uMGUNGUNDLOVU

UMASIPALA WESIFUNDA

DISTRICT MUNICIPALITY

DISTRIK MUNISIPALITEIT

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2018

General Information

Executive Committee	
Mayor	TE Maphumulo (ANC)
Deputy Mayor	TR Zungu (ANC)
	MS Bond (DA)
	GM Ngube (ANC)
	DS Mkhize (ANC)
	B A Mchunu (ANC)
	BC Nhlabathi (DA)
	BE Zuma (IFP)
	M Dladla (ANC)
	D Phungula (ANC)
Other councillors	
	MK Dlamini (ANC)
	N V Duze (ANC)
	AS Dlamini (ANC)
	SW Dlamini (ANC)
	SC Gwala (ANC)
	TA Hlatshwayo (DA)
	JE Holmes (DA)
	R Jugmohan (DA)
	B Khumalo (ANC)
	SJ Luthuli (ANC)
	NC Mabhida (ANC)
	LL Madlala (ANC)
	BK Mkhize (IFP)
	K Mkhize (ANC)
	M Mthethwa (ANC)
	MJ Mkhize (ANC)
	S Mkhize (ANC)
	N Phoswa (ANC)
	S Gabela (ANC)
	NZ Ndlovu (ANC)
	KCS Nene (ANC)
	MD Njokwe (ANC)
	LC Ngcobo (ANC)
	GH Ngcobo (ANC)
	B Ngcongo (ANC)
	SD Nkuna (ANC)
	MV Ntshangase (ANC)
	RB Strachan (DA)
	BC Sokhela (IFP)
	R Soobiah (ANC)
	E Xaba (DA)
	HM Zondi (ANC)
	N Zondo (ANC)
Grading of local authority	Grade 5
WHIP	DA Ndlela (ANC)

General Information

SPEAKER	ME Dladla (ANC)
MANAGEMENT	Municipal Manager - DR. RM Ngcobo Executive Manager - Financial Services - SD Ncube - Dlamini Executive Manager - Corporate Services - GH Bhengu (Appointed from 1 May 2017, Resigned 22 June 2018) Acting Executive Manager - Corporate Services - WMS Sibiya (Appointed 01 July 2018) Executive Manager - Technical Services - EB Mbambo Executive Manager - Community Services - RM Baloyi (Medical Boarded 30 June 2018)
Registered office	242 Langalibalele Street Pietermartizburg 3201
Postal address	P O Box 3235 Pietermaritzburg 3200
Bankers	First National Bank
Auditors	Auditor General Registered Auditors
Website	www.umdm.gov.za
Other Information	Telephone: 033 897 6700 Fax : 033 342 5502

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by Auditor General and this report is presented to the speaker of the council upon completion of the audit.

The annual financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
DR R.M Ngcobo

Accounting Officer's Report

1. **Ratio Analysis**
   - **Liquidity Ratio** - 1.5:1 (2.02:1)
     The Municipality has enough short term assets to finance short term liabilities.
   - **Solvency Ratio** - 3.9:1 (4.13:1).
     Assets are over 4 times the liabilities , the Municipality will be able to meet all its short and long term obligations.
   - **Cash Ratio** - 4.4:1 (0.65:1).
     There is sufficient cash to pay short term liabilities.

2. **Going concern**

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated deficits

Contingent assets and contingent liabilitites are not recognised. Contingencies are disclosed in the notes. of R 1 024 479 479 and that the municipality's total assets exceed its liabilties by R 1 048 543 956.

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.

3. **Establishment of the development agency**

The district has established a development agency which is wholly owned by the district. The entity was incorporated on 6 June 2017 and has a mandate to implement high capacity local economic development projects. The agency will effectively transact in the 2017/2018 financial year.

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 (Restated) R
Assets			
Current Assets			
Cash and cash equivalents	2	49 365 759	94 043 319
Consumer debtors	3	120 379 671	144 287 661
Receivables from exchange transactions	4	11 204 706	15 822 453
Inventories	5	2 063 978	2 472 384
		183 014 114	**256 625 817**
Non-Current Assets			
Property, plant and equipment	6	1 339 271 905	1 254 532 597
Intangible assets	7	1 567 031	767 391
		1 340 838 936	**1 255 299 988**
Total Assets		**1 523 853 050**	**1 511 925 805**
Liabilities			
Current Liabilities			
Payables from exchange transactions	8	116 142 811	121 672 052
Other financial liabilities	9	13 040 563	8 634 097
Consumer deposits	10	6 183 311	5 907 544
Provisions	11	31 130 001	31 809 986
Unspent conditional grants and receipts	12	72 183 742	53 721 103
VAT payable	13	23 333 113	7 254 496
		262 013 541	**228 999 278**
Non-Current Liabilities			
Other financial liabilities	9	213 295 553	210 699 839
Total Liabilities		**475 309 094**	**439 699 117**
Net Assets		**1 048 543 956**	**1 072 226 688**
Reserves			
Revaluation reserve	14	24 064 477	24 064 477
Accumulated surplus		1 024 479 479	1 048 162 211
Total Net Assets		**1 048 543 956**	**1 072 226 688**

Statement of Financial Performance

	Note(s)	2018 R	2017 (Restated) R
Revenue			
Revenue from exchange transactions			
Service charges	15	177 003 208	124 228 853
Rental of facilities and equipment		246 483	205 215
Interest received from customers late paments		30 067 834	23 308 202
Recoveries		918 165	-
Other income	16	7 923 097	11 040 889
Interest received - investment	17	3 801 783	15 432 321
Total revenue from exchange transactions		**219 960 570**	**174 215 480**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	18	573 478 639	589 947 030
Fines, Penalties and Forfeits	19	1 995 781	-
Other transfer revenue		4 122 744	-
Total revenue from non-exchange transactions		**579 597 164**	**589 947 030**
Total revenue	20	**799 557 734**	**764 162 510**
Expenditure			
Employee related costs	21	(206 407 522)	(198 158 827)
Remuneration of councillors	22	(10 347 456)	(10 239 416)
Administration	23	-	(7 107 273)
Depreciation and amortisation	24	(43 830 234)	(61 564 307)
Finance costs	25	(35 320 936)	(19 737 550)
Lease rentals on operating lease	26	-	(1 778 490)
Debt Impairment	27	(139 701 691)	(61 029 639)
Bulk purchases	28	(132 382 728)	(121 186 282)
Contracted services	29	(190 408 340)	(142 306 896)
General expenses	30	(67 596 962)	(105 606 638)
Total expenditure		**(825 995 869)**	**(728 715 318)**
Operating (deficit) surplus		**(26 438 135)**	**35 447 192**
Loss on disposal of assets and liabilities		-	(16 683 542)
Actuarial gains/losses		2 755 498	-
		2 755 498	**(16 683 542)**
(Deficit) surplus for the year		**(23 682 637)**	**18 763 650**

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Balance at 01 July 2016	**24 064 477**	**1 249 848 095**	**1 273 912 572**
Changes in net assets			
Revenue incorrectly recognised in the prior periods	-	(220 401 928)	(220 401 928)
Depreciation on Plant Property and Equipment not previously recognised	-	(47 701)	(47 701)
Restated balance at 01 July 2016	-	1 029 398 466	1 029 398 466
Surplus for the year	-	18 763 650	18 763 650
Balance at 01 July 2017	**24 064 477**	**1 048 162 116**	**1 072 226 593**
Changes in net assets			
Surplus for the year	-	(23 682 637)	(23 682 637)
Total changes	-	(23 682 637)	(23 682 637)
Balance at 30 June 2018	**24 064 477**	**1 024 479 479**	**1 048 543 956**
Note	14		

Cash Flow Statement

	Note(s)	2018 R	2017 (Restated) R
Cash flows from operating activities			
Receipts			
Sale of goods and services		107 441 986	91 197 685
Grants		584 952 000	626 640 041
Interest income		4 335 959	16 239 316
		696 729 945	734 077 042
Payments			
Employee costs		(216 754 978)	(208 398 243)
Suppliers		(344 468 904)	(113 615 892)
Finance costs		(23 599 808)	(22 862 781)
Other payments		-	(273 393 636)
		(584 823 690)	(618 270 552)
Net cash flows from operating activities	33	**111 906 255**	**115 806 490**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(129 809 828)	(299 133 435)
Purchase of other intangible assets	7	(2 061 173)	(1 717 849)
Other movement in property plant and equipment		-	85 151 338
Net cash flows from investing activities		**(131 871 001)**	**(215 699 946)**
Cash flows from financing activities			
Proceeds from other financial liabilities		-	99 683 000
Repayment of other financial liabilities		(8 634 097)	(61 714 873)
Movement in VAT payable		(16 078 617)	(22 542 614)
Net cash flows from financing activities		**(24 712 714)**	**15 425 513**
Net increase/(decrease) in cash and cash equivalents		**(44 677 460)**	**(84 467 943)**
Cash and cash equivalents at the beginning of the year		94 043 319	178 511 262
Cash and cash equivalents at the end of the year	2	**49 365 849**	**94 043 319**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	228 996 259	(32 608 307)	**196 387 952**	177 003 208	**19 384 744**	Note 44 (A)
Rental of facilities and equipment	250 000	-	**250 000**	246 483	**3 517**	
Interest earned - external investments	12 000 000	(8 000 000)	**4 000 000**	3 801 783	**198 217**	Note 44 (B)
Other revenue	14 900 060	2 700 000	**17 600 060**	7 923 097	**9 676 963**	Note 44 (C)
Recoveries	-	-	**-**	918 165	**(918 165)**	Note 44 (D)
Total revenue from exchange transactions	**256 146 319**	**(37 908 307)**	**218 238 012**	**189 892 736**	**28 345 276**	
Revenue from non-exchange transactions						
Taxation revenue						
Interest earned - outstanding debtors	5 000 000	-	**5 000 000**	30 067 834	**(25 067 834)**	Note 44 (E)
Transfer revenue						
Transfers and subsidies (Operational and capital)	462 884 000	2 413 369	**465 297 369**	577 601 383	**(75 353 459)**	Note 44 (F)
Fines, Penalties and Forfeits	-	-	**-**	1 995 781	**(1 995 781)**	Note 44 (G)
Total revenue from non-exchange transactions	**467 884 000**	**2 413 369**	**470 297 369**	**609 664 998**	**(102 417 074)**	
Total revenue	**724 030 319**	**(35 494 938)**	**688 535 381**	**799 557 734**	**(74 071 798)**	
Expenditure						
Personnel	(228 193 848)	6 646 387	**(221 547 461)**	(206 407 522)	**15 139 939**	Note 44 (H)
Remuneration of councillors	(11 085 909)	(1 180 521)	**(12 266 430)**	(10 347 456)	**1 918 974**	Note 44 (I)
Administration	(78 997 680)	-	**(78 997 680)**	(139 701 691)	**(60 704 011)**	Note 44 (J)
Depreciation and Ammortisation	(46 713 431)	10 000 000	**(36 713 431)**	(43 830 234)	**(7 116 803)**	Note 44 (K)
Finance costs	(23 019 000)	(400 000)	**(23 419 000)**	(35 320 936)	**(11 901 936)**	Note 44 (L)
Bulk purchases	(111 033 989)	(10 200 000)	**(121 233 989)**	(132 382 728)	**(11 148 739)**	Note 44 (M)
Contracted services	(168 080 549)	(30 698 523)	**(198 779 072)**	(190 408 340)	**8 370 732**	Note 44 (N)
Other expenditure	(71 226 496)	(10 327 107)	**(81 553 603)**	(67 596 962)	**13 956 641**	Note 44 (O)
Total expenditure	**(738 350 902)**	**(36 159 764)**	**(774 510 666)**	**(825 995 869)**	**(51 485 203)**	
Operating deficit	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**(26 438 135)**	**59 537 150**	
Acturial Gains and Losses	-	-	**-**	2 755 498	**2 755 498**	
Deficit before taxation	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**(23 682 637)**	**62 292 648**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**(23 682 637)**	**62 292 648**	
Reconciliation						

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2018											
Financial Performance											
Service charges	228 996 259	(32 608 307)	196 387 952	-		196 387 952	177 003 208		19 384 744	90 %	77 %
Rental of facilities and equipment	250 000	-	250 000	-		250 000	246 483		3 517	99 %	99 %
Interest earned - external investments	12 000 000	(8 000 000)	4 000 000	-		4 000 000	3 801 783		198 217	95 %	32 %
Other revenue	14 900 060	2 700 000	17 600 060	-		17 600 060	7 923 097		9 676 963	45 %	53 %
Recoveries	-	-	-	-		-	918 165		(918 165)	DIV/0 %	DIV/0 %
Interest earned - outstanding debtors	5 000 000	-	5 000 000	-		5 000 000	30 067 834		(25 067 834)	601 %	601 %
Transfer and subsidies (Operational and capital)	462 884 000	2 413 369	465 297 369	-		465 297 369	577 601 383		(75 353 459)	124 %	125 %
Fines, penalties and forfeits	-	-	-	-		-	1 995 781		(1 995 781)	DIV/0 %	DIV/0 %
Total revenue	**724 030 319**	**(35 494 938)**	**688 535 381**	**-**		**688 535 381**	**799 557 734**		**(74 071 798)**	**116 %**	**110 %**
Personnel	(228 193 848)	6 646 387	(221 547 461)	-	-	(221 547 461)	(206 407 522)	-	15 139 939	93 %	90 %
Remuneration of councillors	(11 085 909)	(1 180 521)	(12 266 430)	-	-	(12 266 430)	(10 347 456)	-	1 918 974	84 %	93 %
Administration	(78 997 680)	-	(78 997 680)	-	-	(78 997 680)	(139 701 691)	-	(60 704 011)	177 %	177 %
Depreciation and Amortisation	(46 713 431)	10 000 000	(36 713 431)	-	-	(36 713 431)	(43 830 234)	-	(7 116 803)	119 %	94 %
Finance costs	(23 019 000)	(400 000)	(23 419 000)	-	-	(23 419 000)	(35 320 936)	-	(11 901 936)	151 %	153 %
Bulk purchases	(111 033 989)	(10 200 000)	(121 233 989)	-	-	(121 233 989)	(132 382 728)	-	(11 148 739)	109 %	119 %
Contracted services	(168 080 549)	(30 698 523)	(198 779 072)	-	-	(198 779 072)	(190 408 340)	-	8 370 732	96 %	113 %
Other expenditure	(71 226 496)	(10 327 107)	(81 553 603)	-	-	(81 553 603)	(67 596 962)	-	13 956 641	83 %	95 %

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Total expenditure	**(738 350 902)**	**(36 159 764)**	**(774 510 666)**	**-**	**-**	**(774 510 666)**	**(825 995 869)**	**-**	**(51 485 203)**	**107 %**	**112 %**
Surplus/(Deficit)	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**-**		**(85 975 285)**	**(26 438 135)**		**(125 557 001)**	**31 %**	**185 %**
Actuarial Gains and Losses	-	-	-	-		-	2 755 498		(2 755 498)	DIV/0 %	DIV/0 %
Surplus before taxation	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**-**		**(85 975 285)**	**(23 682 637)**		**62 292 648**	**28 %**	**165 %**
Surplus/(Deficit) for the year	**(14 320 583)**	**(71 654 702)**	**(85 975 285)**	**-**		**(85 975 285)**	**(23 682 637)**		**62 292 648**	**28 %**	**165 %**

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).

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.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 New standards and interpretatiions

Basis of consolidation

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. In such cases, the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The following new GRAP standards have been approved but are not yet effective:

GRAP 20 - Related party disclosure

This standard of GRAP on related parties replaces the IPSAS 20 standard on related party disclosure. No significant impact on the financial statements of the Municipality is expected.

GRAP 32 - Service concession arrangements: Grantor

This standard of GRAP is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity. 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 and the operator is compensated for its services over the period of the service concession arrangement. Although unlikely at this stage, the standard is only expected to have an impact on the Municipality in the event of any future such arrangements.

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 municipality / entity prepares separate financial statements. The standard is expected to have an impact on the Municipality as the Municipality currently has entities that require consolidations.

GRAP 35 – Consolidated financial statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when the entity controls one or more other entities. To meet the objective in paragraph .01, this Standard:

(a) requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;

(b) defines the principle of control, and establishes control as the basis for consolidation;

(c) sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;

1.3 New standards and interpretatiions (continued)

(d) sets out the accounting requirements for the preparation of consolidated financial statements; and

(e) defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

The standard is expected to have an impact on the Municipality as the Municipality currently has entities which it consolidates.

GRAP 108 - Statutory receivables

This standard deals with the prescribed accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables and the effect thereof.

GRAP 109 - Accounting by principals and agents

This standard deals with the prescribed accounting requirements for transactions in a principal and agent relationship. No significant impact on the financial statements of the Municipality is expected.

GRAP 110 - Living and non-living resources

This standard prescribes recognition, measurement, presentation and disclosure requirements for living resources – Living resources are those resources that undergo biological transformation. The standard further prescribes disclosure requirements for non-living resources – Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted. No significant impact on the financial statements of the Municipality is expected as the Municipality does not anticipate that such resources will become part of the Districts mandate.

Interpretations of the standards of GRAP

IGRAP 17 - Service concession arrangements where a grantor controls a significant residual interest in an asset.

This Interpretation 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. It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

IGRAP 18 - **Recognition and de recognition of land**.

The objective of this standard is to provide guidance on when an entity should recognise and derecognise land as its asset. It is only applicable to land. It considers structures separately and applies applicable GRAP to land once control is assessed. It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

IGRAP 19 - **Liabilities to pay levies**

The objective is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19. It is unlikely that the interpretation will have a material impact on the municipalities financial statements.

The following approved standards of GRAP that entities are not required to apply GRAP 18 - Segmental reporting (Municipalities and municipal entities are not required to apply)

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the municipality's historical performance and to identify the resources allocated to support the major activities of the municipality

Accounting Policies

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	Fair value (30 years)
Plant and machinery	Straight line	10 to 20 years
Furniture and fixtures	Straight line	10 to 15 years
Motor vehicles	Straight line	10 to 15 years
IT equipment	Straight line	10 to 15 years
Computer software	Straight line	5 to 15 years
Infrastructure Water & Sanitation	Straight line	10 to 100 years
Fire Engines	Straight line	15 to 20 years
Mobile Offices	Straight line	15 to 20 years
Heavy machinery	Straight line	15 to 20 years
Firearms	Straight line	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

1.5 Intangible assets

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

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

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

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

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

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

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

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

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

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

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.

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, other	Straight line	3 - 5 years
Licenses	Straight line	3 - 5 years
Websites	Straight line	3 - 5 years

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.

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

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

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

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

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- 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 instrument at cost.

Accounting Policies

1.6 Financial instruments (continued)

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
Trade and other receivables	at amortised cost
Consumer Debtors	at amortised cost
Bank and cash	at amortised cost

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

Class	Category
Trade and other payables	at amortised cost
Development Bank of Southern Africa	at amortised cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value.

Accounting Policies

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.

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

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.

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Trade receivables

Trade receivables are measured at far value.

Trade payables

Trade payables are measured at fair value.

Cash and cah equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently measured amortised cost.

Accounting Policies

1.7 Leases

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

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

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. This liability is not discounted.

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

1.8 Inventories

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

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

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

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

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

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

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

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

1.9 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.

1.9 Impairment of cash-generating assets (continued)

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

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

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

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

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

Identification

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.10 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.

Accounting Policies

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

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

Identification

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

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

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

1.11 Share capital / contributed capital

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

1.12 Employee benefits

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

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

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

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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.

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity 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.

1.12 Employee benefits (continued)

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

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

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.13 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.

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

Provisions are not recognised for future operating deficits

Contingent assets and contingent liabilitites are not recognised. Contingencies are disclosed in the notes.

Accounting Policies

1.14 Commitments

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

Commitments represents goods/services that have been ordered at the reporting date.

Approved and contracted commitments represent expenditure that has been approved and contact awarded at the report date but not yet contracted.

Approved and not yet contracted represent expenditure that has not been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

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

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

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

1.16 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.

1.16 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.

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

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

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

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

Recognition

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

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

Measurement

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

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

1.16 Revenue from non-exchange transactions (continued)

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.

1.17 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.18 Investment income

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

1.19 Borrowing costs

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

1.20 Comparative figures

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

When the presentation or classificatation of items in the annual financial statements is ammended, prior period comparative amounts are reclassified

1.21 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.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

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

Accounting Policies

1.23 Irregular expenditure (continued)

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

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

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

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

1.24 Use of estimates

The preparation of the annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exerise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised when the municipal valuation is more than the carryng amount of the building. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.26 Conditional Grants and receipts

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

1.27 Budget information

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

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

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

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

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

Accounting Policies

1.27 Budget information (continued)

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

1.28 Related parties

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

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

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

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

1.29 General expenses

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decrease in net assets, other than those relating to distributions to owners.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. 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.

Expenses include write downs of inventory and decreases in fair values of financial instruments classified at fair value.

Losses on the disposal of non-current assets are reported seperately from expenses in the Statement of Financial Performance.

An expense is recognised in the munipality's Statement of Financial Performance when, and only when, the following criteria are satisfied.

When an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure.

The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquistion, for example repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several periods e.g non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic asset, an expense is recognised simultaneoulsy with the recognition of a liability.

Notes to the Annual Financial Statements

	2018 R	2017 (Restated) R

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8 555	10 607
Bank balances	45 607 204	30 282 712
Short-term deposits	-	60 000 000
Investments	3 750 000	3 750 000
	49 365 759	**94 043 319**

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

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

Cash and cash equivalents pledged as collateral

The municipality had the following bank accounts

Notes to the Annual Financial Statements

	2018 R	2017 R

2. Cash and cash equivalents (continued)

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
FNB BANK -Salaries Account - 50940092196	239 602	1 649	50	239 633	1 680	82
FNB BANK -Projects Account - 62023616462	182 777	880 819	6 617 461	182 777	880 818	6 617 461
FNB BANK - Money Market Account - 62215748289	3 239 010	3 282 148	797 943	3 239 010	3 282 148	797 943
FNB BANK - Mandela Race Account - 62411577193	731 208	104 215	86 972	731 208	104 215	86 972
FNB BANK - Main Account - 50940026773	37 586 844	22 323 958	42 174 165	37 579 261	22 305 749	42 174 165
FNB BANK - UMDM MIG Account - 62400041985	83 581	79 553	75 486	83 581	79 553	75 486
ABSA BANK - Fixed Deposit - 2072673843	-	-	30 000 000	-	-	30 000 000
NEDBANK - 3 Months deposit - 03/7165014047/00023	-	30 000 000	30 000 000	-	30 000 000	30 000 000
ABSA BANK - Mandela Acc - 4004362410	137 526	-	-	137 526	-	-
FNB BANK - Public sector - 62243484417	(169)	-	-	(169)	-	-
INVESTEC BANK-Fixed Deposit-455213	-	-	30 000 000	-	-	30 000 000
FNB BANK-Fixed Deposit-71101199555	3 750 000	3 750 000	3 750 000	3 750 000	3 750 000	3 750 000
STANDARD BANK-Fixed Deposit-358610095-004	-	30 000 000	30 000 000	-	30 000 000	30 000 000
Ithala Bank -63647675	-	-	5 000 000	-	-	5 000 000
FIRST NATIONAL BANK-SANBI ACCOUNT	3 414 371	3 628 548	-	3 414 371	3 628 548	-
Total	**49 364 750**	**94 050 890**	**178 502 077**	**49 357 198**	**94 032 711**	**178 502 109**

The FNB Investment to the value of R3 750 000 is held as security for the long term loans held with DBSA. Refer to note 9 (as applicable)

R 100 000 serves as a guarantee that bind the bank (FNB) as a Guartor to the South African Post Office on behalf of uMgungundlovu District Municipality.

3. Consumer debtors

	2018 R	2017 R
Gross balances		
Water	518 227 027	402 433 326
Less: Allowance for impairment		
Water	(397 847 356)	(258 145 665)
Net balance		
Water	120 379 671	144 287 661

Notes to the Annual Financial Statements

3. Consumer debtors (continued)

	2018 R	2017 R
Water		
Current (0 -30 days)	39 274 076	11 656 859
31 - 60 days	13 338 930	11 387 820
61 - 90 days	11 152 348	8 779 899
91 - 120 days	13 409 646	7 118 834
121 - 180 days	9 767 808	19 094 910
> 180 days	431 284 219	344 395 004
Less: Allowance for impairment	(397 847 356)	(258 145 665)
	120 379 671	**144 287 661**

Notes to the Annual Financial Statements

	2018 R	2017 R

3. Consumer debtors (continued)

Summary of debtors by customer classification

	2018 R	2017 R
House holds		
Current (0 -30 days)	24 759 143	9 678 564
31 - 60 days	10 142 811	8 989 027
61 - 90 days	8 409 552	7 794 568
91 - 120 days	11 443 589	6 391 725
121 - 180 days	8 647 090	17 278 943
> 180 days	399 791 928	327 577 431
	463 194 113	377 710 258
Less: Allowance for impairment	(397 847 356)	(258 145 665)
	65 346 757	**119 564 593**
Industrial/ commercial		
Current (0 -30 days)	10 043 561	1 126 337
31 - 60 days	2 622 906	1 546 881
61 - 90 days	2 439 031	597 500
91 - 120 days	1 559 211	430 544
121 - 180 days	903 411	1 113 495
> 180 days	21 950 284	11 729 960
	39 518 404	**16 544 717**
Government		
Current (0 -30 days)	4 471 371	851 956
31 - 60 days	573 213	851 912
61 - 90 days	303 765	387 831
91 - 120 days	406 846	296 566
121 - 180 days	217 308	702 472
> 180 days	7 807 230	5 087 615
	13 779 733	**8 178 352**
Total		
Current (0 -30 days)	39 274 076	11 656 859
31 - 60 days	13 338 930	11 387 820
61 - 90 days	11 152 348	8 779 899
91 - 120 days	13 409 646	7 118 834
121 - 180 days	9 767 808	19 094 910
> 180 days	431 284 219	344 395 004
	518 227 027	402 433 326
Less: Allowance for impairment	(397 847 356)	(258 145 665)
	120 379 671	**144 287 661**
Less: Allowance for impairment		
> 365 days	(397 847 356)	(258 145 665)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(258 145 665)	(234 392 347)
Contributions to allowance	(139 701 691)	(61 029 638)
Debt impairment written off against allowance	-	37 276 320
	(397 847 356)	**(258 145 665)**

Notes to the Annual Financial Statements

	2018 R	2017 R

3. Consumer debtors (continued)

Consumer debtors pledged as security

The provision for bad debts has been calculated on a geographical risk profile. All government customers have been excluded from bad debts provision.

4. Receivables from exchange transactions

Deposits	1 031 098	1 106 371
Agency agreements	1 553 449	1 749 992
Other debtors	8 375 780	9 046 395
Prepaid expenses	-	955 201
Interest accrued	244 379	778 555
Clearing account	-	2 185 939
	11 204 706	**15 822 453**

5. Inventories

Consumable stores	1 758 796	2 191 697
Water	305 182	280 687
	2 063 978	**2 472 384**

Inventories recognised as an expense during the year	-	4 300 132

Inventory is measured at the lower of cost and net realisable value. Inventory recognised as an expense excludes material purchased for direct use.

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
Land	2 970 350	-	2 970 350	1 905 000	-	1 905 000
Buildings	30 681 877	(4 167 170)	26 514 707	30 681 877	(3 129 821)	27 552 056
Plant and machinery	23 238 320	(6 824 197)	16 414 123	23 238 320	(5 645 289)	17 593 031
Furniture and fixtures	5 084 392	(3 217 108)	1 867 284	5 033 307	(2 899 342)	2 133 965
IT equipment	7 090 081	(4 581 051)	2 509 030	6 738 924	(4 154 242)	2 584 682
Infrastructure	2 268 623 272	(1 412 642 897)	855 980 375	1 963 630 957	(1 373 077 449)	590 553 508
Infrastructure - Working in progress	432 724 527	-	432 724 527	611 876 446	-	611 876 446
Firearms	424 012	(132 503)	291 509	424 012	(90 103)	333 909
Total	**2 770 836 831**	**(1 431 564 926)**	**1 339 271 905**	**2 643 528 843**	**(1 388 996 246)**	**1 254 532 597**

Notes to the Annual Financial Statements

	2018 R	2017 R

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Revaluations	Depreciation	Total
Land	1 905 000	1 065 350	-	-	2 970 350
Buildings	27 552 056	-	-	(1 037 349)	26 514 707
Plant and machinery	17 593 032	-	-	(1 178 908)	16 414 123
Furniture and fixtures	2 133 965	51 085	-	(317 766)	1 867 284
IT equipment	2 584 682	351 157	-	(426 809)	2 509 030
Infrastructure	590 553 508	304 992 315	-	(39 565 448)	855 980 376
Infrastructure - Working in progress	612 257 969	125 458 873	(304 992 315)	-	432 724 527
Firearms	333 909	-	-	(42 401)	291 508
	1 254 914 121	**431 918 780**	**(304 992 315)**	**(42 568 681)**	**1 339 271 905**

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1 905 000	-	-	-	1 905 000
Buildings	28 586 174	-	-	(1 034 118)	27 552 056
Plant and machinery	7 878 415	10 346 188	-	(631 571)	17 593 032
Furniture and fixtures	2 120 277	274 634	-	(260 946)	2 133 965
IT equipment	1 803 607	1 091 800	-	(310 725)	2 584 682
Infrastructure	568 779 009	96 114 219	(16 683 541)	(57 656 179)	590 553 508
Infrastructure-Work in Progress	506 102 713	190 925 071	(85 151 338)	-	611 876 446
Firearms	376 311	-	-	(42 401)	333 909
	1 117 551 506	**298 751 912**	**(101 834 879)**	**(59 935 940)**	**1 254 532 598**

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, other	7 570 540	(6 003 509)	1 567 031	5 509 367	(4 741 976)	767 391

Notes to the Annual Financial Statements

	2018 R	2017 R

7. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	767 391	2 061 173	(1 261 553)	1 567 011

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	677 910	1 717 849	(1 628 368)	767 391

8. Payables from exchange transactions

	2018 R	2017 R
Trade payables	85 069 610	85 352 011
Other payables	232 151	3 325 022
Accrued leave pay	12 972 729	11 921 249
Accrued bonus	6 171 063	4 480 677
Other accrued expenses	588 489	876 509
Retention	11 108 769	15 716 584
	116 142 811	**121 672 052**

Trade payable ageing

	2018 R	2017 R
0 - 30 days	81 699 647	59 854 416
31 - 60 days	2 456 709	23 561 968
61 - 90 days	392 796	1 076 795
91 - 180 days	520 458	858 832
	85 069 610	**85 352 011**

9. Other financial liabilities

	2018 R	2017 R
At amortised cost		
DBSA Loan	226 336 116	219 333 936

The Loans from Development Bank Southern Africa are subject to interest at an average rate of 10% and are repayable over an average period of 20 years.

A FNB Investment to the value of R3 750 000 is held as security for the long term loans held with DBSA. Refer to note 2.

	2018 R	2017 R
Non-current liabilities		
At amortised cost	213 295 553	210 699 839
Current liabilities		
At amortised cost	13 040 563	8 634 097

10. Consumer deposits

	2018 R	2017 R
Water	6 183 311	5 907 544

Notes to the Annual Financial Statements

	2018 R	2017 R

11. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Post employee benefits	21 534 198	-	(2 267 985)	19 266 213
Long services award	10 275 788	1 588 000	-	11 863 788
	31 809 986	**1 588 000**	**(2 267 985)**	**31 130 001**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Post employee benefits	19 339 372	2 194 826	21 534 198
Long services award	9 867 668	408 120	10 275 788
	29 207 040	**2 602 946**	**31 809 986**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018 R	2017 R
Unspent conditional grants and receipts		
Camperdown waste water works & PTP Grants	4 308 912	4 308 912
Water Services Infrastructure Grant	29 373 891	-
Development Agency Support Programme & Summit	3 300 000	-
ORIO Grant	11 550 860	11 550 860
SETA Grant	219 304	910 776
MIG	23 430 775	36 950 555
	72 183 742	**53 721 103**

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

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

13. VAT payable

	2018 R	2017 R
Vat payables	23 333 113	7 254 496

Vat output is paid to SARS once payment has been received from third parties.

14. Revaluation reserve

The revaluation reserve arose due to the Land and Buildings recorded at market values. The valuation was performed by a professional valuer by Local Municipalities where valued properties are situated. The municipality used valuation roll values to revalue its land and buildings. The valuation roll was implemented on 01 July 2009.

	2018 R	2017 R
Opening balance	24 064 477	24 064 477

Notes to the Annual Financial Statements

	2018 R	2017 R

15. Service charges

Service charges	283 203	323 038
Sale of water	155 911 896	111 576 882
Sewerage and sanitation charges	20 808 109	12 328 933
	177 003 208	**124 228 853**

16. Other income

Project income	14 134	1 696 654
Sundry income	7 908 963	9 344 235
	7 923 097	**11 040 889**

17. Investment revenue

Interest revenue		
Bank	3 801 783	15 432 321

Notes to the Annual Financial Statements

	2018 R	2017 R

18. Government grants and subsidies

	2018 R	2017 R
Operating grants		
Department of water and sanitation grant	-	3 464 411
Equitable share	420 729 000	428 361 527
Expanded public works	1 428 000	2 094 000
FMG	1 250 000	1 250 000
Intergovernmental Relations	-	1 163 744
Rural roads asset management system	2 526 000	2 384 000
Corridor development bulk sewer line	-	5 414 301
SETA Grant	4 380 750	11 249 893
	430 313 750	455 381 876
Capital grants		
Massification	-	11 650 712
Municipal Infrastructure Grant	109 540 780	72 679 442
Water services infrustructure grant	33 624 109	50 235 000
	143 164 889	134 565 154
	573 478 639	**589 947 030**

Conditional and Unconditional

Included in above are the following grants and subsidies realised as income:

	2018 R	2017 R
Conditional grants received	115 799 084	161 585 503
Unconditional grants received	420 729 000	428 361 527
	536 528 084	**589 947 030**

FMG

	2018 R	2017 R
Balance unspent at beginning of year	-	-
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12)

Notes to the Annual Financial Statements

	2018 R	2017 R

18. Government grants and subsidies (continued)

EPWP Grant

Current-year receipts	1 428 000	2 094 000
Conditions met - transferred to revenue	(1 428 000)	(2 094 000)
	-	-

Conditions still to be met - remain liabilities (see note 12)

Rural Roads Assets Management Systems Grant

Current-year receipts	2 526 000	2 384 000
Conditions met - transferred to revenue	(2 526 000)	(2 384 000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Massification Grant

Balance unspent at beginning of year	-	1 650 712
	-	10 000 000
Conditions met - transferred to revenue	-	(11 650 712)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Municipal Infrastructure Grant

Balance unspent at beginning of year	36 950 555	(220 401 928)
Prior period error	-	220 401 928
Current year receipts	96 021 000	109 630 000
Conditions met - trasnferred to revenue	(72 590 225)	(72 679 445)
Revenue recognised in 2017/2018 relating to funds received in prior year	(36 950 555)	-
	23 430 775	**36 950 555**

Conditions still to be met - remain liabilities (see note 4)

PTP Grant

Balance unspent at beginning of year	-	308 817
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other- Consolidation	-	(308 817)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Water Services Infrastructure Grant

Balance unspent at beginning of year	-	-
Current-year receipts	62 998 000	50 235 000
Conditions met - transferred to revenue	(33 624 109)	(68 365 636)
Incorrect recognition of revenue	-	18 130 636

Notes to the Annual Financial Statements

	2018 R	2017 R

18. Government grants and subsidies (continued)

	29 373 891	**-**

Conditions still to be met - remain liabilities (see note 4).

Department of Water and Sanitation Grant

Balance unspent at beginning of year	-	3 464 411
Conditions met - transferred to revenue	-	(3 464 411)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

Corridor Development Bulk Sewer Line

Current-year receipts	-	5 414 301
Conditions met - transferred to revenue	-	(5 414 301)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

Camperdown Water Works

Balance unspent at beginning of year	-	4 000 095
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other	-	(4 000 095)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

ORIO Grant

Balance unspent at beginning of year	11 550 860	11 550 860
Conditions met - transferred to revenue	-	-
	11 550 860	**11 550 860**

Conditions still to be met - remain liabilities (see note 12).

SETA Grant

Balance unspent at beginning of year	910 776	-
Current-year receipts	3 469 974	12 160 669
Conditions met - transferred to revenue	-	(11 249 893)
Expenditure incurred to date	(4 161 446)	-
	219 304	**910 776**

Conditions still to be met - remain liabilities (see note 12).

Grant 32

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

	2018 R	2017 R

19. Fines, Penalties and Forfeits

Fines, Penalties and Forfeits	1 995 781	-

20. Revenue

Service charges	177 003 208	124 228 853
Rental of facilities and equipment	246 483	205 215
Recoveries	918 165	-
Other income - (rollup)	7 923 097	11 040 889
Interest received - investment	3 801 783	15 432 321
Interest, Dividends and Rent on Land	30 067 834	23 308 202
Government grants & subsidies	573 478 639	608 077 666
Fines, Penalties and Forfeits	1 995 781	-
Other transfer revenue	4 122 744	-
	799 557 734	**782 293 146**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	177 003 208	124 228 853
Rental of facilities and equipment	246 483	205 215
Recoveries	918 165	-
Other income - (rollup)	7 923 097	11 040 889
Interest received - investment	3 801 783	15 432 321
	189 892 736	**150 907 278**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Interest, Dividends and Rent on Land	30 067 834	23 308 202
Transfer revenue		
Government grants & subsidies	573 478 639	608 077 666
Fines, Penalties and Forfeits	1 995 781	-
Other transfer revenue	4 122 744	-
	609 664 998	**631 385 868**

Notes to the Annual Financial Statements

	2018 R	2017 R

21. Employee related costs

	2018 R	2017 R
Basic	122 539 625	108 330 550
Medical aid - company contributions	11 553 759	11 848 955
UIF	785 146	752 383
WCA	-	1 593 739
SDL	1 508 530	1 581 432
Other payroll levies	44 628	38 373
Leave pay provision charge	1 583 610	1 860 129
Group life insurance	-	2 749 713
Defined contribution plans	23 690 941	23 471 018
Travel, motor car, accommodation, subsistence and other allowances	18 011 558	17 860 370
Overtime payments	7 831 565	9 370 424
Long-service awards	2 640 185	2 932 703
Acting allowances	865 109	827 408
Housing benefits and allowances	1 022 788	1 000 774
Annual bonus	10 889 302	8 869 653
Standby Allowance	4 081 012	3 877 783
Telephone allowance	136 929	1 098 846
Clothing allowance	114 357	94 574
Curtailment and Settlement	(2 472 700)	-
Tools allowance	1 581 178	-
	206 407 522	**198 158 827**

Remuneration of Municipal Manager

	2018 R	2017 R
Annual remuneration	649 440	1 351 252
Car allowance	-	144 000
Performance bonuses	-	89 454
Other	12 600	18 000
Leave pay	-	226 211
	662 040	**1 828 917**

Remuneration of SEM: Financial Services

	2018 R	2017 R
Annual remuneration	1 311 614	1 247 286
Car allowance	180 000	180 000
Performance bonuses	69 823	77 347
Other	21 600	30 960
Acting Allowance	49 608	-
	1 632 645	**1 535 593**

Remuneration of SEM: Corporate Services

	2018 R	2017 R
Annual remuneration	940 802	160 296
Car allowance	117 383	20 000
Performance bonuses	-	3 600
Other	21 129	-
Leave Pay	84 277	-
	1 163 591	**183 896**

Remuneration of SEM: Technical services

	2018 R	2017 R
Annual remuneration	945 247	878 485
Car allowance	351 628	313 386

Notes to the Annual Financial Statements

	2018 R	2017 R
21. Employee related costs (continued)		
Performance bonuses	81 743	75 243
Other	38 151	223 031
Contribution to UIF, Medical and Pension funds	-	38 151
	1 416 769	**1 528 296**

Remuneration of SEM: Community Services

	2018 R	2017 R
Annual remuneration	1 091 095	1 031 768
Car allowance	163 850	163 850
Performance bonuses	62 401	58 348
Other	21 600	109 330
Contribution to UIF, Medical and Pension funds	-	9 300
	1 338 946	**1 372 596**

22. Remuneration of councillors

	2018 R	2017 R
Remuneration to Councillors	10 347 456	10 239 416

In-kind benefits

The Mayor, Deputy 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 Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has 4 full time bodyguards. The Deputy Mayor and Speaker have three full-time bodyguards.

The salaries, allowances and benefits paid to councillors in the 2017/2018 financial year were within the upper limits as determined by the National Minister of Co-operative Government And Traditional affairs

23. Administrative expenditure

	2018 R	2017 R
Administration and management fees - third party	-	7 107 273

24. Depreciation and amortisation

	2018 R	2017 R
Property, plant and equipment	42 568 681	59 935 939
Intangible assets	1 261 553	1 628 368
	43 830 234	**61 564 307**

25. Finance costs

	2018 R	2017 R
Fair value adjustments on payables	52 964	-
Other interest paid	35 267 972	19 737 550
	35 320 936	**19 737 550**

26. Lease rentals on operating lease

	2018 R	2017 R
Premises		
Contractual amounts	-	1 778 490

Notes to the Annual Financial Statements

	2018 R	2017 R
27. Debt impairment		
Contributions to debt impairment provision	139 701 691	61 029 639
28. Bulk purchases		
Water	132 382 728	121 186 282
29. Contracted services		
Presented previously		
Fleet Services	675 771	56 188 626
Operating Leases	-	69 934 401
Specialist Services	189 732 569	-
Other Contractors	-	16 183 869
	-	-
	190 408 340	**142 306 896**

Included in the specialist services are the following:

Administration - R10 507 735.
Advertising - R1 401 448
Catering R1 140 108
Consultants R 3 755 900
Fire - R87 719
Water Tanker Hire - R 57 108 312
Maintenance - R 1 504 489
Security - R 7 656 185
Tourism - R 9 573 377
Water and Waste Treatement - R 92 130 365
Other Services - R 4 824 741

Notes to the Annual Financial Statements

	2018 R	2017 R

30. General expenses

Advertising	1 136 014	149 752
Auditors remuneration	2 239 438	1 913 530
Bank charges	4 724 973	1 070 153
Consulting and professional fees	8 328 358	16 562 195
Consumables	-	7 002 364
Entertainment	87 707	4 536 523
Hire	2 275 003	3 503 914
Insurance	666 345	597 093
Conferences and seminars	4 939 068	660 004
Levies	-	1 394 432
Magazines, books and periodicals	129 526	216 428
Medical expenses	-	147 064
Motor vehicle expenses	19 690 286	20 383 835
Postage and courier	852 992	840 156
Printing and stationery	1 695 612	2 052 145
Promotions	-	2 804 576
Protective clothing	708 340	2 050 501
Repairs and maintenance	1 741 981	4 725 400
Research and development costs	-	219 750
Royalties and license fees	347 368	506 704
Security (Guarding of municipal property)	-	7 615 278
Staff welfare	-	292 741
Subscriptions and membership fees	4 144	896 232
Telephone and fax	2 693 832	4 306 974
Training	7 781 971	11 919 856
Travel - local	2 140 382	2 920 992
Professional and Regulatory Bodies	1 490 330	-
Disaster Response Tools	-	497 945
Bursary	627 570	-
Other expenses	3 295 722	-
Electricity	-	5 820 101
	67 596 962	**105 606 638**

31. Auditors' remuneration

Fees	2 239 438	1 913 530

32. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, KeyHealth, LA Health, Samumed and HosMed.

Pension benefits

Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, i3 Actuaries and Consultants, carry out a statutory valuation on an annual basis.

	2018 R	2017 R

32. Employee benefit obligations (continued)

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

	2018 R	2017 R
Opening balance	20 801 000	18 631 000
Net (gain)/expense recognised in the statement of financial performance	(2 241 000)	2 170 000
	18 560 000	**20 801 000**

Ex-gratia Pension Benefits Liability

	2018 R	2017 R
Opening balance	733 198	708 372
Net Expense	(26 985)	24 826
	706 213	**733 198**

Net (gain)/expense recognised in the statement of financial performance

	2018 R	2017 R
Current service cost	687 000	688 000
Interest cost	2 012 000	1 645 000
Actuarial (gains) losses	(4 321 000)	348 000
Expected return on reimbursement rights	(619 000)	(511 000)
	(2 241 000)	**2 170 000**

Ex-gratia Pension Benefits Liability

	2018 R	2017 R
Interest cost	55 402	57 166
Benefit paid	(96 889)	(92 557)
Acturial loss/(gain)	14 502	60 218
	(26 985)	**24 827**

Changes in the fair value of plan assets are as follows:

	2018 R	2017 R
Opening balance	22 971 000	20 801 000
Actuarial gains (losses)	(2 964 000)	-
Assets distributed on settlements	-	348 000
Contributions by employer	-	688 000
Contributions by plan participants	-	1 645 000
Benefits paid	-	(511 000)
	20 007 000	**22 971 000**

Ex-gratia Pension Benefits Liability

	2018 R	2017 R
Liability at the end of the period	733 198	708 372
Interest Cost	55 402	60 218
Actuarial (Gain) / Loss	14 502	57 166
Benefit Paid	(96 889)	(92 557)
	706 213	**733 199**

	2018 R	2017 R

32. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

	2018	2017
Discount rates used	2.43 %	1.50 %
Expected rate of return on assets	10.64 %	9.67 %
Medical cost trend rates	8.02 %	8.05 %

No explicit assumption was made about additional mortality or health care costs due to AIDS

Percentage of inservice members withdrawing before retirement	Females	Males
Age 20 - 29	24%	16%
Age 30 - 39	15%	10%
Age 40 - 49	6%	6%
Age 50 - 54	4%	2%
Age 55+	0%	0%

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Sensitivity analysis

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results, will depend on the extent to which actual experience differs from the assumptions made.

The assumption which tends to have the greatest impact on the results is the level of mortality and medical aid inflation

Sensitivity results

The liability at the Valuation date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation:

(iv) A 20% increase and decrease in the assumed rates of post retirement mortality

Long service award and retirement gifts

The independent valuers, I3 Actuaries and Consultants, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

Notes to the Annual Financial Statements

	2018 R	2017 R

32. Employee benefit obligations (continued)

Discount rate per annum	10.97%	8.64%
General salary inflation	8.46%	6.47%
Net effective discount rate	2.31%	2.04%
Average retirement age	63 years	63 years
Mortality during employment	SA85/90	SA85-90

Members withdrawn from services	Females	Males
Age 20 - 29	24%	16%
Age 30 -39	15%	10%
Age 40 - 49	6%	6%
Age 50 - 54	2%	2%
	-	**-**

Movement in defined benefit obligation		
Balance at the beginning of the year	10 275 788	9 867 668
Current service costs	869 000	876 920
Interest costs	888 000	824 937
Actuarial gain / (loss)	194 000	(538 254)
Benefit payment	(498 000)	(755 483)
New employees	135 000	-
	11 863 788	**10 275 788**

The amounts recognised in the Statement of Financial Perfomance were as follows:		
Current costs	869 000	876 920
Interest cost	888 000	824 937
Actuarial gain / (loss)	194 000	(538 254)
Benefit payment	(498 000)	(755 483)
New employees	135 000	-
	1 588 000	**408 120**

In Conclusion: Statement of financial position obligated for:		
Post employment medical benefit	18 560 000	20 801 000
Post employment pension benefit	-	733 198
Long service award	-	10 275 788
	18 560 000	**31 809 986**

Statement of Financial Performance obligation for:		
Post employment medical benefit	-	2 170 000
Post employment pension benefit	-	24 826
Long service award	-	408 120
	-	**2 602 946**

Notes to the Annual Financial Statements

	2018 R	2017 R

33. Cash generated from operations

	2018 R	2017 R
(Deficit) surplus	(23 682 637)	36 894 286
Adjustments for:		
Depreciation and amortisation	43 830 234	61 564 307
Loss on sale of assets and liabilities	-	16 683 542
Actuarial loss on post employment benefits recognised in the statement of financial performance	2 755 498	-
Finance costs - fair value adjustments on payables	52 964	-
Debt impairment	-	61 029 639
Movements in provisions	1 588 000	2 602 946
Changes in working capital:		
Inventories	408 406	(796 668)
Receivables from exchange transactions	4 617 747	52 477 020
Consumer debtors	-	(51 646 942)
Payables from exchange transactions	1 312 562	(45 439 915)
VAT	16 078 617	(22 542 614)
Unspent conditional grants and receipts	18 462 639	4 661 973
Consumer deposits	275 767	318 916
Other liability	46 206 368	-
	111 906 165	**115 806 490**

34. Commitments

Authorised capital expenditure

	2018 R	2017 R
Already contracted for but not provided for		
• Property, plant and equipment	197 454 799	234 889 865
Contracted for operating commitments		
• Office Rental	702 994	895 699
• Security	9 405 274	16 044 291
• Maintenance	2 045 420	5 841 662
• Water Tankering	-	8 270 136
• Other General	7 242 653	-
	19 396 341	**31 051 788**
Total commitments		
Capital commitments	197 454 799	234 889 865
Operating commitments	19 396 341	31 051 788
	216 851 140	**265 941 653**

This committed expenditure relates to property 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.

35. Contingencies

A matter between the municipality and MHZA Machine Handling CC in relation to ORIO Funded Projects. The matter is in relation to monetary claims for services rendered by MHZA amounting to R 16 609 254.33 and a further R 56 245 406.84 for damages . The total claim amounts to R 72 854 661.17. A matter between Amaraka Investments to the value of R 13 050 776. pertaining to a developers claim for re imbursement for transporting effluent. Another matter between Yellowdot to the value of R445 796.97 for unpaid invoices and the early termination of contract. An amount of R 350 000 is claimed by Goerge Shabalala for damages caused by sewer overflow. An amount of R 76 000 is claimed by Mbulelo Sibiya for motor vehicle damages caused by an employee during the cause and scope of employment

Notes to the Annual Financial Statements

	2018 R	2017 R

36. Related parties

Relationships	
Municipal Entity	uMgungundlovu Economic Development Agency (uMEDA)

The agency was formed to implement high capacity local economic development projects.

37. Prior period errors

The following prior period errors were identified during the year and corrected in accordance with GRAP 3.

(1) The municipality incorrectly recognised spending on the Municipal Infrastructure Grant and the Water Services Infrastructure Grant as receivables in the prior year.

(2) Firearms and Ammuniation purchased in 2015 was incorrectly recognised as an expense instead of Plant, property and equipment in terms of GRAP 17.

The effect of these adjustments are as follows:

Statement of financial position

- Property, plant and equipment	1 254 198 688
As previously stated	
Adjusted for:	
Net book value of assets not previously recognised:	333 909
- Cost	424 012
- Accumulated Depreciation	(90 103)
Restated balance at 30/06/2017	1 254 532 597
- Receivables from exhange transactions:	
As previously stated	217 404 459
Adjusted for:	
Overspending on project incorrectly recognised as receivable from future	
- MIG allocations	(183 451 370)
- WSIG allocations	(18 130 636)
Restated balance at 30/06/2017	15 822 453
- Unspent conditional grants and receipts:	
As previously stated	(16 770 548)
Adjusted for:	
Unutilised grants not previously recognised	
- MIG allocations	(36 950 555)
- WSIG allocations	-
Restated balance at 30/06/2017	(53 721 103)

Notes to the Annual Financial Statements

	2018 R	2017 R

37. Prior period errors (continued)

Statement of financial performance

	2018 R	2017 R
- Depreciation and Amortisation		
As previously stated		61 521 906
Adjusted for:		
Depreciation on Plant, Property and Equipment not previously recognised		42 401
Restated total for the year		61 564 307
- Government grants and subsidies		
As previously stated		(608 077 666)
Adjusted for:		
Incorrect recognition of revenue relating to the WSIG		18 130 636
Restated total for the year		(589 947 030)
- Surplus for the year		
As previously stated		(36 936 687)
Adjusted for:		
Depreciation on Plant, Property and Equipment not previously recognised		42 401
Incorrect recognition of revenue relating to the WSIG		18 130 636
Restated total for the year		(18 763 649)

Statement of Changes in Net Assets

	2018 R	2017 R
Balance at 01/07/2016 - As previously stated		(1 249 848 095)
Revenue incorrectly recognised in the prior periods		220 401 928
Depreciation on Plant, Property and Equipment not previously recognised		47 701
Restated balance at 01/07/2016		(1 029 398 466)

Notes to the Financial Statements

	2018 R	2017 R
Note 4		
As previously stated		217 404 459
Adjusted for:		
WSIG - Incorrect recognition of receivables		(18 130 636)
MIG - Incorrect recognition of receivables		(183 451 370)
Restated balance		15 822 453
Note 6		
Cost - 2017		
As previously stated - total		2 641 094 033
Adjusted for:		
Cost of Plant, property and equipment		424 012
Restated balance		2 641 518 045
Accumulated Depreciation - 2017		
As previously stated		(1 386 513 821)
Adjusted for:		
Accumulated Depreciation of Plant, Property and Equipment not previously recognised		(90 103)
Restated balance		(1 386 603 924)
Carrying value - 2017		
As previously stated		1 254 580 212
Adjusted for:		
Carrying value of Plant, Property and Equipment not previously recognised		333 909

Notes to the Annual Financial Statements

	2018 R	2017 R
37. Prior period errors (continued)		
Restated balance		1 254 914 121
Note 12		
As previously stated		(16 770 548)
Adjusted for:		
MIG - not previously recognised		(36 950 555)
Restated balance		(53 721 103)
Note 21 - Government Grants and Subsidies		(608 077 666)
As previously stated		
Adjusted for:		
MIG - not previously recognised		18 130 636
Restated balance		(589 947 030)
MIG		
Balance unspent at beginning of the year		220 401 928
Prior period error		(220 401 928)
Current year receipts		(109 630 000)
Conditions met - transferred to revenue		72 679 445
Balance unspent at the end of the year		(36 950 555)
WSIG		
Balance unspent at beginning of the year		
Current year receipts		(50 235 000)
Conditions met - transferred to revenue		68 365 636
Incorrect recognition of revenue		(18 130 636)
Prior year expenditure transferred to revenue		-
Balance unspent at the end of the year		-
Note 27 - Depreciation and Amortisation: Plant, Property and Equipment		
As previously stated		59 893 538
Adjusted for:		
Depreciation on Plant, Property and Equipment not previously recognised		42 401
Restated balance		59 935 939

38. Events after the reporting date

No events after the reporting date were identified by management that would affect the operations of the municipality or the results of those operations significantly.

39. Water losses

	2018 R	2017 R
	42 618 114	38 219 843

The municipality averages water losses to approximately 36% for (2017/2018) and 38% for (2016/2017). The loss is calculated by comparing water sales (Including free basic water) to water purchases.

The water losses volumes have increased from 6 850 662 KL (2016/2017) to 7 103 019 KL (2017/2018).

40. Fruitless and wasteful expenditure

	2018 R	2017 R
Opening balance	2 271 469	2 121 219
Interest and penalties	335 865	150 250
Reported to Council for write off	335 865	2 121 219
Add: Awaiting condonation from National Treasury	(335 865)	(2 121 219)
	2 607 334	**2 271 469**

Notes to the Annual Financial Statements

	2018 R	2017 R

41. Irregular expenditure

	2018 R	2017 R
Opening balance	1 360 214	1 017 354
Add: Irregular Expenditure - current year	7 039 322	342 860
	8 399 536	**1 360 214**

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Pension and Medical Aid Deductions

	2018 R	2017 R
Current year subscription / fee	37 427 255	49 575 935
Amount paid - current year	(37 427 255)	(49 575 935)
	-	-

VAT

	2018 R	2017 R
VAT payable	23 333 113	7 254 496

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

Councillors' arrear consumer accounts

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

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
S.D Nkuna	1 458	31 582	33 040
N Mabhida	1 104	5 903	7 007
	2 562	**37 485**	**40 047**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
N Mabhida	338	2 957	3 295

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

43. 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.

The municipality recorded deviations totalling to R 28 852 109 in the last financial year and R 28 733 958 during the current financial year, that was ratified by Full Council at the respective meetings held during the financial year ended 30 June 2018.

44. Subsequent events

It must be highlighted that a former senior employee was convicted of defrauding the District Municipality of R190 000, by falsely misrepresenting the purchase of a `Jaws of Life` equipment. The court ruled that the full amount of R190 000 be repaid to the District Municipality. Currently R100 000 has been repaid and the remaining amount of R90 0000 will be repaid over a period of nine months with effect from 1 January 2019.

45. Budget differences

Material differences between budget and actual amounts

A) Budget was overstated. However actual income earnings increased owing to tariff increases.

B) Investments were fully utilised to meet cash flow committments..

C) Over estimation of planned revenue from other sources ie less donations etc were received.

D) A submision of a project for Economic Development Agency via Cogta for a grant.

E) Budget was understated with increased number of debtors defaulting, interest charges increased. Debtors balances increased by R 117 million.

F) Provided in the budget was anticipated income for drought relief. However no income was received. Equitable share was also reduced R 7 million,

G) The actual amount related to retentions. Service provider defaulted and retention fee withheld.

H) New appointments deferred to ensuing financial year.

I) Councillor approved allocation was less then budget in terms remuneration of Public Office bearers act.

J) Debtors were examined and impairment calculated and provided for.

K) Budget projections were understated and actual calculations are in compliance with fixed assets.

L) Budget understated and finance costs relates to DBSA loan repayment.

M) Water to be suplied to additional identified areas.

N) Reduction in costs relating to contracted services.

O) Expenditure was reduced in terms of austerity measures, cost containment etc.

P) Amount provided in terms actuarial report by valuators.