Ndlambe Local Municipality

Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	Ndlambe Municipality (EC 105) is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)
Nature of business and principal activities	Local Government
Executive committee	
Mayor	Councillor PP Faxi - Corporate Services Portfolio
Speaker	Councillor NV Maphaphu
Executive Councillors	Councillor T Mazana - Infrastructure Portfolio
	Councillor N Xhasa - Community Protection Portfolio
	Councillor LR Schenk - Finance Portfolio
Councillors	Councillor TM Mbunge
	Councillor N Ngamlashe
	Councillor A Ngqosha
	Councillor CB James
	Councillor AL Marasi
	Councillor M Raco
	Councillor JP Guest
	Councillor MW Yali
	Councillor ME Njibana
	Councillor M Mateti
	Councillor K Daweti
	Councillor PY Kani
	Councillor L Shahzad
	Councillor S Venene
	Councillor TD Mbekela
Accounting Officer	R Dumezweni
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General
Jurisdiction	The Ndlambe Local Municipalit includes the following areas: Port Alfred Bathhurst Alexandria Kenton-on-Sea Cannon - Rocks

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

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant
FMG	Finance Management Grant

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 the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 81, 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:

R Dumezweni
Accounting Officer

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	674 199	542 607
Receivables from non-exchange transactions	4	12 488 135	9 006 989
Receivables from exchange transactions	5	10 463 959	10 242 236
Cash and cash equivalents	6	64 263 366	48 847 085
Operating lease asset	7	371 317	315 334
		88 260 976	**68 954 251**
Non-Current Assets			
Investment property	8	186 405 896	187 608 291
Property, plant and equipment	9	606 626 519	601 833 033
Intangible assets	10	2 431 908	2 319 806
Heritage assets	11	16	16
Other financial assets	12	147 626	119 181
		795 611 965	**791 880 327**
Total Assets		**883 872 941**	**860 834 578**
Liabilities			
Current Liabilities			
Consumer deposits	14	1 999 159	1 883 801
Payables from exchange transactions	15	46 242 007	42 461 116
Unspent conditional grants and receipts	16	3 239 793	14 929 359
VAT payable	17	12 987 977	5 824 272
Financial liabilities - DBSA	18	1 931 498	1 728 229
Operating lease liability	7	29 726	73 649
Employee benefit obligation	19	2 327 800	1 991 381
Provisions	20	12 383 480	11 808 490
		81 141 440	**80 700 297**
Non-Current Liabilities			
Financial liabilities - DBSA	18	10 266 132	12 186 579
Employee benefit obligation	19	59 971 688	58 832 239
Provisions	20	28 067 116	23 456 722
		98 304 936	**94 475 540**
Total Liabilities		**179 446 376**	**175 175 837**
Net Assets		**704 426 565**	**685 658 741**
Accumulated surplus		704 426 565	685 658 740

* See Note 41

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	120 775 049	111 487 289
Rendering of services		237 937	221 306
Rental of facilities and equipment		811 545	719 955
Licences and permits		4 358 794	3 812 172
Housing debtor income		1 202 456	773 119
Other income	23	2 629 936	2 657 468
Interest received - Investments	24	4 327 640	3 085 525
Interest received - Trade and other receivables		7 510 126	6 728 717
Total revenue from exchange transactions		**141 853 483**	**129 485 551**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	90 227 756	83 109 186
Transfer revenue			
Government grants & subsidies	26	128 265 202	130 467 351
Public contributions and donations	27	70 734	2 863 247
Fines, Penalties and Forfeits		434 970	470 290
Total revenue from non-exchange transactions		**218 998 662**	**216 910 074**
Total revenue	21	**360 852 145**	**346 395 625**
Expenditure			
Employee related costs	28	(126 771 067)	(119 306 904)
Remuneration of councillors	29	(6 868 824)	(6 050 938)
Depreciation and amortisation	30	(33 695 611)	(36 510 210)
Impairment loss/ Reversal of impairments		-	(684 962)
Finance costs	31	(1 507 849)	(1 694 965)
Lease rentals on operating lease		(2 012 034)	(2 050 916)
Repairs and Maintenance		(17 137 680)	(14 614 188)
Debt Impairment	32	(27 940 603)	(40 549 192)
Bulk purchases	33	(54 507 028)	(52 741 887)
Renewable Energy Programmes		(2 741 463)	(3 801 752)
Contracted services		(20 996 865)	(17 920 366)
Transfers and Subsidies		(1 197 767)	(936 097)
General Expenses	34	(41 299 882)	(43 886 989)
Total expenditure		**(336 676 673)**	**(340 749 366)**
Operating surplus		**24 175 472**	**5 646 259**
Loss on disposal of assets		(262 734)	(2 022 928)
Fair value adjustments	35	(5 144 912)	(3 161 342)
		(5 407 646)	**(5 184 270)**
Surplus for the year		**18 767 826**	**461 989**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported		685 832 605	685 832 605
Adjustments			
Correction of errors	Note 41	(635 854)	(635 854)
Balance at 01 July 2016 as restated*		**685 196 751**	**685 196 751**
Changes in net assets			
Surplus for the year		461 989	461 989
Total changes		461 989	461 989
Restated* Balance at 01 July 2017		**685 658 739**	**685 658 739**
Changes in net assets			
Surplus for the year		18 767 826	18 767 826
Total changes		18 767 826	18 767 826
Balance at 30 June 2018		**704 426 565**	**704 426 565**

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Rates and services		191 931 347	172 690 760
Government Grants and Subisdies		128 265 202	130 467 350
Interest income		11 837 766	9 814 242
Other receipts		4 267 362	3 900 877
		336 301 677	316 873 229
Payments			
Employee costs		(133 639 892)	(125 357 842)
Suppliers		(146 428 642)	(129 726 433)
Finance costs		(1 507 849)	(1 694 965)
		(281 576 383)	(256 779 240)
Net cash flows from operating activities	37	**54 725 294**	**60 093 989**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(37 930 412)	(38 101 187)
Proceeds from sale of property, plant and equipment	9	450 679	-
Purchase of other intangible assets	10	(112 102)	(2 534 700)
Net cash flows from investing activities		**(37 591 835)**	**(40 635 887)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(1 717 178)	(1 966 582)
Net cash flows from financing activities		**(1 717 178)**	**(1 966 582)**
Net increase in cash and cash equivalents		**15 416 281**	**17 491 520**
Cash and cash equivalents at the beginning of the year		48 847 085	31 355 566
Cash and cash equivalents at the end of the year	6	**64 263 366**	**48 847 086**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue from exchange transactions						
Service charges	101 196 349	(3 602 000)	**97 594 349**	120 775 049	**23 180 700**	50.1
Rendering of services	272 154	(80 000)	**192 154**	237 937	**45 783**	50.2
Rental of facilities and equipment	1 106 109	-	**1 106 109**	811 545	**(294 564)**	50.3
Interest received - Trade and other receivables	7 304 196	250 000	**7 554 196**	7 510 126	**(44 070)**	50.4
Licences and permits	3 338 792	3 495 868	**6 834 660**	4 358 794	**(2 475 866)**	50.5
Housing debtor income	5 248 512	-	**5 248 512**	1 202 456	**(4 046 056)**	50.6
Other income	3 018 119	102 391	**3 120 510**	2 629 936	**(490 574)**	50.7
Interest received - Investments	2 262 852	-	**2 262 852**	4 327 640	**2 064 788**	50.8
Total revenue from exchange transactions	**123 747 083**	**166 259**	**123 913 342**	**141 853 483**	**17 940 141**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	99 663 588	-	**99 663 588**	90 227 756	**(9 435 832)**	50.9
Transfer revenue						
Government grants & subsidies	124 897 686	6 913 081	**131 810 767**	128 265 202	**(3 545 565)**	50.10
Public contributions and donations	-	-	**-**	70 734	**70 734**	50.11
Fines, Penalties and Forfeits	1 939 444	172 893	**2 112 337**	434 970	**(1 677 367)**	50.12
Total revenue from non-exchange transactions	**226 500 718**	**7 085 974**	**233 586 692**	**218 998 662**	**(14 588 030)**	
Total revenue	**350 247 801**	**7 252 233**	**357 500 034**	**360 852 145**	**3 352 111**	
Expenditure						
Personnel	(130 854 225)	(4 021 515)	**(134 875 740)**	(126 771 067)	**8 104 673**	50.13
Remuneration of councillors	(6 544 744)	(745 892)	**(7 290 636)**	(6 868 824)	**421 812**	50.14
Renewable Energy Programmes	(1 599 996)	-	**(1 599 996)**	(2 741 463)	**(1 141 467)**	50.15
Depreciation and amortisation	(5 473 682)	-	**(5 473 682)**	(33 695 611)	**(28 221 929)**	50.16
Finance costs	(1 900 149)	95 000	**(1 805 149)**	(1 507 849)	**297 300**	50.17
Lease rentals on operating lease	(3 510 861)	708 315	**(2 802 546)**	(2 012 034)	**790 512**	50.18
Repairs and Maintenance	(25 926 731)	967 729	**(24 959 002)**	(17 137 680)	**7 821 322**	50.19
Debt Impairment	(14 538 001)	(550 214)	**(15 088 215)**	(27 940 603)	**(12 852 388)**	50.20
Bulk purchases	(48 636 312)	-	**(48 636 312)**	(54 507 028)	**(5 870 716)**	50.21
Contracted Services	(22 894 276)	1 270 989	**(21 623 287)**	(20 996 865)	**626 422**	50.22
Transfers and Subsidies	(935 004)	(256 682)	**(1 191 686)**	(1 197 767)	**(6 081)**	50.23
General Expenses	(43 602 877)	(236 536)	**(43 839 413)**	(41 299 882)	**2 539 531**	50.24
Total expenditure	**(306 416 858)**	**(2 768 806)**	**(309 185 664)**	**(336 676 673)**	**(27 491 009)**	
Operating surplus	**43 830 943**	**4 483 427**	**48 314 370**	**24 175 472**	**(24 138 898)**	
Loss on disposal of assets	(100 720)	-	**(100 720)**	(262 734)	**(162 014)**	50.25
Fair value adjustments	-	-	**-**	(5 144 912)	**(5 144 912)**	50.26
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**43 730 223**	**4 483 427**	**48 213 650**	**18 767 826**	**(29 445 824)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency & Rounding

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded to the nearest Rand.

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 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

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

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

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

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

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

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

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

Item	**Useful life**
Property - land	indefinite
Property - buildings	30 years

1.4 Investment property (continued)

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

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

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

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

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

1.5 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.

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	50 Years
Plant and machinery	Straight line	15 Years
Motor vehicles	Straight line	5 - 15 Years
Office equipment	Straight line	3 - 5 Years
IT equipment	Straight line	3 - 5 Years

1.5 Property, plant and equipment (continued)

Community	Straight line	10 - 30 Years
Electricity Network	Straight line	20 - 30 Years
Roads	Straight line	20 Years
Wastewater Network	Straight line	20 Years
Water Network	Straight line	20 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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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

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

1.6 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.

1.6 Intangible assets (continued)

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. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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

1.7 Heritage assets

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

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

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

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

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

1.7 Heritage assets (continued)

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

1.8 Financial instruments

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

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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.

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

1.8 Financial instruments (continued)

Classification

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

Class	Category
Receivables from Exchange Transactions	Financial asset measured at amortised cost
Receivables from Non-Exchange Transactions	Financial asset measured at amortised cost
Cash and cash equivalents (funds and call accounts)	Financial asset measured at amortised cost
Cash and cash equivalents (notice accounts)	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loans	Financial liability measured at amortised cost

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.8 Financial instruments (continued)

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

1.9 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

Inventories 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;

1.10 Inventories (continued)
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.13 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.

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.

1.13 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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.

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.

1.13 Employee benefits (continued)

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.

1.13 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

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

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

1.14 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

1.14 Provisions and contingencies (continued)

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

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

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.15 Revenue from exchange transactions

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

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

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

Measurement

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

1.15 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

1.16 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)

Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

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

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

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

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

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

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

Transfers

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

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

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

Fines

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

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

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

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

1.22 Irregular expenditure

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

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

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

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

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

1.23 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.

1.23 Budget information (continued)

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

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

1.24 Related parties

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

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

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

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

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

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

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

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

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

1.25 Events after reporting date

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

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

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

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

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

Accounting Policies

1.26 Commitments (continued)

At the end of the financial period the municipality determined commitments in respect of capital expenditure in terms of GRAP 17 that has been approved and contracted for.

1.27 Material Losses (Water and Electricity)

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125. Losses are calculated on the following basis -

Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per Kl (incl VAT).

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2099	Not expected to impact results but may result in additional disclosure
• GRAP 35: Consolidated Financial Statements	01 April 2099	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2099	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2099	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2099	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2099	Not expected to impact results but may result in additional disclosure
• GRAP 110: Living and Non-living Resources	01 April 2020	Impact is currently being assessed
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Impact is currently being assessed
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact
• GRAP 12 (as amended 2016): Inventories	01 April 2018	Unlikely there will be a material impact
• GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact
• GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
• GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
• GRAP 27 (as amended 2016): Agriculture	01 April 2018	Unlikely there will be a material impact
• GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	Unlikely there will be a material impact
• GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	Unlikely there will be a material impact
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	Unlikely there will be a material impact

Figures in Rand	2018	2017

3. Inventories

Game	57 000	57 000
Water	116 272	140 710
Stores, materials and fuels	500 927	344 897
	674 199	**542 607**

No Inventories were written down to net realisable value.

Game is held for recreational purposes in the form of viewing of game at the reserves by the publuc. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife and as such these animals have not been recognised as Biological assets. Game is measured at the lower of cost or current replacement cost.

4. Receivables from non-exchange transactions

Rates	39 722 778	33 954 518
Environmental Levies	6 492 220	3 194 457
Deposits	85 500	70 500
Recoverable legal expenses	326 494	207 437
Staff taxes to SARS refundable	281 121	281 121
Recoverable fruitless and wasteful expenditure	-	119 058
Housing Sundry	125 061	62 534
Prepaid expenses	-	579 490
Provision for Impairment - Non exchange receivables	(34 545 039)	(29 462 126)
	12 488 135	**9 006 989**

The deposits are made up of an amount of R58 000 paid to Eskom for street lighting, R15 000 relating to fuel deposit card and R12 500 paid to Kenton on Sea Garage for a petrol deposit.

Fruitless and wasteful expenditure comprises of an amount refundable from NG Ngesi, former Municipal Manager, for the acknowledgement of debt made by him for laptops paid for by the municipality but never delivered.

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are past due are not considered to be impaired as at 30 June 2018, R 2 512 362 (2017: R 3 260 935).

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

Opening balance	(29 462 126)	(19 386 324)
Provision for impairment	(6 771 406)	(11 549 554)
Amounts written off as uncollectible	1 688 493	1 473 752
	(34 545 039)	**(29 462 126)**

None of the financial assets have been renegotiated in the past financial year.

5. Receivables from exchange transactions

Gross balances		
Electricity	15 352 051	12 410 116
Water	26 266 955	22 704 439
Waste water	12 819 227	11 611 623
Refuse	13 641 276	11 391 927
Service charges and other	7 781 472	8 433 814
Housing rental	891 488	555 898
	76 752 469	**67 107 817**

Figures in Rand	2018	2017

5. Receivables from exchange transactions (continued)

Less: Allowance for impairment		
Impairment allowance	(66 288 510)	(56 865 581)
Net balance		
Electricity	15 352 051	12 410 116
Water	26 266 955	22 704 439
Waste water	12 819 227	11 611 623
Refuse	13 641 276	11 391 927
Service charges and other	7 781 472	8 433 814
Housing rental	891 488	555 898
Impairment allowance	(66 288 510)	(56 865 581)
	10 463 959	**10 242 236**

Consumer debtors past due but not impaired

Consumer debtors which are past due and not considered to be impaired. At 30 June 2018, R 3 465 019 (2017:R 3 702 875) were past due but not impaired.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	(56 865 581)	(41 098 279)
Contribution to allowance	(21 169 198)	(30 838 941)
Debt impairment written off against allowance	11 746 269	15 071 639
	(66 288 510)	**(56 865 581)**

Consumer debtors impairment process:

The muncipality has adopted a policy for the determination of the provision for doubtful debts based on the national treasury principals. These principals are used to rate debtors based on various risk criteria associated with the type and status of their accounts. Furthermore an analysis is undertaken to accumulate the risk associated with the long outstanding nature of each account. These factors produce an overall risk factor which is utilised to prepare an impaired amount. The collectable cashflow is therefore determined and present valued based on the average days outstanding on each account. The overall impairment is thereafter pro-rata'ed per non-exchange and exchange portions of each debtors' account. Lastly this is accumulated to produce the provision for impairment as raised at year end. Refer to the municipal policy for full details.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 111	5 211
Bank balances	19 698 314	9 354 834
Short-term deposits	44 559 941	39 487 040
	64 263 366	**48 847 085**

Cash and cash equivalents pledged as collateral

Total financial assets ceded to DBSA	3 050 600	3 050 600
There is a cession recorded against the account (FNB-71078484865) to this value. Refer to note regarding DBSA loans.		
FNB Guarantee	45 622	45 622
The municipality has a guarantee with FNB in favour of the Department of Mineral and Energy Affairs.		
Eskom Guarantee	1 024 929	1 024 929
The municipality has a guarantee with Eskom in favour of the Department of Minerals and Energy Affairs.		

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	**30 June 2017**	**30 June 2016**	**30 June 2018**	**30 June 2017**	**30 June 2016**
FIRST NATIONAL BANK General Account-Current	15 221 653	5 385 990	3 136 559	15 502 854	5 725 507	3 600 787
FIRST NATIONAL BANK Current Account-Housing	3 360 906	3 259 025	3 321 395	3 360 906	3 259 025	3 321 395
FIRST NATIONAL BANK Current Account - Revolving	846 787	370 302	300 847	834 554	370 302	300 847
FIRST NATIONAL BANK BALANCES	**25 237 291**	**15 433 603**	**11 727 875**	**25 237 291**	**15 433 603**	**11 727 875**
FIRST NATIONAL BANK CRR Call Accounts	18 973 259	9 169 571	5 463 843	18 973 259	9 169 571	5 463 843
FIRST NATIONAL BANK Fixed Deposit Account DBSA	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438
FIRST NATIONAL BANK Call Account - Eskom	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594
STANDARD BANK BALANCES	**13 487 721**	**13 563 249**	**1 998 318**	**13 487 721**	**13 563 249**	**1 998 776**
STANDARD BANK Notice Bank	169 590	163 510	153 685	169 590	163 510	153 685
STANDARD BANK Call Account - 004	-	41	1 290	-	41	1 290
STANDARD BANK Call Account - 003	7 709	431 308	28 332	7 709	431 308	28 790
STANDARD BANK Call Account - 006	-	331 026	1 140 011	-	331 026	1 140 011
STANDARD BANK Call Account - 007	2 011	4 433	675 000	2 011	4 433	675 000
STANDARD BANK Call Account - Fire Officer 008	454 612	278 971	-	454 612	278 971	-
STANDARD BANK Upgrade road 009	100 851	106 504	-	100 851	106 504	-
STANDARD BANK Bathurts Water 010	10 866	-	-	10 866	-	-
STANDARD BANK Bathurts Water 011	8 146	6 154	-	8 146	6 154	-
STANDARD BANK PMU 012	124 187	65	-	124 187	65	-
STANDARD BANK INEG 014	-	240 147	-	-	240 147	-
STANDARD BANK Upgrade Roads 015	136 811	11 820 713	-	136 811	11 820 713	-
STANDARD BANK LED Mobile 016	180 954	180 377	-	180 954	180 377	-
STANDARD BANK Equitable Share Councillors 017	1 522 253	-	-	1 522 253	-	-
STANDARD BANK Revolving Account 018	10 769 731	-	-	10 769 731	-	-
STANDARD BANK EPWP 019	-	-	-	-	-	-
INVESTEC BANK BALANCES	**5 832 645**	**10 490 189**	**10 401 018**	**5 832 645**	**10 490 189**	**10 400 673**
INVESTEC BANK Call Account - Intern 502	-	5 574 874	4 136 047	-	5 574 874	4 136 047
STANDARD BANK Call Account - FMG 503	489 348	-	345	489 348	-	-

6. Cash and cash equivalents (continued)

INVESTEC BANK Call account - Essential Oil 504	80 367	175 420	329 260	80 367	175 420	329 260
INVESTEC BANK Call account-Vuna 505	-	-	2 840	-	-	2 840
INVESTEC BANK Call account -Chicory 506	132 523	447 619	895 564	132 523	447 619	895 564
INVESTEC BANK Call Account-IDP Process 510	-	13 818	13 818	-	13 818	13 818
INVESTEC BANK Call Account-EC Sports 511	2 314 324	2 766 919	3 735 375	2 314 324	2 766 919	3 735 375
INVESTEC BANK Call Account -LG Seta 512	183 181	179 777	22 364	183 181	179 777	22 364
INVESTEC BANK EPWP 514	-	158 361	8 355	-	158 361	8 355
INVESTEC BANK LED Sec Ass 515	-	528	528	-	528	528
INVESTEC BANK MIG Sewer 517	-	-	824 243	-	-	824 243
INVESTEC BANK MIG Sport 518	-	-	17 733	-	-	17 733
INVESTEC BANK Call Acc-Water Cons Audit 521	-	-	192	-	-	192
INVESTEC BANK Call Account-PMU 522	-	-	6 640	-	-	6 640
INVESTEC BANK Call Account-PrepwaterMete523	1 105 805	707 348	188 464	1 105 805	707 348	188 464
INVESTEC BANK Call Account-LED Initia 524	19 971	44 629	52 082	19 971	44 629	52 082
INVESTEC BANK Call Account-Greenest Town525	-	-	167 168	-	-	167 168
INVESTEC BANK Call Account-Retention 526	422 699	420 896	-	422 699	420 896	-
INVESTEC BANK Call Account-DME 509	129 442	-	-	129 442	-	-
INVESTEC BANK Call Account-Disaster relief 529	954 985	-	-	954 985	-	-
Total	**63 987 003**	**48 502 358**	**30 886 012**	**64 255 971**	**48 841 875**	**31 350 353**

7. Operating lease asset & liabilities

	2018	2017
Current assets	371 317	315 334
Current liabilities	(29 726)	(73 649)
	341 591	**241 685**

Operating lease liabilities result from operating leases where the municipality is the lessee and have straight lined the rental expenditure over the period of the lease in accordance with GRAP 13.

Operating lease assets result from operating leases where the municipality is the lessor and have straight lined the rental income over the period of the lease in accordance with GRAP 13. Refer to note 38 for disclosure in terms of GRAP 13 future minimum cashflows.

8. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	186 405 896	-	186 405 896	190 844 903	(3 236 612)	187 608 291

Reconciliation of investment property - 2018

	Opening balance	**Disposals**	**Depreciation**	**Total**
Land	156 597 000	(26 000)	-	156 571 000
Buildings	31 011 291	-	(1 176 395)	29 834 896
	187 608 291	**(26 000)**	**(1 176 395)**	**186 405 896**

Reconciliation of investment property - 2017

	Opening balance	**Disposals**	**Depreciation**	**Total**
Land	157 280 000	(683 000)	-	156 597 000
Buildings	32 184 492	-	(1 173 201)	31 011 291
	189 464 492	**(683 000)**	**(1 173 201)**	**187 608 291**

Pledged as security

No Investment property has been pledged as security.

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

- None

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

- None

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Amounts recognised in surplus or deficit

	2018	2017
From Investment property that generated rental revenue		
Repairs and maintenance	-	4 120

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	82 260 691	-	82 260 691	82 260 691	-	82 260 691
Buildings	114 298 280	(36 118 606)	78 179 674	112 704 643	(33 090 516)	79 614 127
Plant and machinery	8 742 563	(6 361 765)	2 380 798	8 520 489	(5 200 185)	3 320 304
Motor vehicles	30 464 245	(21 053 267)	9 410 978	28 099 659	(18 101 767)	9 997 892
Office equipment	8 738 548	(6 019 984)	2 718 564	8 234 658	(5 259 628)	2 975 030
IT equipment	5 308 598	(4 015 809)	1 292 789	5 007 958	(3 417 381)	1 590 577
Electricity Network	145 531 548	(78 843 315)	66 688 233	144 251 964	(75 568 390)	68 683 574
Work in Progress	19 331 837	-	19 331 837	5 307 378	-	5 307 378
Roads	431 975 292	(267 233 391)	164 741 901	416 687 955	(258 279 163)	158 408 792
Wastewater network	180 837 194	(56 066 443)	124 770 751	180 837 194	(50 813 469)	130 023 725
Water network	181 275 321	(126 425 018)	54 850 303	181 275 321	(121 624 378)	59 650 943
Total	**1 208 764 117**	**(602 137 598)**	**606 626 519**	**1 173 187 910**	**(571 354 877)**	**601 833 033**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	WIP Transfer In/Out	Depreciation	Total
Land	82 260 691	-	-	-	-	82 260 691
Buildings	79 614 127	565 176	(598 792)	1 805 461	(3 206 298)	78 179 674
Plant and machinery	3 320 304	222 074	-	-	(1 161 580)	2 380 798
Motor vehicles	9 997 892	2 364 586	-	-	(2 951 500)	9 410 978
Office equipment	2 975 030	503 890	-	-	(760 356)	2 718 564
IT equipment	1 590 577	300 640	-	-	(598 428)	1 292 789
Electrical Network	68 683 574	1 279 584	-	-	(3 274 925)	66 688 233
Work in Progress	5 307 378	19 055 522	-	(5 031 063)	-	19 331 837
Roads	158 408 792	13 709 674	(89 653)	3 225 602	(10 512 514)	164 741 901
Wastewater network	130 023 725	-	-	-	(5 252 974)	124 770 751
Water network	59 650 943	-	-	-	(4 800 640)	54 850 303
	601 833 033	**38 001 146**	**(688 445)**	**-**	**(32 519 215)**	**606 626 519**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	WIP Transfer In/Out	Depreciation	Impairment loss	Total
Land	82 260 691	-	-	-	-	-	82 260 691
Buildings	74 241 880	1 855 198	-	6 566 481	(3 049 432)	-	79 614 127
Plant and machinery	4 423 013	150 699	(164 539)	-	(1 088 869)	-	3 320 304
Motor vehicles	8 593 615	4 265 468	(615 527)	-	(2 245 664)	-	9 997 892
Office equipment	1 945 044	1 648 494	(28 139)	-	(590 369)	-	2 975 030
IT equipment	1 203 879	838 604	(13 790)	-	(438 116)	-	1 590 577
Electricity Network	66 498 961	4 824 561	-	877 193	(3 517 141)	-	68 683 574
Work in Progress	46 148 168	27 381 410	-	(68 222 200)	-	-	5 307 378
Roads	152 587 667	-	(209 714)	16 571 484	(10 540 645)	-	158 408 792
Wastewater network	115 090 452	-	(288 393)	21 078 059	(5 171 431)	(684 962)	130 023 725
Water network	44 721 526	-	(19 826)	23 128 983	(8 179 740)	-	59 650 943
	597 714 896	**40 964 434**	**(1 339 928)**	**-**	**(34 821 407)**	**(684 962)**	**601 833 033**

Pledged as security

No assets have been pledged as security.

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Buildings	Included within Electricity	Included within Roads	Included within Wastewater Network	Included within Water network	Total
Opening balance	2 025 082	-	3 282 296	-	-	5 307 378
Additions/capital expenditure	3 591 999	-	1 178 746	-	14 284 776	19 055 521
Transferred to completed items	(1 805 461)	-	(3 225 602)	-	-	(5 031 063)
	3 811 620	**-**	**1 235 440**	**-**	**14 284 776**	**19 331 836**

Reconciliation of Work-in-Progress 2017

	Included within Buildings	Included within Electricity	Included within Roads	Included within Wastewater Network	Included within Water Network	Total
Opening balance	6 786 102	877 193	213 491	18 621 919	19 649 463	46 148 168
Additions/capital expenditure	1 805 461	-	19 640 289	2 456 140	3 479 520	27 381 410
Transferred to completed items	(6 566 481)	(877 193)	(16 571 484)	(21 078 059)	(23 128 983)	(68 222 200)
	2 025 082	**-**	**3 282 296**	**-**	**-**	**5 307 378**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	-	8 719 137
Repairs and Maintenance	9 625 051	5 518 211
	9 625 051	**14 237 348**

Repairs and Maintenance relating to Property, Plant and Equipment.

9. Property, plant and equipment (continued)

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

10. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	2 431 908	-	2 431 908	3 320 553	(1 000 747)	2 319 806

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Total
Computer software, other	2 319 806	112 102	2 431 908

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	300 736	2 534 700	(515 630)	2 319 806

11. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Conservation areas	16	-	16	16	-	16

Reconciliation of heritage assets 2018

	Opening balance	Total
Conservation areas	16	16

Reconciliation of heritage assets 2017

	Opening balance	Total
Conservation areas	16	16

Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation:
Haritage assets all are of considerable age as they mostly relate to remains of old infrastructure, such as the pier, mooring posts and parts of ship wrecks. These have ages between 60 - 150 years.

11. Heritage assets (continued)

Restrictions on heritage assets

The heritage assets, disclosed below have restrictions in terms of their disposal due to the fact that they are registered with the National Heritage Council and therefore cannot and will not be disposed of in the course of operations of the municipality.

Carrying value of heritage assets with restrictions:

	2018	2017
Conservation areas	16	16
Disposal restrictions due to registration at National Heritage Council		

12. Other financial assets

	2018	2017
Designated at fair value		
Listed shares	147 626	119 181
Old Mutual shares held at fair value determined as the quoted market value.		
Non-current assets		
Designated at fair value	147 626	119 181

13. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	10 463 959	10 463 959
Other receivables from non-exchange transactions	-	12 488 135	12 488 135
Cash and cash equivalents	-	64 263 366	64 263 366
Other financial asset	147 626	-	147 626
	147 626	**87 215 460**	**87 363 086**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	46 242 007	46 242 007
Financial Liabilities - DBSA	12 197 630	12 197 630
	58 439 637	**58 439 637**

2017

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	10 242 236	10 242 236
Other receivables from non-exchange transactions	-	9 006 989	9 006 989
Cash and cash equivalents	-	48 847 085	48 847 085
Other financial assets	119 181	-	119 181
	119 181	**68 096 310**	**68 215 491**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	42 461 116	42 461 116
Financial liabilities - DBSA	13 914 808	13 914 808
	56 375 924	**56 375 924**

14. Consumer deposits

Electricity	1 602 105	1 547 045
Water	397 054	336 756
	1 999 159	**1 883 801**

15. Payables from exchange transactions

Trade payables	6 929 338	9 686 305
Payments received in advanced	3 356 609	2 128 684
Accrued leave pay	5 829 749	5 010 675
Accrued bonus	2 874 021	2 477 100
Accrued expense	12 084 257	8 512 134
Deposits received	805 556	797 685
Other payables	20 339	33 063
Unidentified direct deposits	2 407 047	1 824 070
Retention monies	2 450 897	1 623 420
SALA Pension Fund	325 965	1 263 661
Human Settlements	3 360 906	3 259 025
SAMWU Pension Fund	4 545 561	4 545 561
Overtime Accrual	644 378	692 349
DWAF - ACIP	607 384	607 384
	46 242 007	**42 461 116**

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
IDC Chicory	112 623	360 188
MIG	-	11 717 012
MSIG	41	41
Department of Environmental Affairs	-	210 858
Municipal Disaster Grant	919 159	-
EC Sports, Arts and Culture	1 783 788	2 081 257
LG SETA	49 735	49 735
SBDM: Fire Officers	328 931	273 071
DME	2 967	2 967
EPWP: Public Works	3 264	3 264
FMG	221	1 660
SBDM LED Grants	39 064	229 306
	3 239 793	**14 929 359**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

16. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	14 929 359	6 423 625
Additions during the year	32 885 000	53 744 093
Income recognition during the year	(44 574 566)	(45 238 359)
	3 239 793	**14 929 359**

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

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

See note 26 for reconciliation of grants from National/Provincial Government.

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

17. VAT payable

Tax payable	12 987 977	5 824 272

18. Financial liabilities - DBSA

At amortised cost		
DBSA Loan 101161/2 20 years @ 10.89%	4 891 445	5 316 323
DBSA Loan 13478/101 20 years @ 17%	1 800 499	2 338 729
DBSA Loan 102557/1 15 years @ 8.81%	5 505 686	6 259 756
	12 197 630	**13 914 808**

Non-current liabilities		
At amortised cost	10 266 132	12 186 579
Current liabilities		
At amortised cost	1 931 498	1 728 229

19. Employee benefit obligations

Defined benefit plan

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement medical aid plan

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(60 823 620)	(60 848 841)
Benefits paid during the year	2 335 495	2 108 094
Current Service Costs	(3 236 055)	(3 402 284)
Interests Costs	(6 401 589)	(5 447 924)
Actuarial Gain/(Loss)	5 826 281	6 767 335
Present value of the defined benefit obligation-wholly unfunded	**(62 299 488)**	**(60 823 620)**
Non-current liabilities	(59 971 688)	(58 832 239)
Current liabilities	(2 327 800)	(1 991 381)
	(62 299 488)	**(60 823 620)**

The municipality's best estimate of the contributions expected to be paid to the plan after reporting date is -
2018: R 2 327 800 (2017: R 1 991 381)

Net expense recognised in the statement of financial performance

Current service cost	3 236 055	3 402 284
Interest cost	6 401 589	5 447 924
Actuarial (gains)/ losses	6 139 216	(6 767 335)
Benefits paid	(2 335 495)	(2 108 094)
	13 441 365	**(25 221)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.59 %	10.70 %
Expected rate of return on assets (Net discount rate)	2.05 %	1.44 %
Expected rate of return on reimbursement rights	7.39 %	9.13 %
Actual return on reimbursement rights	2.05 %	1.44 %
Average retirement age (Years)	63	63

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on defined benefit obligation - movement in health care inflation	72 214 000	54 225 000
Effect of Interest costs	5 644 700	6 094 900
Effect on Service costs	2 655 000	3 918 900

Amounts for the current and previous four years are as follows:

	2018	**2017**	**2016**	**2015**	**2014**
Defined benefit obligation	(62 299 488)	(60 823 620)	(60 848 841)	(49 365 000)	(47 694 000)

20. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Fair value Adjustment	Current service costs	Interest costs/Unwinding of interest	Benefits paid	Actuarial (gain)/loss	Total
Environmental rehabilitation	28 998 840	2 128 479	-	3 044 879	-	-	34 172 198
Long service awards	6 266 372	-	635 756	499 437	(371 689)	(751 478)	6 278 398
	35 265 212	**2 128 479**	**635 756**	**3 544 316**	**(371 689)**	**(751 478)**	**40 450 596**

Reconciliation of provisions - 2017

	Opening Balance	Fair value Adjustment	Current service costs	Interest costs/Unwinding of interest	Benefits paid	Actuarial (gain)/loss	Total
Environmental rehabilitation	25 859 842	2 715 283	-	423 715	-	-	28 998 840
Long service awards	5 545 291	-	699 643	433 922	(851 089)	438 605	6 266 372
	31 405 133	**2 715 283**	**699 643**	**857 637**	**(851 089)**	**438 605**	**35 265 212**

Non-current liabilities	28 067 116	23 456 722
- Environmental rehabilitation	22 499 623	17 957 792
- Long service awards	5 567 493	5 498 930
Current liabilities	12 383 480	11 808 490
- Environmental rehabilitation	11 672 575	11 041 048
- Long service awards	710 905	767 442
	40 450 596	**35 265 212**

Environmental rehabilitation provision

Ndlambe Municipality operates 10 landfill sites which by law will have to be permitted and closed in accordance with the "Minimum Requirements" and in accordance with the Environment Conservation Act. (Act no.73 of 1989) Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Figures in Rand	2018	2017

20. Provisions (continued)

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes. During the prior year there has been a court order to affect the closure of the Bushmens' landfill site, thereby directly affecting the provision estimation as the closure is now projected within the timeframes set out by the court ruling.

Long service awards

Ndlambe Municipality offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the individual employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of a percentage of their annual salaries as well as additional leave days to employees at the end of the specified time period.

21. Revenue

	2018	2017
Burial services	237 937	221 306
Service charges	120 775 049	111 487 289
Rental of facilities and equipment	811 545	719 955
Interest received - trade and other receivables	7 510 126	6 728 717
Licences and permits	4 358 794	3 812 172
Housing debtor income	1 202 456	773 119
Other income	2 629 936	2 657 468
Interest received - investment	4 327 640	3 085 525
Property rates	90 227 756	83 109 186
Government grants & subsidies	128 265 202	130 467 351
Public contributions and donations	70 734	2 863 247
Fines, Penalties and Forfeits	434 970	470 290
	360 852 145	**346 395 625**

	2018	2017
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	120 775 049	111 487 289
Burial services	237 937	221 306
Rental of facilities and equipment	811 545	719 955
Interest received - investment	7 510 126	6 728 717
Licences and permits	4 358 794	3 812 172
Housing debtor income	1 202 456	773 119
Other income	2 629 936	2 657 468
Interest received - investment	4 327 640	3 085 525
	141 853 483	**129 485 551**

	2018	2017
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	90 227 756	83 109 186
Transfer revenue		
Government grants & subsidies	128 265 202	130 467 351
Public contributions and donations	70 734	2 863 247
Fines, Penalties and Forfeits	434 970	470 290
	218 998 662	**216 910 074**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Service charges

Sale of electricity	60 132 495	57 185 871
Sale of water	33 588 037	31 736 994
Solid waste	16 866 293	13 996 570
Sewerage and sanitation charges	10 188 224	8 550 045
Other service charges	-	17 809
	120 775 049	**111 487 289**

23. Other income

Admission fees	-	28 734
Building plan fees	1 327 331	1 188 825
Encroachments	1 558	2 548
Event application fees	-	20 738
Sundry fees	-	(178 810)
Insurance claim refund	406 982	307 191
Refuse bag sales	7 553	10 537
Sundry income	528 041	641 467
Subdivisions	3 499	20 811
Town planning income	20 064	249 411
Valuation rolls	8 071	37 576
Camping fees	326 837	328 440
	2 629 936	**2 657 468**

24. Investment revenue

Interest revenue

Bank	4 327 640	3 085 525

25. Property rates

Rates received

Property rates	90 227 756	83 109 186

Valuations

All	12 978 387 519	12 422 774 899

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

Rates are levied on a monthly basis.

26. Government grants and subsidies

Figures in Rand	2018	2017
Operating grants		
Unconditional: Equitable share	78 151 000	73 025 000
Unconditional: Equitable share: Cllrs & Ward Contribution	3 927 000	3 799 000
Financial Management Grant	1 901 439	1 707 565
LGSETA Grants	-	173 630
Municipal Infrastructure Grant	-	1 302 700
Environmental Health Subsidy	1 312 633	1 448 686
Chicory Grants	367 566	494 266
Library Grant (DESRAC)	3 047 470	3 990 253
Accelerated Community Infrastructure Programme	-	8 713 935
Sarah Baartman District Municipality (SBDM) LED Grants	190 242	673 969
Disaster Management Grant	30 841	-
Department of Environmental Affairs	210 858	1 919 481
SBM Unconditional Grant Revenue	300 000	8 000
	89 439 049	**97 256 485**
Capital grants		
Financial Management Grant (Capital)	-	115 775
Sarah Baartman District Mun(SBDM) Fire Grants(Capital)	294 140	990 928
EC Economic Ndlambe Wastewater	-	778 790
Municipal Infrastructure Grant (Capital)	36 432 013	8 936 096
Integrated National Elect Grant (INEG)(Capital)	1 100 000	5 497 539
Library Grant (DESRAC) (Capital)	-	113 745
Disaster Floods Grant (Capital)	-	15 781 250
Expanded Public Works Prog Grant (EPWP) (Capital)	1 000 000	996 743
	38 826 153	**33 210 866**
	128 265 202	**130 467 351**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	31 885 000	53 744 093
Unconditional grants received	82 378 000	76 832 000
	114 263 000	**130 576 093**

Equitable Share

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

IDC Chicory - LED

Balance unspent at beginning of year	360 188	854 454
Current-year receipts	120 000	-
Conditions met - transferred to revenue	(367 565)	(494 266)
	112 623	**360 188**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2018	2017

26. Government grants and subsidies (continued)

MIG

Balance unspent at beginning of year	11 717 012	-
Current-year receipts	24 715 000	38 054 000
Conditions met - transferred to revenue	(36 432 012)	(26 020 046)
Retentions	-	(316 942)
	-	**11 717 012**

Conditions still to be met - remain liabilities (see note 16).

MSIG

Balance unspent at beginning of year	41	41

Conditions still to be met - remain liabilities (see note 16).

Department of Environmental Affairs

Balance unspent at beginning of year	210 858	1 390 129
Current-year receipts	-	1 519 000
Conditions met - transferred to revenue	(210 858)	(2 698 271)
	-	**210 858**

Conditions still to be met - remain liabilities (see note 16).

The disclosure of Department of Environmental Affairs Grants have been combined in line with the nature of the funder - this was previously disclosed seperately as Ndlambe Waste Management and LED: Essential Oils.

Disaster Management Grant

Current-year receipts	950 000	-
Conditions met - transferred to revenue	(30 841)	-
	919 159	**-**

Conditions still to be met - remain liabilities (see note 16).

EC Sports/Arts and Culture

Balance unspent at beginning of year	2 081 257	3 435 256
Current-year receipts	2 750 000	2 750 000
Conditions met - transferred to revenue	(3 047 469)	(4 103 999)
	1 783 788	**2 081 257**

Conditions still to be met - remain liabilities (see note 16).

LG SETA

Balance unspent at beginning of year	49 735	19 957
Current-year receipts	-	203 407
Conditions met - transferred to revenue	-	(173 629)
	49 735	**49 735**

Conditions still to be met - remain liabilities (see note 16).

Figures in Rand	2018	2017

26. Government grants and subsidies (continued)

SBDM: Fire Officers

	2018	2017
Balance unspent at beginning of year	273 071	-
Current-year receipts	350 000	1 264 000
Conditions met - transferred to revenue	(294 140)	(990 929)
	328 931	**273 071**

Conditions still to be met - remain liabilities (see note 16).

DME

	2018	2017
Balance unspent at beginning of year	2 967	506
Current-year receipts	1 100 000	5 500 000
Conditions met - transferred to revenue	(1 100 000)	(5 497 539)
	2 967	**2 967**

Conditions still to be met - remain liabilities (see note 16).

EPWP: Public Works

	2018	2017
Balance unspent at beginning of year	3 264	7
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(996 743)
	3 264	**3 264**

Conditions still to be met - remain liabilities (see note 16).

FMG

	2018	2017
Balance unspent at beginning of year	1 660	-
Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 901 439)	(1 823 340)
	221	**1 660**

Conditions still to be met - remain liabilities (see note 16).

SBDM LED Grants

	2018	2017
Balance unspent at beginning of year	229 306	723 275
Current-year receipts	-	180 000
Conditions met - transferred to revenue	(190 242)	(673 969)
	39 064	**229 306**

Conditions still to be met - remain liabilities (see note 16).

The disclosure of SBDM LED Grants have been combined in line with their nature - this was previously disclosed LED Kapriver, LED:Initiative, SBDM: IDP Dev Support and SBDM: LED Mobile Project.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Public contributions and donations

Nelson Mandela Bay Municipality - in-kind donation	-	2 863 247
Standard Bank - donation	19 900	-
DSRAC - Laptops	50 834	-
	70 734	**2 863 247**

During the current financial year, Standard Bank donated R19 900 in cash towards groceries for the elderly.
During the current financial year, DSRAC donated laptops in-kind to the value of R50 834 for library use.

During the previous financial year the Nelson Mandela Bay Municipality donated 2 fire trucks along with 2-way radios. The donation was recognised at its fair value.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

28. Employee related costs

Basic & 13th Cheque	75 099 907	72 148 748
Allowances	3 205 040	3 996 189
Post-employment benefits	15 025 043	13 570 895
Medical aid - employer contributions	8 941 844	8 432 080
UIF	755 825	739 652
WCA	490 339	850 883
SDL	1 019 217	931 208
Leave pay provision charge	214 651	321 665
Overtime payments	9 124 894	10 378 947
Car allowance	2 170 815	2 683 744
Housing benefits and allowances	869 950	1 043 648
Group Insurance	217 870	432 967
Industrial levy	47 392	44 429
Casuals	4 373 860	3 731 849
	121 556 647	**119 306 904**

Remuneration of Municipal Manager

Annual Remuneration	869 902	926 924
Car Allowance	175 986	175 986
Performance Bonuses	38 196	90 419
Contributions to UIF, Medical and Pension Funds	207 608	82 898
Telephone allowance	15 535	15 535
13th Cheque	71 489	46 047
Leave pay	80 326	59 154
	1 459 042	**1 396 963**

Remuneration of Chief Finance Officer

Annual Remuneration	575 658	554 515
Car Allowance	165 000	126 894
Performance Bonuses	-	38 847
Contributions to UIF, Medical and Pension Funds	170 300	155 067
Telephone Allowance	22 000	14 947
13th Cheque	20 630	71 113
Leave pay	32 663	56 976
	986 251	**1 018 359**

Remuneration of Director Infrastructural Development

Annual Remuneration	611 664	613 734
Car Allowance	204 000	214 903
Performance Bonuses	29 635	35 118
Contributions to UIF, Medical and Pension Funds	138 092	144 444
Telephone Allowance	36 000	34 935
13th Cheque	50 403	47 407
Leave pay	-	22 261
	1 069 794	**1 112 802**

Figures in Rand	2018	2017

28. Employee related costs (continued)

Remuneration of Director Corporate Services

Annual Remuneration	662 050	752 252
Car Allowance	132 000	144 000
Performance Bonuses	19 756	35 034
Contributions to UIF, Medical and Pension Funds	193 675	193 206
Telephone Allowance	11 000	12 000
13th Cheque	27 013	85 793
Leave pay	27 576	78 742
	1 073 070	**1 301 027**

Remuneration of Director Community Protection Services

Annual Remuneration	600 216	495 570
Car Allowance	180 000	138 387
Performance Bonuses	29 635	34 962
Contributions to UIF, Medical and Pension Funds	206 334	146 804
Telephone Allowance	24 000	18 452
13th Cheque	39 110	51 972
Leave pay	37 038	44 498
	1 116 333	**930 645**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Remuneration of councillors

Councillors (refer to table below)	6 868 824	6 050 938

Councillors - Existing Council

Mayor	835 329	702 999
Speaker	489 184	298 582
Executive Member: T Mazana	373 846	299 948
Executive Member: N Xhasa	373 204	299 948
Executive Member: LR Schenk	373 846	298 434
T.M Mbunge	361 762	290 188
N. Ngamlashe	291 807	228 912
A. Nqqosha	292 717	231 748
C.B James	292 474	231 748
A.L Marasi	291 807	231 360
M. Raco	292 717	231 748
J.P Guest	292 717	232 915
M.W Yali	292 231	231 541
M.E Njibana	291 807	231 748
M.Mateti	291 807	231 444
J.M Cowley	-	68 314
K.Daweti	292 312	232 915
P.Y Kani	292 717	231 748
GG Cannon	-	186 603
L. Shahzad	292 717	231 748
S. Venene	292 773	144 274
T Mbekela	292 321	-
	6 900 095	**5 368 865**

Councillors - Previous Council

Mayor		87 684
Speaker		58 740
Executive Member: S.B Funde		35 694
Executive Member: M. Mateti		36 916
Executive Member: L.R Schenk		36 926
K.C Ncamiso		33 458
G.G Cannon		27 482
T.L.E Khoatani		27 472
Z. Ngxingo		27 472
N.T Donile		27 482
J.P Guest		27 482
T. Mazana		27 482
J.M Cowley		27 482
M.J Tarentaal		26 969
S. Venene		27 226
N Xhasa		27 482
C Meterlekamp		27 482
P.P Faxi		27 523
M.E Msimang		26 475
K. Daweti		27 482
		672 411

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Remuneration of councillors (continued)

Benefits/Tools of Trade

The Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

The Mayor is allocated the use of a Council owned vehicle for official duties.

30. Depreciation and amortisation

Property, plant and equipment	32 519 216	35 337 009
Investment property	1 176 395	1 173 201
	33 695 611	**36 510 210**

31. Finance costs

Non-current borrowings	1 507 849	1 694 965

32. Debt impairment

Contributions to debt impairment provision	27 940 603	40 549 192

33. Bulk purchases

Electricity	45 190 378	41 613 435
Water	9 316 650	11 128 452
	54 507 028	**52 741 887**

Figures in Rand	2018	2017

34. General expenses

Advertising	496 177	309 567
Auditors remuneration	4 360 387	3 353 515
Bank charges	414 030	372 034
Boat decals	18 239	10 400
Bursaries	188 064	133 236
Campaigns	-	162 487
Chemicals	896 546	1 287 426
Commission paid	1 393 289	1 550 239
Communication Programmes	-	32 190
Consulting and professional fees	493 875	935 215
Donations	-	181 178
Election expenses	-	81 218
Electricity	4 868 865	7 846 149
Entertainment	11 600	97 964
Environmental levy expense	-	1 412 245
Flowers	-	694
Fuel and oil	4 417 716	4 896 717
Hire	2 633 159	1 255 251
IT expenses	3 171 170	49 934
Insurance	1 911 048	1 799 607
Job creation	-	778 143
LED SMME Support	436 915	544 341
Motor vehicle expenses	-	276 022
Operating grant expenditure	-	4 577
Other expenses	1 472 592	3 283 275
Postage and courier	1 042 634	1 182 620
Printing and stationery	257 055	369 662
Refuse	-	46 148
Security (Guarding of municipal property)	2 983 299	2 046 193
Special Programmes	-	256 916
Staff welfare	-	9 455
Subscriptions and membership fees	1 283 733	1 271 987
Telephone and fax	3 458 381	2 761 700
Tourism development	58 000	516 755
Training	1 000 779	838 299
Transport (Workshop)	-	85 195
Transport and freight	243 855	24 773
Travel - local	2 481 346	1 942 372
Uniforms	1 128 442	1 465 654
Valuation expense	94 850	140 526
Ward Committee fees	-	176 437
Water Services authority expenditure	-	72 896
Water Testing	83 836	25 777
	41 299 882	**43 886 989**

35. Fair value adjustments

Other financial assets		
• Old Mutual Shares	28 445	(22 344)
• FV adjustment to Landfill rehabilitation provision	(5 173 357)	(3 138 998)
	(5 144 912)	**(3 161 342)**

36. Auditors' remuneration

Fees	4 360 387	3 353 515

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. Cash generated from operations

Surplus	18 767 826	461 989
Adjustments for:		
Depreciation and amortisation	33 695 611	36 510 210
Gain on sale of assets and liabilities	262 734	2 022 928
Fair value adjustments	5 144 912	3 161 342
Impairment deficit	-	684 962
Debt impairment	27 940 603	40 549 192
Movements in retirement benefit assets and liabilities	1 475 868	(25 221)
Movements in provisions	40 472	698 737
Receipt of assets - Non- Exchange	(70 734)	(2 863 247)
Changes in working capital:		
Inventories	(130 596)	181 771
Receivables from exchange transactions	(21 390 920)	(20 282 051)
Receivables from non-exchange transactions	(10 252 519)	(5 976 824)
Other receivables	(84 428)	61 447
Payables from exchange transactions	3 780 891	(3 330 205)
VAT	7 163 705	(400 271)
Unspent conditional grants and receipts	(11 689 566)	8 486 215
Consumer deposits	115 358	134 500
Lease liability asset	(43 923)	18 515
	54 725 294	**60 093 989**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	8 169 897	11 628 421
Total capital commitments		
Already contracted for but not provided for	8 169 897	11 628 421

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.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	325 883	875 332
- in second to fifth year inclusive	78 360	404 243
	404 243	**1 279 575**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	280 485	907 985
- in second to fifth year inclusive	658 254	1 151 023
- later than five years	21 122	189 292
	959 861	**2 248 300**

Certain of the municipality's property is held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 20 years. There are no contingent rents receivable.

39. Contingencies

Campbell and Shelton vs Ndlambe LM- The claimant has instituted procedings to suspend all approvals for building development on wetland area in Port Alfred. The financial effect of this cannot be determined.

KOSRA, Bushmans Kariega Estuary Care Management Forum & Natures Landing Homeowners Association vs Ndlambe LM - Legal procedings have been instituted against the municipality regarding the state of the landfill site at Bushmans and to put measures in place to rectify the state of the landfill. The financial effect of this cannot be estimated as the financial claim has not been made.

Agri EC vs Ndlambe Municipality & others - Agric EC has taken Ndlambe Municipality to court to force the municipality to apply its by-laws. This matter is ongoing, but as a financial claim was not made, the financial effect cannot be estimated.

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2018 cannot be determined reliably.

Figures in Rand	2018	2017

40. Related parties

Related party balances

Receivables		
Department of Roads and Public Works	197 183	401 287
National Department of Roads and Public Works	1 254 534	833 411
Department of Health	127 540	312 571
Department of Rural Development and Agrarian reform	12 113	9 855
Department of Education	142 474	1 034 752
Department of Rural Development and Land reform	606 418	406 454

Related party transactions

Revenue		
Department of Health	692 246	977 537
Provincial Department of Roads and Public Works	2 007 115	1 851 482
National Department of Roads and Public Works	1 589 125	1 536 135
Department of Education	837 276	715 795
Department of Rural Development and Agrarian reform	122 738	107 223
Department of Rural development and Land Reform	199 964	133 243

41. Prior period errors

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

2017 Closing balance / 2018 Opening balances:

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from Non-exchange Transactions	16 075 795	(7 068 806)	9 006 989	1
Receivables from Exchange Transactions	20 970 597	(10 728 361)	10 242 236	2
Payables	(41 429 624)	(1 031 492)	(42 461 116)	3
VAT Payable	(4 584 121)	(1 240 152)	(5 824 273)	4
Accumulated surplus	(705 727 550)	1 667 347	(704 060 203)	5
	(714 694 903)	**(18 401 464)**	**(733 096 367)**	-

1 - Receivables from Non-Exchange transactions - Statement of Financial Position	
Previously reported 2017 balance	16 075 795
Billing corrections for periods prior to 2016	202 126
Correction in Provision for Doubtful debts 2017	(7 270 932)
Restated 2017 Closing balance	**9 006 989**

2 - Receivables from exchange transactions - Statement of Financial Position	
Previously reported 2017 balance	20 970 597
Billing corrections for periods prior to 2016	402 171
Correction in Provision for Doubtful debts 2017	(11 130 532)
Restated 2017 Closing balance	**10 242 236**

3 - Payables - Statement of Financial Position	
Previously reported 2017 balance	(41 429 624)
Understatement of accruals at year end 2017	(1 031 492)
Restated 2017 Closing Balance	**(42 461 116)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

41. Prior period errors (continued)

4 - VAT Payable - Statement of Financial Position	
Previously reported 2017 balance	(4 584 121)
VAT Correction 2016	(1 240 152)
Restated 2017 Closing balance	**(5 824 273)**

5 - Accumulated Surplus - Statement of Financial Position	
Previously reported 2017 Opening balance	(685 832 605)
Effect of opening balance corrections relating to -	635 855
Billing corrections - Receivables from non-exchange transactions	(202 126)
Billing corrections - Receivables from exchange transactions	(402 171)
VAT Correction 2016	1 240 152
RESTATED 2016/17 OPENING BALANCE	(685 196 750)
	-
RESTATED 2016/17 (Surplus)/Deficit	(461 988)
Previously reported deficit	(19 894 944)
Net corrections as per 2016/17 Statement of Financial Performance (see below)	19 432 956
	-
RESTATED 2016/17 CLOSING BALANCE	**(685 658 738)**

	2017 Comparative restatements			
Statement of Financial Performance	Previously reported	Adjustment DT/(CT)	As restated	Reference
REVENUE				
EXPENDITURE				
Debt Impairment	(22 147 729)	18 401 463	(40 549 192)	i
Contracted Services	(17 910 322)	572 361	(18 482 683)	ii
General Expenses	(43 667 815)	459 131	(44 126 946)	iii
	(83 725 866)	**19 432 955**	**(103 158 821)**	

41. Prior period errors (continued)

	2017
i) Debt Impairment - Statement of Financial Performance	
As previously reported	(22 147 729)
Increase in impairment of doubtful debts	(18 401 463)
	(40 549 192)

	2017
ii) Contracted services - Statement of Financial Performance	
As previously reported	(17 910 322)
Understatement of accruals at year end 2016	(572 361)
	(18 482 683)

	2017
iii) General Expenses - Statement of Financial Performance	
As previously reported	(43 667 815)
Additional 2016/17 accruals	(459 131)
	(44 126 946)

The adjustment to the irregular expenditure in the prior periods are as a result of additional irregular expenditure identified during 2016/17 relating to 2014/15 and 2015/16 after an extensive review process.

Cash flow statement

	As previously reported	Adjustment	Corrected Figures
Cash flow from operating activities			
Receipts			
Rates and Services	172 671 241	19 519	172 690 760
Government grants and Subsidies	130 467 350	-	130 467 350
Interest Income	9 814 242	-	9 814 242
Other receipts	3 900 877	-	3 900 877
Payments			
Employee costs	(124 928 287)	(429 555)	(125 357 842)
Suppliers	(130 135 475)	409 042	(129 726 433)
Finance costs	(1 694 965)	-	(1 694 965)
	60 094 983	**(994)**	**60 093 989**
Cash flow from investing activities			
Purchase of property, plant and equipment	(38 102 182)	995	(38 101 187)
Purchase of other intangible assets	(2 534 700)	-	(2 534 700)
	-	-	-
	(40 636 882)	**995**	**(40 635 887)**
Cash flow from financing activities			
Movement in Long term Liabilities	(1 966 579)	(3)	(1 966 582)
	(1 966 579)	**(3)**	**(1 966 582)**

The cash flow restatement above details the movements between the previously reported Cash Flow Statement and the restated 2016/17 comparative figures. The reason for the adjustments are due to the individual errors as detailed in note 41 .

41. Prior period errors (continued)

42. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

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

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

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

Credit risk

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

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

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2018**	**2017**
Receivables from non-exchange transactions	12 488 135	9 006 989
Receivables from exchange transactions	10 463 959	10 242 236
Cash and cash equivalents	64 263 366	48 847 085
Other financial assets	147 626	119 181

The municipality is holds deposits of R1 999 159 (2017: R1 883 801) from consumer deposits. No guarantees of collateral was provided to third parties.

42. Risk management (continued)

Market risk

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings are all issued at fixed rates which means that the municipality is not exposed to interest rate risk, as any change in interest rates will not affect the repayment terms of the long term liabilities. During 2017 and 2018, the municipality had no borrowings at variable rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality is however exposed to credit interest rate risk relating to repayment of interest bearing loans resulting in cash outflow as detailed below.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables		46 242 007	-	-	-	-
Financial Liabilities - DBSA Loans	8.8 % - 17 %	3 198 595	3 198 595	3 198 595	3 198 595	3 619 333

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

The municipality's investments in equity of other entities that are publicly traded and are included in on the JSE.

43. Going concern

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

44. Events after the reporting date

No adjusting events after the reporting date have been identified.

45. Unauthorised expenditure

	2018	2017
Opening balance	116 716 941	73 465 843
Unauthorised expenditure incurred during the year	46 720 194	43 251 098
	163 437 135	**116 716 941**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

45. Unauthorised expenditure (continued)

EXPENDITURE PER VOTE	2018 Actual	2018 Budget	2018 Variance	2018 Unauthorised
EXECUTIVE AND COUNCIL	14 777 874	10 959 022	3 818 852	3 818 852
MUNICIPAL MANAGER	13 554 846	16 165 222	(2 610 376)	-
FINANCE BUDGET AND TREASURY	50 561 531	39 889 088	10 672 443	10 672 443
FINANCE - SUPPLY CHAIN	1 533 713	2 753 452	(1 219 739)	-
CORPORATE SERVICES	18 393 409	19 715 544	(1 322 135)	-
WASTE MANAGEMENT	18 760 918	12 608 755	6 152 163	6 152 163
COMMUNITY AND SOCIAL SERVICES	37 105 278	42 114 056	(5 008 778)	-
HOUSING	7 933 830	10 743 321	(2 809 491)	-
ELECTRICITY	69 128 543	56 170 884	12 957 659	12 957 659
WATER	29 793 526	30 745 259	(951 733)	-
WASTE WATER MANAGEMENT	15 633 926	10 893 304	4 740 622	4 740 622
TECHNICAL	64 906 932	56 528 477	8 378 455	8 378 455
	342 084 326	**309 286 384**	**32 797 942**	**46 720 194**

EXPENDITURE PER VOTE	2017 Actual	2017 Budget	2017 Variance	2017 Unauthorised
EXECUTIVE AND COUNCIL	60 440 760	35 604 952	24 835 808	24 835 808
MUNICIPAL MANAGER	10 747 250	14 344 993	(3 597 743)	-
FINANCE BUDGET AND TREASURY	18 069 131	20 900 627	(2 831 496)	-
FINANCE - SUPPLY CHAIN	1 473 614	2 100 971	(627 357)	-
CORPORATE SERVICES	13 763 111	13 627 923	135 188	135 188
WASTE MANAGEMENT	17 174 488	17 871 255	(696 767)	-
COMMUNITY AND SOCIAL SERVICES	33 130 005	39 525 506	(6 395 501)	-
HOUSING	6 655 440	9 319 942	(2 664 502)	-
ELECTRICITY	65 100 368	62 423 785	2 676 583	2 676 583
WATER	36 250 809	32 801 986	3 448 823	3 448 823
WASTE WATER MANAGEMENT	18 547 176	12 799 147	5 748 029	5 748 029
TECHNICAL	64 581 485	58 174 818	6 406 667	6 406 667
	345 933 637	**319 495 905**	**26 437 732**	**43 251 098**

The above unauthorised expenditure has been calculated on the determination of a "vote" as defined the MFMA which states - "vote" means -
(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Note that the Unauthorised expenditure of R24 134 821 was previously reported for 2017 unauthorised expenditure. This amount has been restated according to the above calculation.(overspending on the individual votes).

46. Fruitless and wasteful expenditure

	2018	2017
Opening balance	367 808	145 928
Fruitless and wasteful expenditure - current year	14 220	221 880
	382 028	**367 808**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

47. Irregular expenditure

Opening balance	368 591 883	284 562 974
Add: Irregular Expenditure - current year	72 457 049	84 028 909
	441 048 932	**368 591 883**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Supply Chain Management Regulation and/or Policy deviations	Items have been referred to MPAC for investigation and the need for criminal procedings to be determined	72 457 049
- Lack of supporting documentation - Deviations not in accordance with S36 of SCM regulations	Goods and/or services were received in all instances and none of the payments were made in vain.	-
		72 457 049

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 351 297	1 104 116
Current year subscription / fee	1 362 801	1 402 011
Amount paid - current year	(1 385 024)	(1 154 830)
	1 329 074	**1 351 297**

Audit fees

Opening balance	26 842	18 530
Current year expenditure	4 820 912	3 720 909
Amount paid - current year	(4 810 515)	(3 712 597)
Credit note	(9 210)	-
	28 029	**26 842**

PAYE and UIF

Amount paid - current year	13 379 542	12 745 762

Pension and Medical Aid Deductions

Amount paid - current year	20 293 365	30 574 593

VAT

VAT payable	12 987 977	5 824 272

VAT output payables and VAT input receivables are shown in note 17.

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

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

Councillors' arrear consumer accounts

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

30 June 2018	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor ME Njibana	719	201	920
Councillor T Mazana	680	430	1 110
Councillor N Ngamlashe	1 098	3 283	4 381
Councillor AL Marasi	482	1 390	1 872
Councillor A Ngqosha	1 477	24 283	25 760
	4 456	**29 587**	**34 043**

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor CB James	1 889	11 195	13 084
Councillor A Ngqosha	3 355	22 641	25 996
Councillor N Ngamlashe	951	3 545	4 496
Councillor TM Mbunge	1 440	1 662	3 102
Councillor AL Marasi	452	2 203	2 655
Councillor M Mateti	1 503	5 011	6 514
Councillor PY Kani	622	930	1 552
Councillor ME Njibana	1 479	-	1 479
Councillor P Faxi	1 413	-	1 413
Councillor JP Guest	606	-	606
	13 710	**47 187**	**60 897**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2018	2017
S36(1)(a)(i) - Emergency	4 166 715	1 813 804
S36(1)(a)(ii) - Sole Supplier	696 485	480 230
S36(1)(a)(v) - Impractical / Impossible (other)	30 955 618	30 989 850
	35 818 818	**33 283 884**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

49. Water and electrcity losses

Material Losses		
Water	23 138 494	12 099 169
Electricity	5 225 742	5 552 519
	28 364 236	**17 651 689**

Water Losses
In 2018 the water reticulation losses were 49.9 % (3 785 606 kl supplied and 1 898 290 kl sold) (2017: 34.4% (3 073 360 kl supplied and 2 016 664 kl sold). In both years these losses are predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore apparent losses are realised due to metering inefficiencies, meter faults, unauthorised and unmetered consumption.

Electrcity Losses
In 2018, the energy losses were 11.99% (2017: 13.25%). Energy purchased was 44 458 957 kWh and 39 126 568 kWh was sold (2017: 43 660 122 kWh purchased and 37 876 247 kWh sold). These losses are predominantly due to MV and LV losses in switchgear, overheadlines, obsolete aluminium lines, underground cables and transformers. Furthermore losses are attributed to metering and meter reading losses and losses due to tampering.

50. Budget differences

Material differences between budget and actual amounts

The Variances are considered to be material for the GRAP 24 variance disclosure where it exceeds 10%. Below are details of the relevant material variances as per the Statement of Budget versus Actual Comparison:

50.1) Service Charges:
The variance is due to an underbudgeting of the revenue from service charges as not all households were considered when determination of projected services charges were made.

50.2) Rendering of Services
The nature of burial fees is such that it is not easily forcast. The demand for plots and burial fees were however higher than expected which resulted in the variance.

50.3) Rental of Facilities and Equipment:
The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected income from the rental of housing and other building rentals.

50.4) Interest received - Trade and other receivables:
The budget adjustment was done due to the identification of forecasted interest from trade and other receivables exceding the original budget. This is due to poor collection rates. The budget versus actual difference is considered immaterial.

50.5) Licences and permits:
The budgeting process relating to the forecast of licences and permits was flawed as there was an overestimate of the revenue at the adjustment budget phase. This is mainly due to the cycle of licences and permits not being constant on a month to month basis, the forecast thereof is therefore not linear.

50.6) Housing debtor income:
The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected income from the rental of housing. The budget process does not include a zero based budgeting approach.

50. Budget differences (continued)

50.7) Other income :
The nature of other income is such that revenue from auxillary services are classified hereunder. The nature of these services are such that they are difficult to forecast, even based on past trends.

50.8) Interest received - Investments :
According to the budget assumptions made, grant income would have been spent faster than what materialised, resulting in less interest earned on investments. Additional interest income (over and above budgeted amounts) was realised on the grant investments due to timing delays in the spending of grant funding.

50.9) Property Rates:
The variance is due to an underbudgeting of the revenue from service charges as not all households were considered when determination of projected services charges were made.

50.10) Government grants and subsidies :
The budget was increased due to initial underbudgeting of grant revenue as a result of the 2016/17 roll-over not being included in the 2017/18 budget. The final variance of budget versus actual largely represents the unspent portion of conditional grants.

50.11) Public contributions and donations:
The donations amount was not budgeted for as donations by its nature is gratuitous and there was not expectation to receive donations during the year.

50.12) Fines, penalties and forfeits:
When the budget for fines, penalties and forfeits were prepared, there was an expectation that the traffic vehicles would be in a functioning condition. The vehicles however remain unserviceable. This matter affected the prior period and was still relevant for 2016/17. This impacted on the amount of fines levied during the period.

50.13) Personnel:
The variance of the budget versus actual is as a result of funded positions within the municipality remaining unfilled throughout the financial year.

50.14) Remuneration of councillors:
The adjustment to the budget was as a result of the speaker being appointed on a full-time basis. Furthermore, there was an increase in cellphone allowances during the year. The budget versus actual variance is not considered material.

50.15) Renewable Energy Programmes
The variance is due to free basic payments to Eskom not being provided for during the budget process.

50.16) Depreciation and Amortisation:
During the budget process the depreciation budget was drastically reduced to in turn reduce the impact to ratepayers and consumers as a result of increased rates. The depreciation budget is seen as a non-cash budget item where there will not be a reduction to an actual revenue flow to the municipality if the budget is reduced.

50.17) Finance Costs
The finance costs budget was based on the expected reduction of capital relating to the DBSA loans instead of the interest portion which accrued during the year. This resulted in the variance as identified.

50.18) Lease rentals on operating leases:
The variance is due to inadequate budgeting processes based on incremental budgeting that have resulted in the overstatement of the projected expedniture relating to operating leases. The budget process does not include a zero based budgeting approach on these leases.

50.19) Repairs and Maintenance:
The actual expenditure remains lower than final budgeted figures due to cashflow contraints that has impeded the ability of the municipality to fully utilise the general expenses budget.

50. Budget differences (continued)

50.20) Debt Impairment
A budget estimation was undertaken of the amount of doubtful debts to provide for. The write-off of doubtful debts during the current year was closely related to the budgeted amount. However due to increase in debtors and slow collections the increase in the provision in for doubtful debts was higher than anticipated, resulting in the expenditure exceding the budget.

50.21) Bulk Purchases:
The variance between budget and actual expenditure is mainly due to underbudgeting. The principal of following an incremental budget was not adhered to.

50.22) Contracted Services:
Contracted services is dependant largely on the requirement for specialist based on the specific criteria relating to repairs and maintenance requirements of the municipality. The variance is however not considered material.

50.23) Transfers and subsidies
The budget was adjusted with the ommission of the Anti-crime initiative. This brough the budget and actual expenditure in-line resulting in an immaterial variance between budget and actual expenditure.

50.24) General expenses: Immaterial variances

50.25) Loss on disposal of assets:
The demarcation disposal relating to erven resulted in unbudgeted losses which contributed towards the variance between budget actual expenditure.

50.26) Fair value adjustments:
At the time of the budget a nominal budget is provided for fair value adjustments. It is also not known at the time of the budget what the effect of external factors would be on the landfill provision estimate. As such budget is not provided to the extent of the actual fair value losses incurred as this would have to be funded with revenue through rate increases.