Lejweleputswa District Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Nature of business and principal activities	District municipality
Mayoral committee from August 2016	
Executive Mayor	Cllr S Ngangeliswe
Speaker	Cllr PP Maleka
Councillors	Cllr ML Tlhone - MMC Health Service and Disaster Management
	Cllr MS Sehloho - MMC LED, Tourism, Agriculture, Youth and SMME
	Cllr MJ Pereko - MMC Community Services
	Cllr MH Ntsebeng - MMC Infrastructure
	Cllr MMT Matlabe - MMC Corporate Services
	Cllr MJ Meli - MMC IDP, PMS, Policy Development and Monitoring
	Cllr JS Mabitla - MMC Finance
Municipal demarcation code	DC18
Capacity of local authority	Low capaity
Grading of local authority	4
Accounting Officer	Ms PME Kaota
Chief Finance Officer (CFO)	Mr PK Pitso
Registered office	Office of the Municipal Manager Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Business address	Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Postal address	P.O. Box 2163 Welkom 9460
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa

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

CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
IAS	International Accounting Standards
VAT	Value Added Tax
PAYE	Pay as you earn
SDL	Skills Development Levy
UIF	Unemployement Insurance Fund
IPSAS	International Public Sector Accounting Standards

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 were 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 she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The municipality depends on grants received from National Government (98%) as RSC levies were abolished in 2006.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 6 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed by her:

Palesa Matshidiso Elizabeth Kaota
Municipal Manager

Audit Committee Report

We are pleased to present the Audit Committee report for the financial year ended 30 June 2018 on Lejweleputswa Distrit Municipality ("LDM").

Audit Committee Members and Attendance

The Audit Committee ("Committee") consists of five independent members. Members are appointed by the Municipal Council in terms of section 166 of Municipal Finance Management Act, 2003 (Act No. 56 of 2003). During the 2017/2018 financial year four ordinary and two special meetings were held. The attendance is reflected in the table below:

Name of member	Position	Attended	Apologies	Total
Mr N.S. Marota	Chairperson - resigned 1 December 2017	4	-	4
Mr L.J. Makoro	Member	3	3	6
Mr N.L. Masoka	Member	6	-	6
Adv L.S. Khonkhe	Member - resigned 1 May 2018	5	-	5
Mr T.A. Motshoikha	Member	5	1	6

Audit Committee responsibility

The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee charter ("the Charter"). The Audit Committee charter is reviewed and tabled before the Council for approval on an annual basis. The last reveiw was on 6th December 2017 and serves as a guide for the Audit Commitee. The Audit Committee has discharged its responsibilities as contained in the Charter.

The effectiveness of internal control

The system of internal controls applied by the Municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Internal Auditors of the Municipality during the year under review.

Evaluation of annual financial statements

We have:

- reviewed and discussed the annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the Municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal Audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the Municipality through their audits. Internal Audit has developed and implemented a risk-based three year strategic and annua operational audit plan.

Audit Committee Report

Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no material unresolved issues. We are satisifed tha the Auditor-General is independent of the Municipality.

Chairperson of the Audit Committee

Date: ____________________

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	102 636 709	88 423 471
Receivables from non-exchange transactions	4	495 008	17 282
VAT receivable	5	733 605	432 518
		103 865 322	**88 873 271**
Non-Current Assets			
Property, plant and equipment	6	61 463 689	60 434 415
Intangible assets	7	633 052	850 545
Investments in controlled entities	8	100	100
		62 096 841	**61 285 060**
Total Assets		**165 962 163**	**150 158 331**
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	11 851 456	8 295 670
Other financial liabilities	10	2 720 968	2 771 923
Long service awards	11	361 000	552 000
Employee benefit obligation	11	232 000	162 000
		15 165 424	**11 781 593**
Non-Current Liabilities			
Other financial liabilities	10	6 373 835	8 784 957
Employee benefit obligation	11	12 963 000	11 317 000
Long service awards	11	3 604 000	3 275 000
		22 940 835	**23 376 957**
Total Liabilities		**38 106 259**	**35 158 550**
Net Assets		**127 855 904**	**114 999 781**
Accumulated surplus		127 855 904	114 999 781

* See Note 30

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Operational revenue	13	712 246	811 171
Interest received	14	8 076 357	7 616 059
Total revenue from exchange transactions		**8 788 603**	**8 427 230**
Revenue from non-exchange transactions			
Transfer revenue			
Transfer and Subsidies	15	120 052 000	116 327 673
Total revenue	12	**128 840 603**	**124 754 903**
Expenditure			
Employee related cost	16	(69 505 932)	(62 845 642)
Remuneration of councillors	17	(8 803 579)	(8 008 412)
Transfers and subsidies		(7 141 573)	(6 846 955)
Depreciation and amortisation	18	(2 298 245)	(3 137 651)
Impairment / (Impairment loss)	19	(3 997 793)	(14 436 810)
Finance costs	20	(1 025 636)	(1 484 485)
Operating lease expenditure		(941 259)	(523 165)
Inventory consumed	21	(128 533)	(23 581)
Contracted services	22	(9 836 062)	(9 605 768)
Loss on disposal of assets and liabilities	23	(27 392)	(172 383)
Operational cost	24	(12 593 961)	(10 174 823)
Total expenditure		**(116 299 965)**	**(117 259 675)**
Surplus for the year		**12 540 638**	**7 495 228**

* See Note 30

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**107 233 549**	**107 233 549**
Changes in net assets		
Surplus for the year	7 495 228	7 495 228
Other movements	(9 055)	(9 055)
Total changes	7 486 173	7 486 173
Opening balance as previously reported	114 719 722	114 719 722
Adjustments		
Prior period error (refer to note 30)*	280 059	280 059
Restated* Balance at 01 July 2017	**114 999 781**	**114 999 781**
Changes in net assets		
Surplus for the year	12 540 638	12 540 638
Other movements	315 485	315 485
Total changes	12 856 123	12 856 123
Balance at 30 June 2018	**127 855 904**	**127 855 904**

Note(s)

* See Note 30

Cash Flow Statement

Figures in Rand	Note(s)	2018	2016
Cash flows from operating activities			
Receipts			
Grants		120 052 000	116 327 673
Interest income		7 320 622	6 239 814
Interest income from trading activities		755 735	1 376 244
Other receipts		712 246	811 171
		128 840 603	124 754 902
Payments			
Employee costs		(78 309 511)	(70 854 054)
Suppliers		(25 345 562)	(31 595 458)
Finance costs		(1 025 636)	(1 484 485)
		(104 680 709)	(103 933 997)
Net cash flows from operating activities	27	**23 495 041**	**20 760 905**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(2 980 074)	(675 232)
Proceeds from sale of property, plant and equipment	6	(6 915 207)	(2 353 479)
Purchase of other intangible assets	7	(171 675)	(703 646)
Net movement of financial assets		-	40 008 521
Net cash flows from investing activities		**(10 066 956)**	**35 013 510**
Cash flows from financing activities			
Movement in other financial liabilities		(2 462 077)	(2 221 839)
Employee benefit obligation payments		(621 000)	(654 000)
Net cash flows from financing activities		**(2 766 864)**	**(2 875 839)**
Net increase/(decrease) in cash and cash equivalents		**14 213 238**	**58 596 664**
Cash and cash equivalents at the beginning of the year		88 423 471	29 826 807
Cash and cash equivalents at the end of the year	3	**102 636 709**	**88 423 471**

* See Note 30

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 37*
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Operational revenue	135 500	629 074	**764 574**	712 246	**(52 328)**	
Interest received - investment	2 464 000	2 503 455	**4 967 455**	8 076 357	**3 108 902**	X1
Total revenue from exchange transactions	**2 599 500**	**3 132 529**	**5 732 029**	**8 788 603**	**3 056 574**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	119 998 000	54 000	**120 052 000**	120 052 000	**-**	X2
Total revenue	**122 597 500**	**3 186 529**	**125 784 029**	**128 840 603**	**3 056 574**	
Expenditure						
Employee remuneration	(74 925 026)	268 948	**(74 656 078)**	(69 505 932)	**5 150 146**	X2
Remuneration of councillors	(7 914 739)	(1 015 365)	**(8 930 104)**	(8 803 579)	**126 525**	
Transfer payments - Other	(7 017 000)	(259 000)	**(7 276 000)**	(7 141 573)	**134 427**	
Depreciation and amortisation	(7 521 164)	-	**(7 521 164)**	(2 298 245)	**5 222 919**	X3
Impairment loss/ Reversal of impairments	-	-	**-**	(3 997 793)	**(3 997 793)**	X4
Finance cost	(998 952)	-	**(998 952)**	(1 025 636)	**(26 684)**	
Operating lease expenditure	(741 569)	(449 350)	**(1 190 919)**	(941 259)	**249 660**	
Inventory consumed	(140 940)	-	**(140 940)**	(128 533)	**12 407**	
Contracted services	(9 076 469)	(2 230 114)	**(11 306 583)**	(9 836 062)	**1 470 521**	X5
Operational cost	(14 261 641)	(1 697 522)	**(15 959 163)**	(12 593 961)	**3 365 202**	X6
Total expenditure	**(122 597 500)**	**(5 382 403)**	**(127 979 903)**	**(116 272 573)**	**11 707 330**	
Operating surplus	**-**	**(2 195 874)**	**(2 195 874)**	**12 568 030**	**14 763 904**	
Loss on disposal of assets and liabilities	-	-	**-**	(27 392)	**(27 392)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**(2 195 874)**	**(2 195 874)**	**12 540 638**	**14 736 512**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of 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:

Impairment testing

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

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

Value in use of non-cash generating 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. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (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. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 11.

Effective interest rate

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

Allowance for impairment

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

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Not depreciated
Buildings and paving	Straight line	30-45 years
Plant and machinery	Straight line	5-20 years
Furniture and fixtures	Straight line	5-15 years
Motor vehicles	Straight line	7-14 years
Office equipment (including computers)	Straight line	4-9 years
Emergency equipment	Straight line	5-10 years
Other property, plant and equipment	Straight line	5-10 years

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

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

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

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

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

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

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

Accounting Policies

1.4 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

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

Accounting Policies

1.5 Investments in controlled entities

In the municipality’s separate annual financial statements, investments in investments in controlled entities are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated annual financial statements, are accounted for in the same way in the controlling entity’s separate annual financial statements.

1.6 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality estimates 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 uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

- cash;
- a residual interest of another municipality; or

Accounting Policies

1.6 Financial instruments (continued)

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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 the municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;

1.6 Financial instruments (continued)

- 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
Other receivables1	Financial asset measured at amortised cost
Other receivables2	Financial asset measured at amortised cost
Other financial asset1	Financial asset measured at fair value

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:

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, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

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

- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.6 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.

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

Fair value measurement considerations

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

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.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

Accounting Policies

1.6 Financial instruments (continued)

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.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

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.

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.6 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.7 Leases

Operating leases - lessee

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

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 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.

Accounting Policies

1.8 Impairment of 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 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

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

In allocating an impairment loss, the municipality 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.

1.8 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 municipality estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

1.9 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.

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:

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality 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 asset 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

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

An impairment loss is recognised immediately in surplus or deficit.

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

Accounting Policies

1.9 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.

1.10 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the 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 municipality during a reporting period, the municipality recognises 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 municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises 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 municipality has no realistic alternative but to make the payments.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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 recognises 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, 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 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.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises 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 municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

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

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

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

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

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

1.10 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.10 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards 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 recognises 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 is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

1.11 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.

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 expenditure.

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.

1.11 Provisions and contingencies (continued)

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

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.12 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.

Measurement

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

Interest and investment income

Revenue arising from the use by others of municipality assets yielding interest 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.

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

Interest charged on debtor accounts are limited to the principal debt as prescribed by the National Credit Act.

1.13 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.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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.

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.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.13 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

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

1.14 Investment income

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

1.15 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.

1.16 Unauthorised expenditure

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

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

1.17 Fruitless and wasteful expenditure

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

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

1.18 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 municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

1.19 Grants in aid

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

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

Accounting Policies

1.20 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.21 Budget information

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

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

The 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.

1.22 Related parties

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

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

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

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

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

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

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

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

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

1.23 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

Accounting Policies

1.24 VAT

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

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations not effective and not adopted in the current year

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

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:

GRAP 34: Separate Financial Statements

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

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

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

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

The impact of this standard is currently being assessed.

GRAP 35: Consolidated Financial Statements

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

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

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

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

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

The impact of this standard is currently being assessed.

GRAP 36: Investments in Associates & joint ventures

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

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

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

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

2. New standards and interpretations (continued)

The impact of this standard is currently being assessed.

GRAP 37: Joint Arrangements

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

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

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

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

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

The impact of this standard is currently being assessed.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:
-the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
-the effects of those interests on its financial position, financial performance and cash flows.

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

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

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

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

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:
-recognition, measurement, presentation and disclosure requirements for living resources; and
-disclosure requirements for non-living resources

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

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

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

The impact of this standard is currently being assessed.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

GRAP 12 (as amended 2016): Inventories

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

The most significant changes to the Standard are:

-General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)

-IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term “ammunition” in IPSAS 12 was replaced with the term “military inventories” and provides a description of what it comprises in accordance with Government Finance Statistics terminology

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

GRAP 16 (as amended 2016): Investment Property

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

The most significant changes to the Standard are:
-General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and nonmonetary assets.
-IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions between Entities

Not under Common Control and Investment Property when classifying investment property or owner-occupied property.

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

The most significant changes to the Standard are:
-General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
-IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

GRAP 27 (as amended 2016): Agriculture

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB’s Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:
-IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

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

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

The most significant changes to the Standard are:
-IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

The most significant changes to the Standard are:
-IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB’s recent decision on the impairment of revalued assets.

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

GRAP 31 (as amended 2016): Intangible Assets

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

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

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

GRAP 103 (as amended 2016): Heritage Assets

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

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

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The most significant changes to the Standard are:
-IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

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

The municipality expects to adopt the amendment for the first time in the 2019 annual financial statements.

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
-identifying related party relationships and transactions;
-identifying outstanding balances, including commitments, between an entity and its related parties;
-identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
-determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

1) A person or a close member of that person's family is related to the reporting entity if that person:
-has control or joint control over the reporting entity;
-has significant influence over the reporting entity;
-is a member of the management of the entity or its controlling entity.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2) An entity is related to the reporting entity if any of the following conditions apply:
-the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
-one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economicentity of which the other entity is a member);
-both entities are joint ventures of the same third party;
-one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
-the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
-the entity is controlled or jointly controlled by a person identified in (a); and
-a person identified in (a) (i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:
-Close member of the family of a person;
-Management;
-Related parties;
-Remuneration; and
-Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
-Control;
-Related party transactions; and
-Remuneration of management

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

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

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

GRAP 109: Accounting by Principals and Agents

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

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

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

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

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

GRAP 32: Service Concession Arrangements: Grantor

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

GRAP 108: Statutory Receivables

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

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

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

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

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

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

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

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

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

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

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

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

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

GRAP 18 (as amended 2016): Segment Reporting

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

Figures in Rand	2018	2017 Restated*

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 000	2 000
Bank balances	11 977 640	37 143 152
Short-term deposits	90 657 069	51 278 319
	102 636 709	**88 423 471**

None of the bank accounts were pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA Bank - cheque account - 134000017	11 977 640	37 626 054	15 538 687	11 977 640	37 361 763	14 632 398
First National Bank - call account - 62621625592	-	10 708 412	10 001 877	-	10 708 412	10 001 877
First National Bank - call account - 62601644801	-	-	5 087 786	-	5 087 786	-
Standard Bank - call account - 248538810007	-	-	85 725	-	85 725	-
Standard Bank - call account - 248388100008	-	-	2 703	-	-	2 703
Standard Bank - call account - 248533810010	-	-	14 319	-	-	14 319
ABSA Bank - fixed account - 2076809294	-	20 282 082	-	-	20 282 082	-
Nedbank - fixed account - 7662020096	-	20 287 825	-	-	20 287 825	-
ABSA Bank - call account - 4092614160	51 439	-	-	51 439	-	-
ABSA Bank - call account - 2077459098	30 483 740	-	-	30 483 740	-	-
ABSA Bank - call account - 4094589145	10 010 000	-	-	10 010 000	-	-
ABSA Bank - call account - 4094589674	10 010 000	-	-	10 010 000	-	-
Nedbank - call account - 037662020096/000042	20 053 068	-	-	20 053 068	-	-
Standard Bank - call account - 248538810	20 048 822	-	-	20 048 822	-	-
Total	**102 634 709**	**88 904 373**	**30 731 097**	**102 634 709**	**93 813 593**	**24 651 297**

4. Receivables from non-exchange transactions

Salary advances	7 276	-
Deposits	4 700	4 700
Other receivables	(24 715)	(24 715)
Sundry receivables	29 283 682	28 002 795
Less: Allowance for impairment	(28 775 934)	(27 965 498)
	495 009	**17 282**

Included in other receivables are irregular expenditure incurred during the financial year. Refer to note 34.

None of the receivables were pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

4. Receivables from non-exchange transactions (continued)

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 external credit ratings (if available) or to historical information about counterparty default rates.

Receivables from non-exchange transactions past due but not impaired

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

3 months past due	495 009	17 282

Reconciliation of allowance for impairment

Opening balance	27 965 498	13 887 813
Provision for impairment	3 997 793	14 436 810
Payments and adjustments	(3 187 357)	(359 125)
	28 775 934	**27 965 498**

Management is of the opinion that the carrying value of the sundry receivables are approximate their fair values.

The fair value of sundry receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and the debtor. The current payment ratio's of sundry receivables were also taken into account for fair value determination.

5. VAT receivable

VAT receivable	733 605	432 518

The municipality is registered for VAT on the cash basis. VAT owed by SARS amounts to R 576 820,74. The carrying value amount of VAT receivable approximates fair value due to its short nature.

6. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	74 199 161	(23 084 132)	51 115 029	74 186 169	(20 773 487)	53 412 682
Emergency equipment	348 587	(161 490)	187 097	348 587	(161 613)	186 974
Furniture and fixtures	6 833 212	(4 448 581)	2 384 631	6 549 741	(5 129 047)	1 420 694
Land	2 870 000	-	2 870 000	2 870 000	-	2 870 000
Motor vehicles	3 412 408	(643 079)	2 769 329	1 893 595	(527 678)	1 365 917
Office equipment	5 181 827	(3 753 410)	1 428 417	4 856 950	(3 774 963)	1 081 987
Plant and equipment	518 135	(393 873)	124 262	573 226	(477 065)	96 161
Work in progress	584 924	-	584 924	-	-	-
Total	**93 948 254**	**(32 484 565)**	**61 463 689**	**91 278 268**	**(30 843 853)**	**60 434 415**

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Other movements	Depreciation	Total
Land	2 870 000	-	-	-	-	2 870 000
Buildings	53 412 682	21 880	(8 889)	185 960	(2 496 604)	51 115 029
Plant and equipment	96 162	-	(55 091)	93 961	(10 770)	124 262
Furniture and fixtures	1 420 693	445 461	(161 990)	888 059	(207 593)	2 384 630
Motor vehicles	1 365 917	1 518 813	-	49 262	(164 662)	2 769 330
Office equipment	1 081 987	408 996	(84 119)	228 471	(206 918)	1 428 417
Work in progress	-	584 924	-	-	-	584 924
Emergency equipment	186 974	-	-	14 565	(14 442)	187 097
	60 434 415	**2 980 074**	**(310 089)**	**1 460 278**	**(3 100 989)**	**61 463 689**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Other movements	Depreciation	Total
Land	2 870 000	-	-	-	-	2 870 000
Buildings	55 596 986	238 361	(59 178)	47 151	(2 410 639)	53 412 681
Plant and equipment	108 330	10 413	(34 170)	-	11 590	96 163
Furniture and fixtures	1 182 314	39 782	(244 324)	217 148	225 774	1 420 694
Motor vehicles	1 437 955	-	-	29 799	(101 838)	1 365 916
Office equipment	1 210 008	383 136	(1 465 039)	1 288 661	(334 779)	1 081 987
Emergency equipment	186 860	3 540	(17 186)	-	13 760	186 974
	62 592 453	**675 232**	**(1 819 897)**	**1 582 759**	**(2 596 132)**	**60 434 415**

Pledged as security

None of the assets were pledged as security.

Other information

Detail of other movements in reconciliation		
Depreciation on transfers	-	(92 760)
Depreciation on disposal	259 856	1 577 997
Revaluation on Accumulated Depreciation	-	40 011
Impairment	-	(5 169)
Prior period error - useful life adjustment	1 200 422	62 680
	1 460 278	**1 582 759**

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.

7. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 823 381	(2 190 329)	633 052	2 651 706	(1 801 161)	850 545

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

7. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	850 545	171 675	(389 167)	633 052

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	5 447 602	703 646	(5 053 721)	(246 982)	850 545

8. Investments in controlled entities

Name of company	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Lejwe le Putswa Development Agency (SOC) Ltd	100,00 %	100,00 %	100	100

The carrying amounts of the controlled entities are shown net of impairment losses.

9. Payables from exchange transactions

	2018	2017
Trade payables	3 960 128	1 125 186
Accrued leave pay	5 764 344	5 624 145
Accrued bonus	2 021 834	1 441 189
Retention creditors	105 150	105 150
	11 851 456	**8 295 670**

10. Other financial liabilities

	2018	2017
At amortised cost		
ABSA loan (3044406667)	9 094 803	11 556 716

The loan is with ABSA Bank Limited and the repayments are made on a six monthly basis. The loan will be redeemed on 28 February 2021 and the loan bear interest at prime less 0.25%

The municipality did not default on any of the other financial liabilities, whether it be on the capital or the interest portions,and none of the terms attached to the other financial liabilities were renegotiated.

	2018	2017
Non-current liabilities		
At amortised cost	6 373 835	8 784 957
Current liabilities		
At amortised cost	2 720 968	2 771 923

Figures in Rand	2018	2017 Restated*

11. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by ZAQEN Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

* Bonitas
* Hosmed
* Keyhealth
* LA Health
* Samwumed

The members of the post-employment health care benefit plan are made up as follows:

In service members (employees)	100	99
In service members (employees) non-members	-	5
Continuation members (retirees, widowers and orphans)	4	3
	104	**107**

The amounts recognised in the statement of financial position are as follows:		
Employee benefit obligation (non-current portion)	12 963 000	11 317 000
Employee benefit obligation (current portion)	232 000	162 000
	13 195 000	**11 479 000**

Movement in the present value of the employee benefit obligation		
Opening balance	11 479 000	10 367 000
Current service cost	730 000	724 000
Interest	1 180 000	1 112 000
Actuarial (gain) / losses	(88 000)	(635 000)
Benefits paid	(106 000)	(89 000)
	13 195 000	**11 479 000**

The following main assumptions were used in performing the valuation at 30 June 2018		
Discount rate	Yield curve	Yield curve

Figures in Rand	2018	2017 Restated*

11. Employee benefit obligations (continued)

Consumer price inflation (CPI)	Difference between nominal and yield curves	Difference between nominal and yield curves
Medical aid contribution inflation	CPI+1%	CPI+1%
Net effective discount rate	Yield curve based	Yield curve based

Health care cost inflation

The effect of a one percent increase and decrease in the medical aid inflation assumption is as follows:	**Increase 1%**	**Decrease 1%**
Employer benefit liability	13 430 000	12 881 000
Employer service cost	732 000	704 000
Employer interest cost	1 315 000	1 261 000

Long service awards

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by ZAQEN Consultants and Actuaries. The projected unit credit funding method has been used to determine the past - service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

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

Carrying value		
Long service awards (non-current portion)	3 604 000	3 275 000
Long service awards (current portion)	361 000	552 000
	3 965 000	**3 827 000**

Changes in the present value of the long service award obligation are as follows:

Opening balance	3 827 000	4 076 000
Benefits paid	(515 000)	(565 000)
Net expense recognised	653 000	316 000
	3 965 000	**3 827 000**

Net expense of the long service awards obligation recognised in the statement of financial performance

Current service cost	359 000	376 000
Interest cost	374 000	428 000
Acuarial (gain) / losses	(80 000)	(488 000)
	653 000	**316 000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

11. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate	Yield curve	Yield curve
Consumer price inflation (CPI)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Nominal salary increase rate	Equal to CPI	Equal to CPI

Figures in Rand	2018	2017 Restated*

12. Revenue

Transfers and subsidies	120 052 000	116 327 673
Interest received - investment	7 320 622	6 239 814
Interest received - trading	755 735	1 376 245
Operational revenue	712 246	811 171
	128 840 603	**124 754 903**

The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received - trading	755 375	1 376 245
Operational revenue	712 246	811 171
Interest received - investment	7 320 622	6 239 814
	8 788 243	**8 427 230**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue		
Transfers and subsidies	120 052 000	116 327 673

13. Operational revenue

Operational revenue	712 246	811 171

14. Interest revenue

Interest revenue		
Interest received - investment and cash and cash equivalents	7 320 622	6 239 814
Interest received - trading	755 735	1 376 245
	8 076 357	**7 616 059**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

15. Transfers and subsidies

Equitable share	30 602 000	29 027 000
Financial Management Grant	1 250 000	1 250 000
Expanded Public Works Programme	1 000 000	1 000 000
Levy Replacement (Transitional) Grant	84 870 000	82 700 000
Rural Roads Asset Management Systems Grant	2 276 000	2 185 000
Local Government Sector Education and Training Authority Grant	54 000	165 673
	120 052 000	**116 327 673**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	4 580 000	4 600 673
Unconditional grants received	115 472 000	111 727 000
	120 052 000	**116 327 673**

Equitable Share

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

Rural Roads Asset Management Grant

Balance unspent at beginning of year	-	231 508
Current-year receipts	2 276 000	2 185 000
Conditions met - transferred to revenue	(2 276 000)	(2 185 000)
Other	-	(231 508)
	-	**-**

The purpose of the grant is for the provision of systems to collect rural road, traffic data and rural access bridges.

Financial Management Grant

Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	**-**

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Expanded Public Works Programme

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	**-**

The Expanded Public Works Programme is a operational grant which is used by the municipality on its own discretion.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

15. Transfers and subsidies (continued)

Municipal System Improvement Grant

Balance unspent at beginning of year	-	106
Conditions met - transferred to revenue	-	(106)
	-	-

Levy Replacement (Transitional) Grant

Current-year receipts	84 870 000	82 700 000
Conditions met - transferred to revenue	(84 870 000)	(82 700 000)
	-	-

The Levy Replacement (Transitional) Grant is a operational grant which is used by the municipality on its own discretion, which is mainly to fund its operational activities.

Local Government Sector Education and Training Authority Grant

Current-year receipts	54 000	165 673
Conditions met - transferred to revenue	(54 000)	(165 673)
	-	-

The purpose of the grant is to improve the effectiveness and efficiency of the skills development through provision of bursaries and the promotion and support of the integration of theoretical learning with workplace training.

16. Employee related costs

Basic	38 803 124	35 143 264
Bonus - 13th cheque	3 218 870	2 886 962
Medical aid - company contributions	3 756 470	3 324 642
UIF	213 884	209 998
Leave pay provision charge	2 507 506	1 812 931
Defined contribution plans	2 459 178	1 494 851
Overtime payments	72 908	89 177
Travel allowance	6 360 811	5 560 987
Housing benefits and allowances	469 333	459 674
Cellphone allowance	253 325	101 824
Contribution to pension and provident fund	6 716 940	6 043 480
Standby allowance	177 910	206 758
Group life insurance	625 855	552 071
	65 636 114	**57 886 619**

Reconciliation of employee related cost

	65 636 114	57 886 619
Municipal manager	1 405 442	1 454 582
Chief finance officer	1 269 888	1 156 148
Manager LED	174 836	759 362
Manager corporate services	378 413	907 951
Manager environmental health and disaster management	641 239	680 979
	69 505 932	**62 845 641**

Figures in Rand	2018	2017 Restated*

16. Employee related costs (continued)

Remuneration of Ms PME Kaota - Municipal Manager

	2018	2017 Restated*
Annual Remuneration	703 869	821 578
Car Allowance	189 236	241 654
Performance Bonuses	164 236	68 465
Contributions to UIF, Medical and Pension Funds	137 165	159 304
Cellphone allowance	34 485	36 000
Housing allowance	77 000	84 000
Acting allowance	40 795	43 581
Bonus	58 656	-
	1 405 442	**1 454 582**

2018: Mr Pitso was acting for the month of July 2017 and Mr Mthombeni was acting for the month of April 2018 and May 2018

2017: Mr Pitso was acting for the month July 2016 and Mr Mthombeni was acting for the month of December 2016 and January 2017.

Remuneration of Mr PK Pitso - Chief Finance Officer

	2018	2017 Restated*
Annual Remuneration	648 514	672 695
Car Allowance	193 479	156 753
Performance Bonuses	146 454	51 132
Contributions to UIF, Medical and Pension Funds	161 428	178 957
Cellphone Allowance	30 000	30 000
Housing Allowance	60 000	60 000
Bonus	17 435	-
Acting Allowance	12 578	6 612
	1 269 888	**1 156 149**

2018:Me Gqoli was acting as CFO for the month of July 2017.

2017:Me Gqoli was acting as CFO for the month of July 2016.

Remuneration of Mr TA Jonas - Manager LED

	2018	2017 Restated*
Annual Remuneration	-	378 041
Car Allowance	-	80 000
Performance Bonuses	-	14 937
Contributions to UIF, Medical and Pension Funds	-	93 870
Cellphone Allowance	-	4 500
Housing Allowance	-	47 388
Acting Allowance	-	41 506
Backpay	-	99 120
	-	**759 362**

2017: Mr Skele was acting as the Manager - LED from March 2017 to June 2017.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

16. Employee related costs (continued)

Remuneration of Mr MJ Mahlanyane - Manager Corporate Services

Annual Remuneration	80 837	533 020
Car Allowance	13 021	157 112
Performance Bonuses	-	40 717
Contributions to UIF, Medical and Pension Funds	12 890	153 816
Cellphone Allowance	1 500	18 000
Acting Allowance	-	5 286
	108 248	**907 951**

2018; Mr Mahlanyane resigned at the during August 2017.

2017: Mr Petersen was acting for the months of May 2017 and June 2017 and for the months August 2015 and April 2016.

Remuneration of Mr MM Mthombeni - Manager Environmental Health and Disaster Management

Annual Remuneration	313 830	378 041
Car Allowance	100 554	83 992
Performance Bonuses	73 227	27 565
Contributions to UIF, Medical and Pension Funds	13 099	100 470
Cellphone Allowance	9 000	12 000
Housing Allowance	60 000	40 000
Bonus	26 153	-
Acting Allowance	45 376	38 911
	641 239	**680 979**

2018: Me Njobe was acting as Manager Environmental Health and Disaster Management for the months July 2017 to December 2017. Mr Mthombeni was appointed during Juanurary 2018.
2017: Me Njobe was acting for the months of March 2017 to June 2017 as Mr Mthombeni's contract ended in February 2017..

Remuneration of Mr Makhetha - Manager LED

Annual Remuneration	52 305	-
Car Allowance	13 186	-
Performance Bonuses	24 409	-
Contributions to UIF, Medical and Pension Funds	12 326	-
Cellphone Allowance	3 250	-
Housing Allowance	5 000	-
Acting Allowance	60 001	-
Bonus	4 359	-
	174 836	**-**

Mr Skele was acting as the Manager - LED from July 2017 to December 2017.
Me Njobe was acing as the Manager - LED from January 2018 to February 2018.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

16. Employee related costs (continued)

Remuneration of Me L.S. Rabie-Khonkhe - Manager Corporate Services

Annual Remuneration	104 610	-
Car Allowance	30 289	-
Performance Bonuses	12 205	-
Contributions to UIF, Medical and Pension Funds	20 732	-
Cellphone Allowance	3 000	-
Housing Allowance	10 000	-
Acting Allowance	80 611	-
Bonus	8 718	-
	270 165	**-**

17. Remuneration of councillors

Mayoral committee members	4 276 340	3 657 555
Speaker	706 756	657 128
Executive mayor	914 902	798 287
Councillors	2 905 582	2 895 441
	8 803 580	**8 008 411**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor has the use of a council owned vehicle for official duties as well as two full-time VIP protection/ drivers.

Executive Mayor	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Ngangelizwe	758 777	-	68 259	64 842	891 878
Cllr Speelman (July 2017 - December 2017)	-	-	23 024	-	23 024
Total	**758 777**	**-**	**91 283**	**64 842**	**914 902**

Speaker	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Maleka	574 895	-	40 800	86 234	701 929
Cllr Phukuntsi (July 2017 - December 2017)	-	-	4 827	-	4 827
Total	**574 895**	**-**	**45 627**	**86 234**	**706 756**

Mayoral committee members	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
7 Members	2 487 052	1 008 085	244 800	531 802	4 271 739
Cllr Lekaota	-	-	4 601	-	4 601
	-	-	-	-	-
Total	**2 487 052**	**1 008 085**	**249 401**	**531 802**	**4 276 340**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

17. Remuneration of councillors (continued)

Part time councillors	Basic	Travel Allowance	Cellphone and data allowance	Pension and Medical Aid	Total
17 Members	1 401 848	508 501	316 689	225 048	2 452 086
Session allowances	453 496	-	-	-	453 496
	1 855 344	**508 501**	**316 689**	**225 048**	**2 905 582**

18. Depreciation and amortisation

	2018	2017
Property, plant and equipment and intangible assets	2 298 245	3 137 651

19. Impairment of assets

	2018	2017
Impairments		
Trade and other receivables	3 997 793	14 436 410
Impairment of non recoverable long outstanding debtors		

20. Finance costs

	2018	2017
Non-current borrowings	1 025 636	1 484 485

21. Inventory Consumed

	2018	2017
Consumables	128 533	23 581

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*
22. Contracted Services		
Outsourced Services		
Outsourced Services	4 123 134	1 665 105
Consultants and Professional Services		
Consulting and Professional Services	5 027 047	3 633 432
Contractors		
Contractors	685 881	4 307 231
	9 836 062	**9 605 768**
23. Gains or (loss) on disposal of asset		
Gains or (loss) on disposal assets	(27 392)	(172 383)
24. Operational cost		
Achievement and Awards	176 940	-
Advertising and Marketing	1 416 859	323 906
Auditors Remuneration	2 490 709	2 444 333
Bank charges	93 596	70 323
Campaigns	257 969	855 104
Communication	424 926	364 608
Entertainment	265 469	270 758
External Computer Services	941 963	331 167
Fuel and oil	428 818	325 597
Insurance	252 268	165 688
Learnership and internships	236 240	-
License Fees	51 852	59 018
Magazines, Books and Periodicals	-	1 604
Municipal Services	701 872	501 075
Printing and Stationery	545 543	482 787
Property Rates	56 879	74 656
Repairs and maintenance	389 715	476 160
Skills Development Levy	684 429	571 303
Staff recruitment	2 610	-
Staff welfare	-	296 283
Subscriptions and Membership fees	739 875	695 960
Supplier Development Programme	-	62 420
Travel and Subsistance	2 160 879	1 439 159
Uniforms	5 411	5 000
Workmen's Compensation Fund	269 139	357 914
	12 593 961	**10 174 823**

Notes to the Annual Financial Statements

Figures in Rand		2018	2017 Restated*

25. Related parties

Relationships			
Controlled entities	Refer to note 8		

Related party balances

Investments		
Investments in subsidiary	100	100
Transfers		
Lejwe le Putswa Development Agency (SOC) Ltd	3 752 000	3 752 000
Purchases from related parties		
Chav Solution	22 836	-

26. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	733 605	733 605

Financial liabilities

	At amortised cost	Total
Other financial liabilities	9 094 803	9 094 803
Trade and other payables from exchange transactions	2 720 968	2 720 968
	11 815 771	**11 815 771**

2017

Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	432 518	432 518

Financial liabilities

	At amortised cost	Total
Other financial liabilities	11 556 880	11 556 880
Trade and other payables from exchange transactions	2 771 923	2 771 923
	14 328 803	**14 328 803**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

27. Cash generated from operations

Surplus	12 540 638	7 495 228
Adjustments for:		
Depreciation and amortisation	2 298 245	3 137 651
Gains or loss on sale of assets	27 392	172 383
Impairment	3 997 793	14 436 810
Movements in retirement benefit assets and liabilities	1 716 000	(1 112 000)
Movement in long service awards	138 000	(2 490 000)
Changes in working capital:		
Other receivables from non-exchange transactions	(477 726)	(114 070)
Payables from exchange transactions	3 555 786	(238 708)
VAT	(301 087)	(294 776)
Unspent conditional grants and receipts	-	(231 613)
	23 495 041	**20 760 905**

28. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Karpah Construction and Motsoako Trading JV	1 141 114	-
• Aganang Consulting Enigneers	4 552 000	-
	5 693 114	**-**

Total capital commitments		
Already contracted for but not provided for	5 693 114	-

Authorised operational expenditure

Already contracted for but not provided for		
• Urban Eco-Development Economist	94 768	-

Total operational commitments		
Already contracted for but not provided for	94 768	-

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

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	793 942	323 212
- in second to fifth year inclusive	1 012 230	43 942
	1 806 172	**367 154**

It is municipality policy to lease certain office equipment under operating leases. The first lease term is 3 years at an annual rental. The lease expired in August 2015 and the contract was renewed for an additonal period of 3 years. The lease will expire in August 2018. The second lease term is 3 year at an annual rental. The lease will expire in December 2021

The municipality leased a telephone system under an operating lease. The lease term is 3 years. The lease expired in December 2017 and was renewed for an additional period of 1 year.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

29. Contingencies

Contingent liabilities		
	1 649 288	3 825 748

2018:
Ex- employees claiming against the municipality.
The municipality was summoned as a second defendant for claims caused by accident

2017:

Ex- employees claiming against the municipality.
The municipality was summoned as a second defendant for claims caused by accidents
Senior managers' performance bonus possile obligation.

Figures in Rand	2018	2017 Restated*

30. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

1. Accumulated surplus and cash and cash equivalents

The adjustment to the accummulated surplus is due to the interest on the bank account not captured in the prior year.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position		
Decrease in accumulated surplus		(218 611)
Increase in cash and cash equivalents		218 611
		-
Adjustments affecting the statement of financial performance		-
Increase in finance cost		218 611
		218 611

2. Accumulated surplus and property, plant and equipment

The adjustment to the accummulated surplus is due to the change in estimate for residual values of property, plant and equipment.
The effect of these adjustments on the prior year are as follows:

Adjustments affecting the statement of financial position		
Decrease in accumulated surplus		240 690
Decrease in property, plant and equipment		(240 690)
		-

3. Accumulated surplus and property, plant and equipment

The adjustment is due to the change in useful lifes and difference from the date it was fully depreciated untill 30 June 2017.

The effect of these adjustments on the prior year is as follows:

Increase in accumulated surplus	-	(295 323)
Increase in property, plant and equipment	-	295 323
	-	**-**

4. Accumulated surplus and Receivables from exchange transactions

The adjustment is due to correction made in the capital debt for overpayments of council remuneration.

The effect of these adjustments on the prior year are as follows:

Adjustment affecting the statement of financial position		
Increase in Receivables from non-exchange transactions	-	37 342
Increase in accumulated surplus	-	(37 342)
Increase in opening balance of accumulated surplus	-	(12 647 031)
	-	**(12 647 031)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

30. Prior period errors (continued)

	2018	2017
Increase in interest received - trading	-	(113 591)
Increase in impairment	-	12 760 622
	-	**12 647 031**

Statement of Financial Performance as at 2017	Balance as previously reported	Prior period error	Reclassified - note 39	Restated balance
Operational revenue	811 171	-	-	811 171
Interest received	7 502 468	113 591	-	7 616 059
Transfers and subsidies	116 327 673	-	-	116 327 673
Total revenue	124 641 312	113 591	-	124 754 903
Expenditure				
Employee related cost	(63 203 555)	-	357 913	(62 845 642)
Remuneration of councilors	(8 008 411)	-	-	(8 008 411)
Transfers to local municipalities	(275 000)	-	275 000	-
Depreciation and amortisation	(3 432 972)	295 321	-	(3 137 651)
Reversal of impairments / (Impairment loss)	(1 676 188)	(12 760 622)	-	(14 436 810)
Finance cost	(1 265 874)	(218 621)	-	(1 484 495)
Repairs and maintenance	(476 160)	-	476 160	-
Consulting and professional fees	(3 848 530)	-	3 848 530	-
Transfer to the development agency	(3 752 000)	-	3 752 000	-
General expenses	(18 464 687)	-	18 464 687	-
Operational cost	-	-	(10 174 823)	(10 174 823)
Contracted services	-	-	(9 605 768)	(9 605 768)
Transfers and subsidies	-	-	(6 846 954)	(6 846 954)
Inventory consumed	-	-	(23 581)	(23 581)
Operating lease expenditure	-	-	(523 164)	(523 164)
Total expenditure	(104 403 377)	(12 683 922)	-	(117 087 299)
Operating surplus / (deficit)	19 893 169	(12 570 324)	-	7 322 845
Gain/ (loss) on disposal of assets and liabilities	172 383	-	-	172 383
Surplus / (deficit) for the year	20 065 552	(12 570 324)	-	7 495 228

Statement of Financial Position as at 2017	Balance as previously reported	Prior period error	Reclassified - note 39	Restated balance
Cash and cash equivalents	48 072 175	(218 611)	40 569 907	88 423 471
Other financial assets	40 569 907	-	(40 569 907)	-
VAT receivable / (VAT payable)	432 518	-	-	432 518
Receivables from non-exchange transactions	54 624	-	-	54 624
Total current assets	89 129 224	-	(40 569 907)	88 910 613
Property, plant and equipment	59 898 403	536 012	-	60 434 415
Intangible assets	850 545	-	-	850 545
Investments in controlled entities	100	-	-	100
Total non-current assets	60 749 048	536 012	-	61 285 060

Notes to the Annual Financial Statements

Figures in Rand		2018	2017 Restated*

30. Prior period errors (continued)

Payables from exchange transactions	(8 295 670)	-	-	(8 295 670)
Other financial liabilities	(11 556 880)	-	-	(11 556 880)
Long service awards	(3 827 000)	-	-	(3 827 000)
Employee benefit obligation	(11 479 000)	-	-	(11 479 000)
Total liabilities	(35 158 550)	-	-	(35 158 550)
Accumulated surplus - Opening balance	(114 719 722)	(280 059)	-	(114 999 781)
Total net assets	(114 719 722)	(280 059)	-	(114 999 781)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

31. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

Liquidity risk

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

The table below analyses the municipality’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings	-	6 373 835	-
Trade and other payables	2 720 968	-	-

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings	-	2 632 594	6 152 357
Trade and other payables	2 771 923	-	-

Credit risk

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

Cash and cash equivalents and investments - the municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa. The municipality does not expect any counterparty to fail to meets its obligation.

Receivables from non-exchange transactions - management evaluated credit risk relating to customers on an ongoing basis. If there is no independent rating, risk control assessess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

The risk is managed on an on-going basis.

32. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 127 855 904 and that the municipality's total liabilities exceed its assets by R 127 855 904.

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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

32. Going concern (continued)

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 and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

33. Events after the reporting date

There was no events after the reporting date, which needs to be disclosed.

34. Irregular expenditure

Opening balance	775 329	775 329
Add: Irregular Expenditure - current year (Non-compliance with SCM regulations)	1 458 878	-
Add: Irregular Expenditure - current year (Council remuneration)	4 523 130	-
Less: Amounts recoverable (transferred to receivables)	(4 523 130)	-
	2 234 207	**775 329**

Analysis of expenditure awaiting condonation per age classification

Current year - the full extent of the irregular expenditure is still in the process of being determined.	1 458 878	775 329
Prior years - the irregular expenditure is still under investigation.	775 329	-
	2 234 207	**775 329**

35. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	700 630	650 893
Amount paid - current year	(700 630)	(650 893)
	-	-

Audit fees

Current year fee	2 490 709	2 444 333
Amount paid - current year	(2 490 709)	(2 444 333)
	-	-

PAYE, SDL and UIF

Current year subscription / fee	14 791 896	11 087 310
Amount paid - current year	(14 791 896)	(11 087 310)
	-	-

Pension and medical aid deductions

Current year subscription / fee	10 771 187	10 928 774
Amount paid - current year	(10 771 187)	(10 928 774)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

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

VAT

VAT receivable	733 605	432 518

VAT output payables and VAT input receivables are shown in note 5.

All VAT returns have been submitted by the due date throughout the year.

36. 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.

Details per supplier	Reason for deviation	2018	2017
Builtmat	Masilonyana Local Municipality on 2 February 2018 had an urgent request for intervention as a result of a disaster that occured. The distrcit municipality distributed water tankers on 3 February 2018 without following the SCM process as it was an emergency through Disaster Relief.	29 000	-
Big Zola Transport	The Executive Mayor's official car broke down on the 21st March 2017, in Theunissen on his way to Welkom. Since this was on a public holiday and the offices were closed, it was impractical to follow the SCM processes. A towing truck was hired to tow the official car to the garage for service and repairs. But the official order was issued first thing the following day.	-	4 600
Mihlovuyo Trading and Projects CC	It was an emergency as it happened after hours on friday 19th May 2017 at 18:00. A house on Oribi street burnt down and the family had nowhere to sleep. Accommodation had to be arranged for the family withouth following the SCM processes.	-	14 508
	-	19 108	8 086

Notes to the Annual Financial Statements

Figures in Rand	2018	2017 Restated*

37. Budget differences

Material differences between budget and actual amounts

X1 - The interest charged on outstanding councillors were not budgeted for and the amount budgeted for interest on investments was based on a more conservative approach on a volatile market

X2 - Savings on employees who resigned and contracts ending.

X3 - Due to the changed in estimation of residual values, depreciation were affected.

X4 - The interest charged on outstanding councillors were not budgeted for.

X5 - Savings on contracted services.

X6 - Savings on operational cost.

38. Change in estimate

Property, plant and equipment

The residual value and useful life of fully depreciated assets were assessed and amended on 1 July 2017. The amendment was applied in retrospect and resulted in adjustements to the audited financial statements of 30 June 2017.

39. Comparative figures

Certain comparative figures have been reclassified due to the implementation of MSCOA..

The effects of the reclassification are as follows:

Statement of financial position - extract

Statement of financial performance - extract

	Comparative figures previously reported	Reclassifi- cation	After reclassification
Repairs and maintenance	476 160	(476 160)	-
Consulting and professional fees	3 848 530	(3 848 530)	-
Employee related costs	63 203 555	(357 913)	62 845 642
General expenses	18 464 687	(18 464 687)	-
Remuneration of councillors	8 008 411	-	8 008 411
Transfers to municipalities	275 000	(275 000)	-
Transfer to development agency	3 752 000	(3 752 000)	-
Operational cost	-	10 174 823	10 174 823
Contracted services	-	9 605 768	9 605 768
Transfers and subsidies	-	6 846 954	6 846 954
Inventory consumed	-	23 581	23 581
Operating lease expenditure	-	523 164	523 164
Total	**98 028 343**	**-**	**98 028 343**