666	(88 227 437)	115 500 229
Property, plant and equipment	1 141 868 264	13 092 382	1 154 960 646	6 446 929	1 148 513 717
Inventory	473 171	(473 171)	-	-	-
Investment property	291 608 199	-	291 608 199	-	291 608 199
Other financial assets	329 505	-	329 505	-	329 505
Biological assets	5 651 900	-	5 651 900	-	5 651 900
Heritage assets	1 049 100	-	1 049 100	38 270	1 087 370
Intangible assets	235 824	108 271	344 095	-	344 095
	1 790 870 150	**378 590 610**	**2 169 460 760**	**(545 191 313)**	**1 611 375 589**
Liabilities assumed					
Finance lease obligation	185 374	-	185 374	-	185 374
Payables from exchange transactions	47 077 943	(41 839 944)	5 237 999	48 592	5 286 591
Unspent conditional grants	23 600 918	(9 241 457)	14 359 461	168 592	14 528 053
Consumer deposits	9 909 743	16 731	9 926 474	-	9 926 474
Employee benefit obligations	77 709 357	7 013 332	84 722 689	-	84 722 689
Provisions	36 022 032	-	36 022 032	23 873 628	12 148 404
	194 505 367	**(44 051 338)**	**150 454 029**	**24 090 812**	**126 797 585**
Accumulated surplus	**1 596 364 783**	**422 641 948**	**2 019 006 731**	**569 282 125**	**1 484 578 004**

Notes to the Annual Financial Statements

	2018 R	2017 R
38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	64 953 344	79 835 684
Total capital commitments		
Already contracted for but not provided for	64 953 344	79 835 684
Total commitments		
Total commitments		
Authorised capital expenditure	64 953 344	79 835 684

This committed expenditure relates to property, plant and equipment and will be financed by grants, available bank facilities, retained surpluses, existing cash resources and funds internally generated.

Notes to the Annual Financial Statements

	2018 R	2017 R

39. Contingencies

Pending litigations and claims:

Matter 6823 - TS Skweyiya vs Lukhanji Municipality	100 000	100 000

Plaintiff suing Mxolisi Blekiwe for R 100 000. The case is a defamation claim in the exercise of M Blekiwe's duties as a councillor in 2010.

Matter 16666 GHT H/C - Jan Draghoender v Lukhanji Local Municipality	992 996	992 996

Plaintiff sues municipality for damages arising out of his utilisation of municipal property

Matter 8092 Qtn Mag Crt - A Motile v Lukhanji Municipality	94 814	94 814

2005 Applicant seek damages for repairs and maintenance to property he leased from the municipality for an amount of R94 814. Will raise a defence of prescription and satisfied that this will succeed.

Mat 5464 - SAMWU obo Cata & 45 Others v Lukhanji Municipality	125 000	125 000

Sued for payment of ito a unilateral decision to upgrade Whittlesea municipality before amalgamation in 2009. Reasonable prospects of success in opposing the application.

Mat 5511 GHT H/C - Siyahlutha Developers v Lukhanji Municipality	1 724 288	1 724 288

In 2009 plaintiff sued mun for R1 724 288 for damages iro certain contracts with the municipality. Prospects of successfully defending the matter not known as yet will depend on successful prosecution of review of arbitration.

Mat 17611 Qtn Mag Crt - Luyolo Siyongwana v Lukhanji Municipality	100 000	100 000

Plaintiff sues the municipality for R100 000.00 damages arising from a wrongful arrest. Reasonable prospects of success in defending the matter exist

Case No. 1078/2011 Mthatha High Court - Pinky Gidzana	4 000 000	4 000 000

Plaintiff sues the municipality for injuries caused to her child due to alleged negligence by the municipality leading to cement pipes falling on her child causing pelvic injuries to her. Judgment granted for plaintiff. matter to proceed on quantum.

ECQTNRC29/2018 - Nomabhaca Lourna Mgulwa	400 000	-

The plaintiff sues the municipality together with Cllr Mbengo for R400 000 for damages arising out of alleged comments by the councilor in a local newspaper about plaintiff.

Case No. 2297/2016 - Nosibulelo Dalasile v Enoch Mgijima	100 000	-

Plaintiff sues the municipality for R100 000.00 for injuries caused when she fell onto an open and unattended drain.

Case No. 648/2018 - Axolile Qononda v Enoch Mgijima LM/ Elliot Tromp	28 400	-

Plaintiff sues municipality for R28 400.47 for damages to his car due to negligent driving by the municipal employee

	2018 R	2017 R
39. Contingencies (continued)		
Case no 5035/2017 - John Adrian Heath obo Lihlumise Nzuzo v Enoch Mgijima Municipality	610 000	-
Plaintiff sues for R610 000.00 for damages caused to a minor child that was electrocuted due to an unattended electrical cable.		
Case No. 2004/07/18 - Madz Electrical v Enoch Mgijima Municipality	75 000	-
The plaintiff sues the municipality for R539 000 damages for a cancelled appointment for construction work.		
Matter 27671 - NL Mgulwa v Enoch Mgijima Municipality / Mbengo	400 000	-
Plaintiff is suing for R 400 000. Judgement will be granted against the second defendant.		
Lukhanji Municipality vs. Botha A	30 000	30 000
Lukhanji Municipality vs. Kali MH	30 000	30 000
Lukhanji Municipality vs. Malongwe KS	30 000	30 000
Lukhanji Municipality vs. Das P&K	30 000	30 000
Lukhanji Municipality vs. Tyatyeka AN	30 000	30 000
	8 900 498	**7 287 098**

40. Related parties

Related party transactions

Remuneration of management

Councillors/Mayoral committee members

Refer to note 26 "Remuneration of councillors".

Executive management

*Refer to note 25 "Employee related costs"

41. Prior period errors

The correction of the errors results in adjustments as follows:

Notes to the Annual Financial Statements

	2018	2017
	R	R

41. Prior period errors (continued)

Statement of financial position	Previously reported	Adjustments	Restated	Reason
Receivables from exchange transactions	90 406 168	(37 945 636)	52 460 532	The debt impairment calculation was reperformed. Revenue was adjusted to agree to the billing reports. Receivables were reclassified to agree to the age analysis.
Receivables from non-exchange transactions	39 962 774	(22 426 748)	17 536 026	The debt impairment calculation was reperformed. Revenue was adjusted to agree to the billing reports. A Property rates reconciliation was performed. Receivables were reclassified to agree to the age analysis.
VAT Receivable	16 486 062	(38 165)	16 447 897	VAT was raised on accruals. VAT adjustments on SARS Statements of Account were recorded.
Cash and cash equivalents	123 833 110	(73 044 021)	50 789 089	The bank reconciliations were reperformed and errors found were corrected, longoutstanding reconciling items were reversed.
Property, plant and equipment	1 164 987 823	(4 448 670)	1 160 539 153	Landfill site asset and depreciation thereon was adjusted to agree to Expert's reports. Retention fees on projects corrected. Duplicated assets (Prior year COAF 62) reversed.
Other financial assets	343 800	2 631	346 431	Interest not previously recognised was raised.
Finance lease obligation	(185 374)	185 374	-	Lease terms were renegotiated to monthly terms in 2016/17.
Payables from exchange transactions	(52 328 797)	(5 604 002)	(57 932 799)	Suspense accounts were investigated and the municipality is in the process of clearing them. Accruals identified were raised.
Consumer deposits	(10 304 752)	315 606	(9 989 146)	Consumer deposit amounts taken on from the former municipalities that were duplicated were reversed.
Employee benefit obligations	(128 487 183)	(2 113 899)	(130 601 082)	The Long service awards and Post Employment Medical Benefit were adjusted to agree to the Actuary's Reports. The leave and bonus accruals were recalculated and adjusted accordingly.
Unspent conditional grants	(39 408 739)	5 798 622	(33 610 117)	Conditional grant receipts were reallocated to Unspent Conditional Grants. Unconditional grants were reallocated from Unspent Conditional Grants to Government grants and subsidies under Revenue from exchange transactions.
Provisions	(36 022 032)	20 728 097	(15 293 935)	The Provision for landfill site was adjusted to agree to the Expert's report.
Accumulated Surplus or Deficit	(1 468 416 163)	118 590 812	(1 349 825 351)	The accumulation of all adjustments to assets and liabilities.

41. Prior period errors (continued)

Statement of financial performance

Service charges	232 790 600	12 655 367	245 445 967	Revenue was agreed to billing reports and revenue was restated accordingly.
Rental of facilities and equipment	2 354 278	112 383	2 466 661	Revenue was agreed to billing reports and revenue was restated accordingly.
Licences and permits	3 082 322	137 258	3 219 580	Vote for special permits was reclassified to Licences and permits. Licences and permits were reclassified to Revenue from exchange transactions.
Other income	6 083 928	(868 169)	5 215 759	Revenue was agreed to billing reports and revenue was restated accordingly.
Interest received on debtors	20 095 895	(307 673)	19 788 222	Revenue was agreed to billing reports and revenue was restated accordingly.
Interest on investments	5 374 068	(798 874)	4 575 194	Bank reconciliations were reperformed and interest was corrected accordingly
Property rates	85 156 900	3 043 003	88 199 903	A recalculation of property rates was performed and rates and receivables from non-exchange transactions were adjusted accordingly. The indigent subsidy was raised in line with the policy in use.
Grants and subsidies received	197 263 530	5 797 978	203 061 508	Conditional grant receipts were reallocated to Unspent Conditional Grants. Unconditional grants were reallocated from Unspent Conditional Grants to Government grants and subsidies under Revenue from exchange transactions.
Traffic fines	324 143	398 511	722 654	A traffic fines register was constructed and the traffic fines were adjusted accordingly.
Employee related costs	(235 979 035)	(2 113 900)	(238 092 935)	The leave accrual was recalculated and adjusted accordingly.
Depreciation and amortisation	(48 568 824)	(18 481)	(48 587 305)	The landfill site provision and related asset were restated to agree to the Actuaries report and the depreciation was adjusted accordingly
Finance costs	(45 306)	(3 145 530)	(3 190 836)	The landfill site provision and related asset were restated to agree to the Actuaries report and the interest on landfill site was adjusted accordingly
Debt impairment	(466 658 673)	386 795 743	(79 862 930)	The Provision for impairment on debtors was recalculated and restated accordingly.
Repairs and maintenance	(13 008 850)	(261 758)	(13 270 608)	A number of votes were reclassified from Other expenses to Repairs and maintenance as they were a better fit for that classification.
Bulk purchases	(188 015 205)	(1 792 230)	(189 807 435)	Expenditure transactions that were incorrectly allocated to a suspense account were reallocated to the correct votes.
Contracted services	(13 787 667)	(622 398)	(14 410 065)	The accruals raised at 30 June 2017 were recalculated and restated accordingly.
Transfers and subsidies	(21 920 916)	(459 483)	(22 380 399)	Expenditure transactions that were incorrectly allocated to a suspense account were reallocated to the correct votes The accruals raised at 30 June 2017 were recalculated and restated accordingly.

41. Prior period errors (continued)

General expenses	(86 323 388)	17 286 170	(69 037 218)	The accruals raised at 30 June 2017 were recalculated and restated accordingly The bank reconciliations were reperformed and bank charges were adjusted accordingly Payroll suspense accounts were cleared and staff reallocation costs were allocated correctly. Expenditure transactions that were incorrectly allocated to a suspense account were reallocated to the correct votes An amount of R24 million incorrectly recorded to bank charges was reallocated to Investments Lease payments were reallocated against the finance lease obligation.
Notes				
Commitments	79 835 684	(632 413)	79 203 271	The register was reperformed and the disclosure was adjusted accordingly
Irregular expenditure	402 145 795	(42 846 031)	359 299 764	The register was reperformed and the disclosure was adjusted accordingly
Unauthorised expenditure	154 096 591	(321 831 065)	(167 734 474)	The register was reperformed and the disclosure was adjusted accordingly
Fruitless and wasteful expenditure	3 100 600	(229 356)	2 871 244	The register was reperformed and the disclosure was adjusted accordingly
Contingent assets	112 197	(112 197)	-	The contingencies register was reperformed and the disclosure was adjusted accordingly
Contingent liabilities	5 875 194	1 411 904	7 287 098	The contingencies register was reperformed and the disclosure was adjusted accordingly

Note 35 -Merger	**2017 Disclosure note**	**Correction**	**Correct 2017 Take on balances**	**2018 Restatements**	**2018 Restated take on balances**
Assets Acquired					
Property, plant and equipment	1 141 868 264	13 054 112	1 154 922 376	(6 408 659)	1 148 513 717
Investment property	291 608 199	-	291 608 199	-	291 608 199
Intangible assets	235 824	108 271	344 095	-	344 095
Heritage assets	1 049 100	38 270	1 087 370	-	1 087 370
Biological assets	5 651 900	-	5 651 900	-	5 651 900
Other financial assets	329 505	(3 872)	325 633	3 872	329 505
Cash and cash equivalents	117 266 393	86 465 145	203 731 538	(88 231 309)	115 500 229
Inventory	473 171	(473 171)	-	-	-
Receivables from exchange transactions	91 577 457	308 399 267	399 976 724	(354 725 794)	45 250 930
Receivables from non-exchange transactions	120 344 308	(20 282 907)	100 061 401	(108 281 193)	(8 219 792)
VAT receivable	20 466 029	(9 548 388)	10 917 641	391 795	11 309 436
	1 790 870 150	**377 756 727**	**2 168 626 877**	**(557 251 288)**	**1 611 375 589**
Liabilities assumed					
Finance lease obligation	(185 374)	-	(185 374)	-	(185 374)
Payables from exchange transactions	(47 077 943)	43 158 670	(3 919 273)	(1 367 318)	(5 286 591)
Consumer deposits	(9 909 743)	(332 337)	(10 242 080)	315 606	(9 926 474)
Provisions	(36 022 032)	-	(36 022 032)	23 873 628	(12 148 404)
Employee benefit obligation	(77 709 357)	(7 013 332)	(84 722 689)	-	(84 722 689)

				2018 R	2017 R

41. Prior period errors (continued)

Unspent conditional grants and receipts	(23 600 918)	9 072 220	(14 528 698)	645	(14 528 053)
	(194 505 367)	**44 885 221**	**(149 620 146)**	**22 822 561**	**(126 797 585)**
Accumulated surplus	1 596 364 783	422 641 948	2 019 006 731	(534 428 727)	1 484 578 004

The information disclosed in Note 35, Mergers, in the annual financial statements for the year ended 30 June 2017 was incomplete. The balances taken on from the former municipalities were disclosed but those balances were restated during the year. The 2017 restatements have been disclosed above, as well as the 2018 restatements. The reasons for which are described below.

Property, plant and equipment
The landfill site asset and the related depreciation was adjusted to agree to the Expert's report and duplicated assets were derecognised (Prior year COAF 62).

Other financial assets
A vote with a balance of R3872 was reallocated to Cash and cash equivalents.

Cash and cash equivalents
A vote with a balance of R3872 was reallocated to Cash and cash equivalent from Other financial assets. Bank reconciliations were reperformed, errors identified were corrected and longoutstanding reconciling items were reversed.

Receivables from exchange transactions
The debt impairment calculation was reperformed and Receivables from exchange transactions were adjusted accordingly. Revenue from exchange transactions was agreed to the billing reports and adjusted where necessary.

Receivables from non-exchange transactions
The debt impairment calculation was reperformed and Receivables from exchange transactions were adjusted accordingly. Revenue from non-exchange transactions was agreed to the billing reports and adjusted where necessary. A property rates reconciliation was performed and any invalid reconciling items were corrected or reversed.

VAT Receivable
Votes were reclassified to Receivables from exchange transactions

Payables from exchange transactions
Employee vehicle insurance was reclassified to Receivables from exchange transactions. Unknown receipts were reallocated from Accumulated surplus to Payables from exchange transactions. An Accumulated Surplus vote was reallocated to accumulated surplus.

Consumer deposits
Consumer deposit amounts from the former Inkwanca and Tsolwana municipalities that were duplicated were corrected.

Provisions
The Landfill site provision was adjusted to agree to the Expert's report.

Accumulated surplus
The adjustment to Accumulated Surplus is the net effect of all of the adjustments listed above.

Notes to the Annual Financial Statements

	2018 R	2017 R

42. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which that are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department of Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. There has not been any reviews conducted during the year which exposed the municipality to high financial risks. Further quantitative disclosures are included throughout these Annual Financial Statements.

Liquidity risk

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

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	152 416 031	-	-	-
Consumer deposits	10 043 615	-	-	-

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	57 932 799	-	-	-
Consumer deposits	9 989 146	-	-	-

	2018 R	2017 R

42. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. the municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire
properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to tem.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.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial assets in Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The maximum credit risk exposure in respect of the relevant financial instruments at year end were as follows:

Financial instrument	2018	2017
Receivables from exchange transactions	54 709 773	52 460 532
Receivables from non-exchange transactions	30 937 160	17 536 026
Cash and cash equivalents - Bank balances	-	3 449 267
Cash and cash equivalents - Short-term deposits	957 249	47 301 740
Other financial assets	365 682	346 431

Notes to the Annual Financial Statements

	2018 R	2017 R

42. Risk management (continued)

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest charges. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handing over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

43. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 1 321 313 842 and that the municipality's total liabilities exceed its assets by R 1 321 313 842.

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 officer continue to procure funding for the ongoing operations for the municipality.

44. Unauthorised expenditure

	2018 R	2017 R
Unauthorised expenditure	154 096 591	152 634 281
Add: Unauthorised expenditure - current year	13 996 500	1 462 310
	168 093 091	**154 096 591**

The unauthorised expenditure incurred is still being investigated.

In terms of GRAP 3 we consider it impracticable to revisit the unauthorised expenditure for the period ended 6 August 2016 due to the limitation caused by information not being available. Every reasonable effort has been considered, however, with a situation where source documents are not available it becomes impossible to determine the effects of the retrospective application as it is considered to be undeterminable.

The adjustment to the unauthorised expenditure in the prior periods is as a result of the recalculation of the prior year unauthorised expenditure.

The reason/circumstance leading to the impracticability is the absence of supporting documentation for the period ended 6 August 2016, which also resulted in the municipality receiving a disclaimer audit opinion.

Notes to the Annual Financial Statements

	2018 R	2017 R

45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	3 100 600	2 570 795
Add: Fruitless and wasteful expenditure - current year	437 435	529 805
	3 538 035	**3 100 600**

The fruitless and wasteful expenditure incurred is still being investigated.

In terms of GRAP 3 we consider it impracticable to revisit the fruitless and wasteful expenditure for the period ended 6 August 2016 due to the limitation caused by information not being available. Every reasonable effort has been considered, however, with a situation where source documents are not available it becomes impossible to determine the effects of the retrospective application as it is considered to be undeterminable.

The adjustment to the fruitless and wasteful expenditure in the prior periods is as a result of the 2016/17 fruitless and wasteful expenditure register being reperformed and fruitless and wasteful expenditure identified during the 2016/17 audit.

The reason/circumstance leading to the impracticability is the absence of supporting documentation for the period ended 6 August 2016, which also resulted in the municipality receiving a disclaimer audit opinion.

46. Irregular expenditure

Opening balance	402 145 796	359 653 465
Add: Irregular Expenditure - current year	26 774 428	42 492 330
	428 920 224	**402 145 795**

The irregular expenditure incurred is still being investigated.

In terms of GRAP 3 we consider it impracticable to revisit the irregular expenditure for the period ended 6 August 2016 due to the limitation caused by information not being available. Every reasonable effort has been considered, however, with a situation where source documents are not available it becomes impossible to determine the effects of the retrospective application as it is considered to be undeterminable.

The adjustment to the irregular expenditure in the prior periods is as a result of the register being reperformed and additional irregular expenditure identified during the 2016/17 audit.

The reason/circumstance leading to the impracticability is the absence of supporting documentation for the period ended 6 August 2016, which also resulted in the municipality receiving a disclaimer audit opinion.

47. In-kind donations and assistance

A road was constructed by the Department of Roads and Public Works that now belongs to the Municipality.

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2 273 825	40 000
Amount paid - current year	(2 273 825)	(40 000)
	-	-

Material losses

Opening balance	-	40 219 358

Notes to the Annual Financial Statements

	2018 R	2017 R

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

Audit fees

Current year subscription / fee	8 240 466	10 682 836
Amount paid - current year	(8 240 466)	(10 682 836)
	-	-

PAYE and UIF

Current year subscription / fee	26 722 430	25 803 828
Amount paid - current year	(26 722 430)	(23 129 808)
	-	**2 674 020**

Pension and Medical Aid Deductions

Current year subscription / fee	35 659 991	47 444 918
Amount paid - current year	(35 659 991)	(47 444 918)
	-	-

VAT

VAT receivable	12 584 663	16 447 897

VAT input receivables are shown in note 5.

All VAT returns have been submitted throughout the year.

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

Notes to the Annual Financial Statements

	2018 R	2017 R

49. 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.

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer. The reasons for the deviations were as follows:T

Reason for deviation	
Emergency	4 256 945
Sole supplier	1 238 698
Impractical / impossible to obtain three quotes	249 335
	5 744 978

Awards to family of persons in service of state

Name of person	**Position**	**Name of family member**	**Relationship**	**Supplier name**	**Value of Award**
Nonele Gloria Mshede	Billing clerk	Khayalethu Teron	Spouse	Kaige's transport and trading	4 650

50. Budget differences

Material differences between budget and actual amounts

The actual expenditure for the following expenses exceeded the final budget by 10%:

50.1 Service charges

The negative variance was due to under collection from service tariffs in particular the electricity theft in the townships that leads to less purchases.

50.2 Interest received on debtors

The negative variance was due to lesser interest earned on outstanding debtors as a result of low collection from outstanding debtors

50.3 Other income

The negative variance was due to some income streams under the "other income" classification that were not been collected as budgeted. The municipality tried to correct that by revisindg downwards but could not still achieve the adjusted budget.

50.4 Interest received on investments

The negative variance was due to the municipality placing lesser funds in its investment account resulting in less interest earned.

50.5 Property rates

The positive variance in the property rate revenue collection was due to the downward revision during the adjustment budget where the impairment at that stage was high because of non - payment.

50. Budget differences (continued)

50.6 Grants and subsidies

The variance was due to the inclusion of the capital grants in the actual whereas the budget only shows operating grants and subsidies

50.7 Fines, Penalties and Forfeits

This variance is due to m SCOA classification. Initially the budget for fines was R348 thousand But the m SCOA system reclassified them as R2.7 million.

50.8 Depreciation and amortisation

The increase in the depreciation figures is due to the addition of assets that were found during the asset verification exercise, particularly in the former Tsolwana and Inkwanca Municipalities.

50.9 Finance costs

The negative variance was due to the interest element from the landfill site valuation which was not budgeted in the 2017/18 financial year.

50.10 Debt Impairment

This variance is due to non payments of consumer accounts by the municipality over the 12 - month period and as a result the budgeted provision for the bad debt was less than the actual result for the same period.

50.11 Bulk purchases

The variance on bulk purchases is reasonable. No explanation required.

50.12 Contracted Services

The decrease in the Contracted Services is due to the Munipality's discontinuation of some contracts that have come to an end and were not renewed. The other reason is some Contracted Services performed have not yet been paid at year end.

50.13 Transfers and Subsidies

The variance was due to m SCOA re - classification.

50.14 General Expenses

The over expenditure was due to m SCOA re - classification.

50.15 Loss on disposal of assets and liabilities

The municipality does not budget for this line item.

50.16 Fair value adjustments

The municipality does not budget for this line item.

50.17 Actuarial gains/losses

The municipality does not budget for this line item.

50.18 Loss on biological assets and agricultural produce

The municipality does not budget for this line item.