Amajuba District Municipality
Annual Financial Statements
for the year ended 30 June 2018
Auditor General of South Africa
Registered Auditors

General Information

Legal form of entity	Municipality Municipal Finance Management Act (Act No.56 of 2003)
Mayoral committee	
Mayor	Councillor MG Ngubane
Deputy Mayor	Councillor SE Nkosi
Executive Committee - Engineering	Councillor SE Nkosi
Executive Committee - Corporate Services	Councillor MM Mdlalose
Executive Committee - Planning & Development	Councillor AP Meiring
Executive Committee - Community Service	Councillor ZC Msibi
Speaker	Vacant
Councillors	Councillor MV Buhali Councillor MA Buthelezi Councillor SB Buthelezi Councillor XNM Dladla Councillor NS Hlatshwayo Councillor NC Khabanyane Councillor BV Khumalo Councillor NP Khumalo Councillor MJ Madela Councillor MG Mlangeni Councillor NH Mkhwanazi Councillor MV Molefe Councillor RB Ndima Councillor VP Mzima Councillor RN Ngcobo Councillor TM Ndaba Councillor D Ngwenya Councillor M Msibi Councillor TM Nzuza Councillor MN Ntshangase Councillor VC Ndlovu Inkosi SJ Nkosi Inkosi SE Shabalala Inkosi M Mbatha Inkosi ZG Mabaso Inkosi ZP Nzima
Grading of local authority	Grade 3 Low Capacity
Chief Finance Officer (CFO)	Mr WJM Mngomezulu
Accounting Officer	Mr SR Zwane
Registered office	B9356 Section 1 Madadeni Newcastle 2951
Business address	B9356 Section 1 Madadeni

General Information

	Newcastle 2951
Postal address	Private Bag X6615 Newcastle 2940
Bankers	ABSA Public Sector
Auditors	Auditor General of South Africa Registered Auditors

Index

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
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
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in 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 municipality is wholly dependent on the Provincial and National Government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors. 5.

The annual financial statements set out on pages 5 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed by him:

Mr SR Zwane
Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Going concern

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

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

2. Accounting policies

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

3. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr SR Zwane	South African

4. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

Board of directors

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors, are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required by him by the Remunerations of Public Office Bearers Act No.20 of 1998.

Internal audit

The municipality has an internal audit function based at the municipality. This is in compliance with the Municipal Finance Management Act, 2003.

5. Bankers

The municipality's primary banker is ABSA Public Sector

Accounting Officer's Report

6. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventory	7	839 149	7 607 785
Receivables from non-exchange transactions	8&11	591 877	614 496
VAT receivable	9	8 991 723	6 099 354
Consumer debtors	10&11	17 779 954	16 450 635
Cash and cash equivalents	12	54 079 120	21 008 587
		82 281 823	**51 780 857**
Non-Current Assets			
Property, plant and equipment	3	391 362 373	363 211 163
Intangible assets	4	3 474 251	1 117 414
Investments in associates	5	266 419 632	292 305 499
Receivables from non-exchange transactions	8	1 826 330	4 027 662
		663 082 586	**660 661 738**
Total Assets		**745 364 409**	**712 442 595**
Liabilities			
Current Liabilities			
Other financial liabilities	15	742 659	785 955
Finance lease obligation	13	59 200	127 812
Payables from exchange transactions	17	71 728 453	74 923 299
Unspent conditional grants and receipts	14	34 744 132	6 055 390
Provisions	16	8 649 760	8 419 145
		115 924 204	**90 311 601**
Non-Current Liabilities			
Other financial liabilities	15	7 360 404	8 103 063
Finance lease obligation	13	108 159	167 358
Provisions	16	16 743 277	5 163 771
		24 211 840	**13 434 192**
Total Liabilities		**140 136 044**	**103 745 793**
Net Assets		**605 228 365**	**608 696 802**
Accumulated surplus		605 228 371	608 696 803

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	19	28 973 090	26 050 614
Interest received - trading		4 165 760	3 552 834
Rental income		282 778	273 789
Recoveries		-	43 497
Sundry Revenue		138 999	594 167
Gain on disposal of investment property	20	-	2 146 534
Gain on disposal of property, plant and equipment		-	8 708
Interest received - investment	21	4 708 643	4 182 193
Total revenue from exchange transactions		**38 269 270**	**36 852 336**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	226 903 024	224 247 954
Public contributions and donations	23	135 100	2 000
Fines, Penalties and Forfeits		1 676 566	-
Total revenue from non-exchange transactions		**228 714 690**	**224 249 954**
Total revenue	18	**266 983 960**	**261 102 290**
Expenditure			
Employee related costs	24	98 231 743	80 727 101
Remuneration of councillors	25	5 134 399	4 717 430
Depreciation and amortisation	26	22 157 632	28 861 763
Impairement of property, plant and equipment	27	221 116	760 494
Finance costs	28	992 519	936 618
Debt Impairment	29	11 698 192	10 239 302
Contribution to provision		-	563 252
Bulk purchases	30	18 052 392	13 942 643
Contracted services	31	21 485 499	20 065 247
Repairs and maintenance		6 294 518	4 062 672
General Expenses	32	51 446 046	53 990 349
Total expenditure		**235 714 056**	**218 866 871**
Surplus for the year from continuing operations		**31 269 904**	**42 235 419**
Increase (Decrease) in valuation of investment in Associate		(26 092 313)	(43 829 808)
Surplus (deficit) for the year		**5 177 591**	**(1 594 389)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**610 291 192**	**610 291 192**
Changes in net assets		
Surplus for the year	(1 594 389)	(1 594 389)
Total changes	(1 594 389)	(1 594 389)
Balance at 01 July 2017	**531 986 444**	**531 986 444**
Changes in net assets		
Surplus for the year	73 241 927	73 241 927
Total changes	73 241 927	73 241 927
Balance at 30 June 2018	**605 228 371**	**605 228 371**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Other reciepts		16 350 973	15 111 522
Grants		255 950 419	225 494 019
Investment income		8 874 403	4 182 193
Public contributions and donations		135 100	2 000
		281 310 895	244 789 734
Payments			
Employee costs		(98 231 743)	(82 194 252)
Suppliers		(90 081 138)	(92 079 199)
Finance costs		(992 519)	(936 618)
Remuneration of councillors		(5 134 399)	(4 717 430)
Changes in net assets- proir year adjustments		-	(5 567 775)
Leave payments		-	(1 258 781)
		(194 439 799)	(186 754 055)
Net cash flows from operating activities	34	**86 871 096**	**58 035 679**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(50 054 465)	(57 233 892)
Proceeds from sale of property, plant and equipment	3	-	9 250
Proceeds from sale of investment property		-	2 631 579
Purchase of other intangible assets	4	(2 832 332)	-
Net cash flows from investing activities		**(52 886 797)**	**(54 593 063)**
Cash flows from financing activities			
Loans paid		(785 955)	(707 117)
Finance lease payments		(127 811)	283 416
Net cash flows from financing activities		**(913 766)**	**(423 701)**
Net increase/(decrease) in cash and cash equivalents		**33 070 533**	**3 018 915**
Cash and cash equivalents at the beginning of the year		21 008 587	17 989 672
Cash and cash equivalents at the end of the year	12	**54 079 120**	**21 008 587**

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						
Revenue from exchange transactions						
Service charges	27 500 000	(646 000)	**26 854 000**	28 973 090	**2 119 090**	
Interest received (trading)	3 700 000	153 000	**3 853 000**	4 165 760	**312 760**	
Rental income	258 000	(22 000)	**236 000**	282 778	**46 778**	
Other income	1 357 000	1 833 000	**3 190 000**	138 999	**(3 051 001)**	
Interest received - investment	4 000 000	552 000	**4 552 000**	4 708 643	**156 643**	
Total revenue from exchange transactions	**36 815 000**	**1 870 000**	**38 685 000**	**38 269 270**	**(415 730)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	144 190 000	(2 903 000)	**141 287 000**	226 903 024	**85 616 024**	
Public contributions and donations	-	-	**-**	135 100	**135 100**	
Fines, Penalties and Forfeits	-	-	**-**	1 676 566	**1 676 566**	
Total revenue from non-exchange transactions	**144 190 000**	**(2 903 000)**	**141 287 000**	**228 714 690**	**87 427 690**	
Total revenue	**181 005 000**	**(1 033 000)**	**179 972 000**	**266 983 960**	**87 011 960**	
Expenditure						
Employee related costs	(84 847 000)	3 633 000	**(81 214 000)**	(98 231 743)	**(17 017 743)**	
Remuneration of councillors	(5 505 000)	(439 000)	**(5 944 000)**	(5 134 399)	**809 601**	
Depreciation and amortisation	(30 822 000)	-	**(30 822 000)**	(22 157 632)	**8 664 368**	
Impairment loss/ Reversal of impairments	-	-	**-**	(221 116)	**(221 116)**	
Finance costs	(764 000)	-	**(764 000)**	(992 519)	**(228 519)**	
Debt Impairment	(13 000 000)	-	**(13 000 000)**	(11 698 192)	**1 301 808**	
Bulk purchases	(21 280 000)	2 695 000	**(18 585 000)**	(18 052 392)	**532 608**	
Contracted Services	(13 445 000)	(8 826 000)	**(22 271 000)**	(21 485 499)	**785 501**	
Repairs and maintenance	-	-	**-**	(6 294 518)	**(6 294 518)**	
General Expenses	(39 981 000)	(5 738 000)	**(45 719 000)**	(51 446 046)	**(5 727 046)**	
Total expenditure	**(209 644 000)**	**(8 675 000)**	**(218 319 000)**	**(235 714 056)**	**(17 395 056)**	
Surplus before taxation	**(28 639 000)**	**(9 708 000)**	**(38 347 000)**	**31 269 904**	**69 616 904**	
Surplus for the year from continuing operations	**(28 639 000)**	**(9 708 000)**	**(38 347 000)**	**31 269 904**	**69 616 904**	
Increase/Decrease in valution of investment in associate	-	-	**-**	(26 092 313)	**(26 092 313)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(28 639 000)**	**(9 708 000)**	**(38 347 000)**	**5 177 591**	**43 524 591**	
Reconciliation						

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). Municipal Finance Management Act (Act 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Consolidation

Basis of consolidation

Consolidated annual financial statements are the annual financial statements of the municipality presented as those of a single entity.

The consolidated annual financial statements incorporate the annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity’s annual financial statements at the acquisition date.

The annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional annual financial statements as of the same date as the annual financial statements of the controlling entity unless it is impracticable to do so. When the annual financial statements of a controlled entity used in the preparation of consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity’s annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates is the same from period to period.

Adjustments are made when necessary to the annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets of the municipality are identified and recognised separately from the controlling entity's interest therein, and are recognised within net assets.

Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets.

Accounting Policies

1.2 Consolidation (continued)

A Special purpose entity is consolidated when the substance of the relationship between the municipality and the Special purpose entity indicates that the Special purpose entity is controlled by the municipality.

Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the associate, less any impairment losses.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the municipality’s share of net assets of the investee. The surplus or deficit of the municipality includes the municipality's share of the surplus or deficit of the investee.

Distributions received from an investee reduce the carrying amount of the investment.

The most recent available annual financial statements of the associate are used by the municipality in applying the equity method. When the reporting dates of the municipality and the associate are different, the associate prepares, for the use of the municipality, annual financial statements as of the same date as the annual financial statements of the municipality unless it is impractical to do so.

When the annual financial statements of an associate used in applying the equity method are prepared as of a different date from that of the municipality, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the municipality’s annual financial statements. In any case, the difference between the end of the reporting dates of the associate and that of the municipality is no more than three months. The length of the reporting dates and any difference between the ends of the reporting dates is the same from period to period.

The municipality’s annual financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.

Deficits in an associate in excess of the municipality's interest in that associate are recognised only to the extent that the municipality has incurred a legal or constructive obligation to make payments on behalf of the associate. If the associate subsequently reports surpluses, the municipality resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Surpluses and surplus on transactions between the municipality and an associate are eliminated to the extent of the municipality's interest therein.

The controlling entity discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and account for the investment in accordance with the Standards of GRAP on Financial instruments from that date, unless the associate becomes a controlled entity or a joint venture, in which case it is accounted for as such. The carrying amount of the investment at the date that it ceases to be an associate is regarded as the fair value on initial recognition as a financial asset in accordance with the Standards of GRAP on Financial instruments.

Jointly controlled entities

An interest in a jointly is accounted for using the equity method. Under the equity method, interests in jointly controlled entities are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the jointly municipality, less any impairment losses. Surpluses and surplus on transactions between the municipality and a joint venture are eliminated to the extent of the municipality's interest therein.

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.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 16 - Provisions.

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 6.

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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 straight line basis over their expected useful lives to their estimated residual value.

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

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	Straight line	Indefinite

Accounting Policies

1.4 Property, plant and equipment (continued)

Buildings	Straight line	5-30 years
Plant and machinery	Straight line	10-15 years
Furniture and fixtures	Straight line	7-10 years
Other vehicles	Straight line	3-7 yeats
IT equipment	Straight line	3 years
Computer software	Straight line	3 years
Other property, plant and equipment	Straight line	2-5 years
Recreational facilities	Straight line	20-30 years
Water and Sewerage	Straight line	10 years

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

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

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

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

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

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

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

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.

1.5 Intangible assets

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

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

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

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

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life

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

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

1.6 Financial instruments

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

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

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.

Accounting Policies

1.6 Financial instruments (continued)

- 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.

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.

Accounting Policies

1.6 Financial instruments (continued)

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.

Classification

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

Class	Category
Cash and cash equivalent	Financial asset measured at amortised cost
Trade Receivables	Financial asset measured at amortised cost
Loans	Financial asset measured at amortised cost

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

Class	Category
Loans	Financial liability measured at amortised cost
Finance Lease	Financial liability measured at amortised cost
Trade Payables	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.6 Financial instruments (continued)

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.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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:

Accounting Policies

1.6 Financial instruments (continued)

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.

Accounting Policies

1.6 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.

Accounting Policies

1.6 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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.

Accounting Policies

1.8 Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intentionto resell it to the consumer or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, borehole etc). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, andit is therefore not recognised in the statement of financial position.
The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchas, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates
Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.9 Impairment of cash-generating assets

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

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

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

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

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.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

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.

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.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

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.

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.

1.10 Share capital / contributed capital

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

1.11 Provisions and contingencies

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

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

Accounting Policies

1.11 Provisions and contingencies (continued)

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.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.12 Revenue from exchange transactions

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

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

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.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

1.13 Revenue from non-exchange transactions

1.14 Investment income

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

1.15 Borrowing costs

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

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

1.16 Comparative figures

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

1.17 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.

1.18 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.

Accounting Policies

1.19 Irregular expenditure

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

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

1.20 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

1.21 Budget information

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

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

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

1.22 Related parties

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.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.
Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Accounting Policies

1.23 Employee benefits

Retirement Funds

Retirement Funds
The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.
Defined Contribution Funds
Where an employee has rendered services to the municipality during the year, the municipality recognizes the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.
Defined Benefit Plans
The municipality does not apply “defined benefit accounting” to the defined benefit funds to which it is a member where these funds as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.
To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.
Medical Aid: Continued Members
The municipality provides post-retirement benefits by subsidizing the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.
Defined contribution plans
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.
Defined benefit plans
For defined benefit plans the cost of providing the benefits is determined using the projected credit method.
Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.
Past service costs are recognized immediately to the extent that the benefits are already vested, and are otherwise amortized on a straight line basis over the average period until the amended benefits become vested.
To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.
Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the municipality is demonstrably committed to curtailment or settlement.
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 recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.
The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, and reduces by the fair value of plan assets.
Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.
GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognize:
'- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
'- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2018 or later periods but are not relevant to its operations:

GRAP 34: Separate Financial Statements

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 36: Investments in Associates and Joint Ventures

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 20: Related parties

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

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

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Notes to the Annual Financial Statements
Figures in Rand

3. 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	569 591	-	569 591	569 591	-	569 591
Buildings	25 361 473	(9 349 726)	16 011 747	25 361 473	(8 398 463)	16 963 010
Plant and machinery	7 202 854	(5 274 759)	1 928 095	7 189 006	(4 873 248)	2 315 758
Furniture and fixtures	3 445 131	(2 821 044)	624 087	3 439 521	(2 689 916)	749 605
Motor vehicles	9 677 003	(6 087 736)	3 589 267	9 677 003	(5 417 607)	4 259 396
Office equipment	7 285 228	(5 009 073)	2 276 155	6 109 417	(4 470 788)	1 638 629
IT equipment	138 657	(99 773)	38 884	138 657	(83 027)	55 630
Park facilities	36 337 513	(17 408 274)	18 929 239	36 337 513	(15 885 023)	20 452 490
Wastewater network	71 523 454	(35 624 858)	35 898 596	67 671 059	(31 530 400)	36 140 659
Water network	310 422 718	(88 897 333)	221 525 385	267 701 739	(75 320 851)	192 380 888
Capital work in progress	89 971 327	-	89 971 327	87 685 507	-	87 685 507
Total	**561 934 949**	**(170 572 576)**	**391 362 373**	**511 880 486**	**(148 669 323)**	**363 211 163**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	569 591	-	-	-	-	569 591
Buildings	16 963 010	-	-	(951 263)	-	16 011 747
Plant and machinery	2 315 758	13 849	-	(401 490)	(22)	1 928 095
Furniture and fixtures	749 605	5 611	-	(131 102)	(27)	624 087
Motor vehicles	4 259 396	-	-	(670 129)	-	3 589 267
Office equipment	1 638 629	184 288	991 523	(538 285)	-	2 276 155
IT equipment	55 630	-	-	(16 746)	-	38 884
Park facilities	20 452 490	-	-	(1 522 334)	(917)	18 929 239
Wastewater network	36 140 659	-	3 864 002	(3 904 406)	(201 659)	35 898 596
Water network	192 380 888	-	42 709 372	(13 546 385)	(18 490)	221 525 385
Capital work in progress	87 685 507	49 850 717	(47 564 897)	-	-	89 971 327
	363 211 163	**50 054 465**	**-**	**(21 682 140)**	**(221 115)**	**391 362 373**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Work in Progress	Depreciation	Impairment loss	Total
Land	569 591	-	-	-	-	-	569 591
Buildings	17 922 407	-	-	-	(951 823)	(7 574)	16 963 010
Plant and machinery	1 811 775	854 436	-	-	(343 577)	(6 876)	2 315 758
Furniture and fixtures	635 288	220 473	-	-	(104 484)	(1 672)	749 605
Motor vehicles	5 120 095	-	-	-	(714 220)	(146 479)	4 259 396
Office equipment	1 415 067	551 284	(542)	-	(325 210)	(1 970)	1 638 629
IT equipment	72 376	-	-	-	(16 746)	-	55 630
Park facilities	22 149 826	-	-	-	(1 537 152)	(160 184)	20 452 490
Wastewater network	40 076 298	-	-	-	(3 887 180)	(48 459)	36 140 659
Water network	187 606 199	10 091 862	-	7 720 750	(12 650 639)	(387 284)	192 380 888
Capital work in progress	49 890 419	45 515 838	-	(7 720 750)	-	-	87 685 507
	327 269 341	**57 233 893**	**(542)**	**-**	**(20 531 031)**	**(760 498)**	**363 211 163**

Figures in Rand	2018	2017

3. Property, plant and equipment (continued)

Repairs and maintenance

	2018	2017
Vehicle maintenance	184 631	259 316
Buildings	146 114	203 268
Sewerage	4 212 745	950 197
Plant and machinery	1 076 192	682 372
Water	674 837	1 937 587
	6 294 518	4 032 740

Assets subject to finance lease (Net carrying amount)

	2018	2017
Finance leased assets	38 884	55 630

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.

4. 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	3 977 668	(3 335 749)	641 919	3 977 668	(2 860 254)	1 117 414
Work in progress	2 832 332	-	2 832 332	-	-	-
Total	**6 810 000**	**(3 335 749)**	**3 474 251**	**3 977 668**	**(2 860 254)**	**1 117 414**

Reconciliation of intangible assets - 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	1 117 414	-	(475 495)	641 919
Work in progress	-	2 832 332	-	2 832 332
	1 117 414	**2 832 332**	**(475 495)**	**3 474 251**

Reconciliation of intangible assets - 2017

	Opening balance	**Amortisation**	**Total**
Computer software, other	1 592 909	475 495	1 117 414

5. Investments in associates

Name of entity	**Listed / Unlisted**	**% holding 2018**	**% holding 2017**	**Carrying amount 2018**	**Carrying amount 2017**
uThukela Water (Pty) Ltd	Unlisted	33.00 %	33.00 %	266 213 186	292 305 499

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Investments in associates (continued)

The carrying amounts of associates are shown net of impairment losses.
The annual financial statements of Uthukela Water (Pty)ltd are prepared for the accounting period 01 July 2017 to 30 June 2018, which is the same as the Amajuba District Municipality. No loans were made to or received from the associate. No shares were sold nor any acquired during the year. With effect from 01 July 2013 , the municipality took over a portion of the assets, liabilities and staff that relate to Amajuba District Municipality from uThukela Water. The municipality is therefore providing water and sanitation services as a water services provider and authority.

Movements in carrying value

	2018	2017
Opening balance	292 305 499	336 135 307
Share of surplus/deficit	(26 092 313)	(43 829 808)
	266 213 186	**292 305 499**

6. Employee benefit obligations

Defined benefit plan

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

Last Acturial valuation was conducted in 30 June 2018

Post retirement medical aid plan

Independent valuers, Arch Actuarial Consulting, carried out a statutory valuation on an annual basis

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

	2018	2017
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	12 124 247	-
Present value of the defined benefit obligation-partly or wholly funded	-	1 199 716
	12 124 247	**1 199 716**

	2018	2017
Non-current liabilities	12 007 691	1 106 194
Current liabilities	116 556	93 522
	12 124 247	**1 199 716**

The fair value of plan assets includes:

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

	2018	2017
Opening balance	1 199 716	-
Other	10 924 531	-
Net expense recognised in the statement of financial performance	12 124 247	1 199 716
	12 124 247	**1 199 716**

Net expense recognised in the statement of financial performance

	2018	2017
Balance at beginning of the year	1 199 716	921 469
Interest cost	103 826	78 035
Actuarial (gains) losses	237 195	258 676
Benefit payments	(93 522)	(58 464)
Inclusion of In-Service Members	10 677 032	-
	12 124 247	**1 199 716**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

6. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.79 %	9.00 %
Healthcare cost inflation	7.52 %	7.33 %
Net discount rate	2.11 %	1.55 %
Maximum subsidy inflation rate	5.27 %	5.12 %
Net-of-maximum-subsidy-inflation discount rate	4.30 %	3.69 %

Average retirement age: The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

Decrement Assumptions: Mortality during employment [Pensioners: PA(90)-2

Defined contribution plan

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

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

7. Inventory

Purified water	839 149	7 607 785

The inventory has been valued at the lower of cost or net realizable value.

Inventory pledged as security

No inventory has been pledged as security.

8. Receivables from non-exchange transactions

Sundry debtors	2 418 207	4 642 158
Non-current assets	1 826 330	4 027 662
Current assets	591 877	614 496
	2 418 207	**4 642 158**

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

Balance at the beginning of the year	-	(130 264)
Decrease in allowance	-	130 264
	-	**-**

9. VAT receivable

VAT	8 991 723	6 099 354

VAT is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Consumer debtors

	2018	2017
Gross balances		
Water, Sanitation and Other	61 255 139	48 231 876
Less: Allowance for impairment		
Water, Sanitation and other	(43 479 433)	(31 781 241)
Net balance		
Water, Sanitation and Other	17 779 954	16 450 635
Water, Sanitation and Other		
Current (0 -30 days)	4 630 552	3 717 292
31 - 60 days	3 854 968	1 626 866
61 - 90 days	2 160 939	1 717 616
91 - 120 days	2 038 937	1 797 296
121 - 365 days	12 720 850	10 376 979
> 365 days	35 848 893	28 995 827
	61 255 139	**48 231 876**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Consumer debtors (continued)

Summary of debtors by customer classification

	2018	2017
Consumers		
Current (0 -30 days)	2 957 666	1 855 758
31 - 60 days	2 280 264	1 461 986
61 - 90 days	1 763 009	1 557 644
91 - 120 days	1 686 414	1 539 500
121 - 365 days	11 607 257	9 485 155
> 365 days	32 738 103	25 480 571
	53 032 713	**41 380 614**
Industrial/ commercial		
Current (0 -30 days)	278 669	127 510
31 - 60 days	335 965	79 104
61 - 90 days	175 895	74 441
91 - 120 days	87 470	91 337
121 - 365 days	517 782	401 849
> 365 days	1 175 582	1 092 383
	2 571 363	**1 866 624**
National and provincial government		
Current (0 -30 days)	1 394 217	1 734 024
31 - 60 days	1 238 740	85 776
61 - 90 days	222 035	85 531
91 - 120 days	265 054	166 460
121 - 365 days	595 810	489 975
> 365 days	1 935 208	2 422 872
	5 651 064	**4 984 638**
Total		
Current (0 -30 days)	4 630 552	3 717 292
31 - 60 days	3 854 968	1 626 866
61 - 90 days	2 038 937	1 717 616
91 - 120 days	2 160 939	1 797 297
121 - 365 days	12 720 850	10 376 979
> 365 days	35 848 893	28 995 825
	61 255 139	**48 231 875**

Reconciliation of allowance for impairment

	2018	2017
Balance at beginning of the year	(31 781 242)	(21 411 676)
Contributions to allowance	(11 693 943)	(10 369 566)
	(43 475 185)	**(31 781 242)**

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 43 475 185 (2017: R31 781 242) were impaired and provided for.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

11. Age Analysis of Debtors

Water		
Current (0 -30 days)	3 703 402	-
31 - 60 days	3 123 928	-
61 - 90 days	1 583 447	-
91 - 120 days	1 469 242	-
121 - 365 days	9 059 178	-
> 365 days	25 624 813	-
	44 564 010	**-**

Sewerage		
Current (0 -30 days)	909 161	-
31 - 60 days	713 025	-
61 - 90 days	559 465	-
91 - 120 days	551 247	-
121 - 365 days	3 512 955	-
> 365 days	8 266 314	-
	14 512 167	**-**

Other		
Current (0 -30 days)	17 988	-
31 - 60 days	18 015	-
61 - 90 days	18 027	-
91 - 120 days	18 449	-
121 - 365 days	148 717	-
> 365 days	1 957 766	-
	2 178 962	**-**

Totals		
Water	44 564 011	-
Sewerage	14 512 166	-
Other	2 178 962	-
	61 255 139	**-**

12. Cash and cash equivalents

Cash and cash equivalents included in the statement of financial position comprise the following statement of amounts indicating financial position::

Petty cash	3 000	3 000
Bank balances	1 969 315	1 119 896
Call Investment deposits	52 106 805	19 885 691
	54 079 120	**21 008 587**

No cash and cash equivalents (or portions thereof) were pledged as security for any financial liabilities.
No restrictions exist with regard to the use of cash.
No portion is past due or impaired.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

12. Cash and cash equivalents (continued)

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Although credit quality can be assessed, the municipality did not apply any methods to evaluate the credit quality.

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

12. 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
ABSA BANK - Cheque Account - 405 347 259	1 984 150	1 122 435	665 189	1 969 315	1 119 896	655 189
Standard BANK - Call Deposit - 068 448 3090 02	685 068	641 744	3 016 305	685 068	641 744	3 016 305
Standard BANK - Call Deposit - 068 448 3090 03	2 446 709	5 417 632	5 073 972	2 446 709	5 417 632	5 073 972
Standard BANK - Call Deposit - 068 448 3090 06	359 945	33 828	1 051 191	359 945	33 828	1 051 191
Standard BANK - Call Deposit - 068 448 3090 05	1 018	986	3 739 818	1 018	986	3 739 818
Standard BANK - Call Deposit - 068 448 3090 04	403 979	935 985	567 046	403 979	935 985	567 046
Standard BANK - Call Deposit - 068 448 3090 07	1 163 425	204 117	-	1 163 425	204 117	-
Standard BANK - Call Deposit - 068 448 3090 08	1 216 723	137 900	-	1 216 723	137 900	-
Standard BANK - Call Deposit - 068 448 3090 10	-	700 763	-	-	700 763	-
Standard BANK - Call Deposit - 068 448 3090 11	463 443	8 296 787	-	463 443	8 296 787	-
Standard BANK - Call Deposit - 068 448 3090 12	-	540 470	-	-	540 470	-
Standard BANK - Call Deposit - 068 448 3090 09	-	57 706	-	-	57 706	-
Investec - Call Deposit - 1100 501686 503	-	78 395	-	-	78 395	-
Investec - Call Deposit - 1100 501686 505	-	634 895	-	-	634 895	-
Investec - Call Deposit - 1100 501686 506	-	775 544	-	-	775 544	-
Investec - Call Deposit - 1100 501686 507	34 779	360 218	-	34 779	360 218	-
Investec - Call Deposit - 1100 501686 508	-	459 972	-	-	459 972	-
Investec - Call Deposit - 1100 501686 501	-	583 165	-	-	583 165	-
Investec - Call Deposit - 1100 501686 500	-	25 584	-	-	25 584	-
INVESTMENT:ABSA CESSION ACC	1 500	-	-	1 500	-	-
INVESTMENT: ABSA 32 DAY NOTI	2 257 424	-	-	2 257 424	-	-
INVESTMENT-STD BANK 32 DAY N	302 772	-	-	302 772	-	-
INVESTMENT:INVESTEC;	37 447 590	-	-	37 447 590	-	-
INVESTMENT - NEDBANK RURAL R	406 051	-	-	406 051	-	-
INVESTMENT-INVESTEC-MIG;OPEN	4 916 379	-	-	4 916 379	-	-
Nedbank - Call Deposit - 03/7881124067/000001	-	-	4 799	-	-	4 799
Nedbank - Call Deposit- 03/7881121424/000001	-	-	17	-	-	17
Nedbank - Call Deposit- 03/7881121661/000001	-	-	4	-	-	4

Notes to the Annual Financial Statements

Figures in Rand					2018	2017

12. Cash and cash equivalents (continued)

Nedbank - Call Deposit- 03/7881121440/000001	-	-	56	-	-	56
Nedbank - Call Deposit- 03/7881121424/000002	-	-	426	-	-	426
First National Bank- Call Deposit- 62581801654	-	-	412 414	-	-	412 414
First National Bank- Call Deposit- 62581801654	-	-	3 465 433	-	-	3 465 433
Total	**54 090 955**	**21 008 126**	**17 996 670**	**54 076 120**	**21 005 587**	**17 986 670**

13. Finance lease obligation

	2018	2017
Minimum lease payments due		
- within one year	92 624	161 237
- in second to fifth year inclusive	124 733	183 933
Present value of minimum lease payments	**217 357**	**345 170**
Present value of minimum lease payments due		
Opening Balance	295 170	11 754
Additions	410 580	377 156
Amortisation	(161 236)	(93 740)
	544 514	**295 170**
Non-current liabilities	108 158	167 358
Current liabilities	59 200	127 812
Laptops and tablets	**167 358**	**295 170**

It is municipality policy to lease certain ICT equipment under finance leases.

The average lease term is 30 months and the average effective borrowing rate was 4% (2016 3%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2018	2017
Unspent conditional grants and receipts		
Department of Public Works Grant	-	33 382
Massification Grant	-	16 796
Environmental Grant	-	540 983
Cogta- Disaster Management Centre Grant	1 771 141	5 000 000
Councillors Training Grant	79 388	79 388
WC/WD Management Grant	-	1 453
Rural Transport Roads Grant	-	383 388
Growth and Development Summit Grant	300 000	-
Water Service Infrastructure Grant (WSIG)	32 593 603	-
	34 744 132	**6 055 390**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Other financial liabilities

Designated at fair value		
DBSA Loan-61000384	8 103 063	8 889 018
Less: Current portion	(742 659)	(785 955)
Long term portion	**7 360 404**	**8 103 063**

The financial liability relates to DBSA loans taken over from uThukela Water which are now due and payables by Amajuba DM in terms of the transfer of the water and sanitation function. These loans include interest capitalised as they were not serviced by uThukela Water.

The loans were consolidated into one loan with a repayment period of 10 years. The final repayment date is January 2025.

Non-current liabilities		
Designated at fair value	7 360 404	8 103 063
Current liabilities		
Current portion	742 659	785 955

Notes to the Annual Financial Statements

Figures in Rand | 2018 | 2017

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Staff leave	Performance Bonus	Post retirement medical aid benefit	Long service awards	Total
Provision	13 582 916	708 032	(172 805)	10 924 531	350 363	25 393 037

Reconciliation of provisions - 2017

	Opening Balance	Staff leave	Performance bonuses	Post retirement medical aid benefit	Long service awards	Total
Provision	16 170 868	(3 151 204)	(117 439)	278 247	402 444	13 582 916

	2018	2017
Non-current liabilities	16 743 277	5 163 771
Current liabilities	9 664 112	8 419 145
	26 407 389	**13 582 916**

Performance bonuses are paid to employees subject to certain conditions. The provision is a calculation of the amount due to employees at the reporting date. Performance bonuses are measured at face value as it is expected that these would normally be paid shortly after the financial year end once performance evaluations have been completed.

Long service awards provision
Independent valuers, Arch Actuarial Consulting, carried out a statutory valuation on an annual basis

The principal actuarial assumptions used were as follows:		
Discount rate per annum	8.80%	8.64%
General salary inflation	6.34%	6.46%
Consumer price index	8.00%	8.00%
Net effective discount rate	2.00%	
	-	-

Members withdrawn from services:

Age 20	**12%**	**12%**
Age 30	5%	5%
Age 40	4%	4%
Age 50	1%	1%

The amounts recognised in the Statement of Financial Position were determined as follows:		
Present value of funded obligations	5 029 708	4 679 345

Disclosure		
Non current	294 122	4 057 577
Current	4 735 586	621 768
	5 029 708	**4 679 345**

Movements in the defined benefit obligation is as follows:		
Balance at beginning of the year	4 679 345	4 276 901
Current service cost	569 777	598 020
Interest cost	378 045	369 943

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

16. Provisions (continued)

Benefit payments	(621 768)	(143 875)
Actuarial gains/(losses)	24 309	(421 644)
	5 029 708	**4 679 345**

17. Payables from exchange transactions

Trade payables	67 617 751	63 132 093
Retentions	3 274 566	5 004 631
Other creditors	54 800	6 417 955
Deposits received	781 336	368 620
	71 728 453	**74 923 299**

Fair value of trade and other payables

18. Revenue

Service charges	28 973 090	26 050 614
Interest received (trading)	4 165 760	3 552 834
Rental income	282 778	273 789
Recoveries	-	43 497
Sundry Revenue	138 999	594 167
Gain on disposal of investment property	-	2 146 534
Gain on disposal of property, plant and equipment	-	8 708
Interest received - investment	4 708 643	4 182 193
Government grants & subsidies	226 903 024	224 247 954
Public contributions and donations	135 100	2 000
Fines, Penalties and Forfeits	1 676 566	-
	266 983 960	**261 102 290**

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

Service charges	28 973 090	26 050 614
Interest received (trading)	4 165 760	3 552 834
Rental income	282 778	273 789
Recoveries	-	43 497
Sundry Revenue	138 999	594 167
Gain on disposal of investment property	-	2 146 534
Gain on disposal of property, plant and equipment	-	8 708
Interest received - investment	4 708 643	4 182 193
	38 269 270	**36 852 336**

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

Transfer revenue

Government grants & subsidies	226 903 024	224 247 954
Public contributions and donations	135 100	2 000
Fines, Penalties and Forfeits	1 676 566	-
	228 714 690	**224 249 954**

19. Service charges

Sale of water	23 493 844	22 317 692
Sewerage and sanitation charges	5 479 246	3 732 922
	28 973 090	**26 050 614**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Other income

Gain on disposal of investment property	-	2 146 534

21. Investment revenue

Interest revenue		
Interest received- investment	4 708 643	4 182 193
Interest received from Debtors	4 165 760	-
	8 874 403	**4 182 193**

The amount included in investment revenue arising from exchange transactions amounted to R 8 874 403.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies

Operating grants		
Equitable share	66 836 999	67 837 375
Municipal Infrastructure Grants	21 705 758	23 011 835
Financial Management Grant (FMG)	1 500 000	1 500 000
Skills Development Grant	139 014	159 019
Expanded Public Works Programme Integrated Grant (EPWP)	1 297 982	896 063
Levies Replacement Grant	71 128 000	61 322 625
Water Services Infrastructure Grant (WSIG)	951 842	4 731 915
Road Asset Management Grant- Operating	2 583 388	3 067 612
Environmental Grant	540 983	21 437
4th Generation IDP	-	350 000
Shared services Grants	-	400 000
	166 683 966	**163 297 881**
Capital grants		
Water Services Infrastructure Grant (WSIG)	36 454 557	39 463 310
Disaster Management Grant	3 228 859	-
Municipal infrastructure Grants	20 011 242	16 565 166
Public Works (EPWP) Grants	524 400	567 555
Water Operating Subsidies	-	830 181
Bulk Water -Goedehoop	-	3 523 861
	60 219 058	**60 950 073**
	226 903 024	**224 247 954**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent - Beginning of the year	-	2 195 225
Adjustments: Rollover not approved	-	(2 195 225)
Current-year receipts	41 717 000	39 577 000
Conditions met - transferred to revenue (operating) - current year allocation	(21 705 758)	(23 011 835)
Conditions met - transferred to revenue (Capital) - current year allocation	(20 011 242)	(16 565 165)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Skills Development Grant

Current-year receipts	139 014	159 019
Conditions met - transferred to revenue	(139 014)	(159 019)
	-	-

Shared Services Grant

Current-year receipts	-	400 000
Conditions met - transferred to revenue	-	(400 000)
	-	-

Rural Transport Road Grant

Balance unspent at beginning of year	383 388	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Current-year receipts	2 200 000	3 451 000
Conditions met transferred to revenue (operating) - current year allocation	(2 200 000)	(3 067 612)
Conditions met transferred to revenue (operating) - prior year unspent	(383 388)	-
	-	**383 388**

Public Works (EPWP) Grant

Balance unspent at beginning of year	33 382	-
Current-year receipts	1 789 000	1 497 000
Conditions met transferred to revenue (operating) - approved rollover	(33 382)	-
Conditions met transferred to revenue (operating) - current year allocation	(1 264 600)	(896 063)
Condition met - transferred to revenue (capital)	(524 400)	(567 555)
	-	**33 382**

Massification Grant

Balance unspent at beginning of year	16 796	16 796
Adjustment: Write off of funds spent in prior periods	(16 796)	-
	-	**16 796**

WC/WD Management Grant

Balance unspent at beginning of year	1 453	1 453
Adjustment: Write off of funds spent in prior periods	(1 453)	-
	-	**1 453**

Finance Management Grant

Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue (operating)	(1 500 000)	(1 500 000)
	-	**-**

4th Generation IDP

Current-year receipts	-	350 000
Conditions met - transferred to revenue	-	(350 000)
	-	**-**

Councillors Training Grant

Balance unspent at beginning of year	79 388	79 388

Conditions still to be met - remain liabilities (see note 14).

Water Operating Subsidy Grant

Balance unspent at beginning of year	-	830 180
Conditions met - transferred to revenue	-	(830 180)
	-	**-**

Bulk Water - Goedehoop- Grant

Balance unspent at beginning of year	-	3 523 861

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Government grants and subsidies (continued)

Conditions met - transferred to revenue	-	(3 523 861)
	-	**-**

Cogta - Disaster Management Centre Grant

Balance unspent at beginning of year	5 000 000	5 000 000
Conditions met transferred to revenue (capital) - approved rollover	(3 228 859)	-
	1 771 141	**5 000 000**

Conditions still to be met - remain liabilities (see note 14).

Environmental Grant

Balance unspent at beginning of year	540 983	562 420
Conditions met transferred to revenue (operating) - approved rollover	(540 983)	(21 437)
	-	**540 983**

Growth and Development Summit Grant

Current-year receipts	300 000	-

Water Services Infrastructure Grant- WSIG

Balance unspent at beginning of year	-	1 249 585
Adjustment: Rollover not approved	-	(6 454 360)
Current-year receipts	70 000 000	49 400 000
Conditions met - transferred to revenue (Operating) - current year allocation	(951 842)	(4 731 915)
Conditions met - transferred to revenue (capital) - current year allocation	(36 454 556)	(39 463 310)
	32 593 602	**-**

Conditions still to be met - remain liabilities (see note 14).

23. Public contributions and donations

Public contributions and donations	135 100	2 000

Notes to the Annual Financial Statements

Figures in Rand | 2018 | 2017

24. Employee related costs

	2018	2017
Basic	54 793 802	54 430 706
Bonus	4 105 518	5 898 898
Medical aid - company contributions	3 701 476	3 427 749
UIF and SDL	1 089 876	1 078 324
Subsistence and Travel	933 798	-
Post-retirement medical aid	10 924 531	-
Leave pay provision charge	3 796 106	(1 869 595)
Standby Allowance	897 441	739 248
Shift Allowance	108 726	84 033
Defined contribution plans	6 744 800	6 438 961
Travel, motor car, accommodation, subsistence and other allowances	5 360 993	5 461 278
Overtime payments	5 056 440	4 265 406
Long-service awards	350 363	402 444
Housing benefits and allowances	349 712	353 988
Telephone	1 593	-
Bargaining council contribution	16 568	15 661
	98 231 743	**80 727 101**

Remuneration of Municipal Manager

	2018	2017
Annual Remuneration	1 054 692	680 211
Cellphone Allowance	18 000	10 500
	1 072 692	**690 711**

Remuneration of Chief Finance Officer

	2018	2017
Annual Remuneration	906 651	672 129
Cell[phone Allowance	18 000	12 000
	924 651	**684 129**

Director of Engineering Services

	2018	2017
Annual Remuneration	582 280	755 391
Car Allowance	114 726	172 089
Cellphone Allowance	12 000	18 000
Housing allowance and annual bonus	126 675	252 961
	835 681	**1 198 441**

The Director Engineering Service position was occupied for 8 months in 2018

Director of Development and Planning

	2018	2017
Annual Remuneration	564 767	847 150
Car Allowance	173 906	260 859
Cellphone allowance	12 000	18 000
Housing allowance	49 928	74 892
	800 601	**1 200 901**

The Director of Development and Planning position was occupied for 8 months in 2018

Director of Community Services

	2018	2017
Annual Remuneration	802 260	937 172
Car Allowance	13 661	163 927

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Employee related costs (continued)

Cellphone Allowance	18 000	18 000
Annual bonus	65 081	78 098
	899 002	**1 197 197**

Corporate services

The Director Corporate Services position was vacant for the 2018

25. Remuneration of councillors

Executive Major	823 853	680 141
Deputy Executive Mayor	655 902	520 263
Mayoral Committee Members	680 053	761 642
Speaker	312 848	552 552
Councillors	2 661 743	2 202 832
	5 134 399	**4 717 430**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.
The Mayor has use of a Council owned vehicle for official duties and has four full time driver/bodyguards.

Deputy Mayor has two full time driver/bodyguards.

26. Depreciation and amortisation

Property, plant and equipment	21 903 253	27 922 810
Intangible assets	254 379	938 953
	22 157 632	**28 861 763**

27. Impairment of assets

Impairments		
Property, plant and equipment	221 116	760 494
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		

28. Finance costs

Other interest payable	992 519	936 618

29. Debt impairment

Debt impairment	11 698 192	10 239 302

The debt impairment indicated above includes both the impairments on Current and Non-Current Debtors.

30. Bulk purchases

Water	18 052 392	13 942 643

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Contracted services

VIP Desludging	3 623 684	3 955 779
Water Tanker Service	13 105 767	12 239 840
Security Services	4 670 345	3 718 298
Pest control and hygiene service	85 703	151 330
	21 485 499	**20 065 247**

32. General expenses

Advertising	75 776	136 745
Assessment rates & municipal charges	639 511	722 586
Auditors remuneration	2 554 705	2 158 666
Bank charges	94 208	188 330
Cleaning	46 319	127 371
Debt collection	45 340	47 256
Consulting and professional fees	3 573 870	877 294
Consumables	188 589	471 568
Entertainment	6 375	36 736
Insurance	750 419	501 207
Conferences and seminars	5 999	4 451
IT expenses	1 813 071	1 499 635
Youth Programmes	3 409	-
Promotions and Marketing	51 615	55 792
Childrens Programmes	6 038	-
Sports Development Programme	438 904	-
Magazines, books and periodicals	1 378	135
Fleet - Fuel and oil	2 450 983	2 328 110
Pathological Sampling	9 324	-
Postage and courier	675 316	662 540
Printing and stationery	139 217	106 839
Protective clothing	205 795	223 007
Pre-paid expense	851 987	-
Royalties and license fees	701 773	226 204
HPCSA Registration fees	6 720	-
Budget & IDP roadshows	265 343	325 007
Staff welfare	20 876	65 220
Subscriptions and membership fees	793 016	915 426
Telephone and fax	766 035	1 043 109
Training	66 486	669 049
Travel - local	392 431	1 180 976
Electricity	6 531 228	4 923 536
Water Analysis	10 489	704 661
Town planning support	695 543	356 060
Project initiation	182 322	18 805
Audit committee costs	326 808	166 403
Call centre management	1 337 292	1 391 324
Community assets	19 738 078	30 320 672
Disaster management programmes	140 950	167 543
Arts and Culture	13 820	-
Lease rentals on operating lease	160 309	267 384
Road asset manangement	2 255 898	-
Chemicals	1 552 755	892 312
HIV/AIDS Plan Implementation	32 698	-
Other expenditure	827 028	208 390
	51 446 046	**53 990 349**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Income from controlled entities		
Interest	4 708 643	4 182 193

Impairment on property, plant and equipment	221 116	760 494
Amortisation on intangible assets	254 379	938 953
Depreciation on property, plant and equipment	21 903 253	27 922 810
Employee costs	103 366 142	85 444 531

34. Cash generated from operations

Surplus (deficit)	73 241 927	(1 594 389)
Adjustments for:		
Depreciation and amortisation	22 157 632	28 861 763
Impairment deficit	221 116	760 494
Debt impairment	11 698 192	-
Movements in provisions	11 810 121	(2 587 952)
Increase (Decrease) in valuation of investment in Associate	-	43 829 808
(Gain) Loss on disposal of property, plant and equipment	-	(8 709)
(Gain) Loss on disposal of investment property	-	(2 146 534)
Changes in working capital:		
Inventory	6 768 636	(1 443 522)
Receivables from exchange transactions	-	336 635
Consumer debtors	(13 027 511)	(4 560 676)
Other receivables from non-exchange transactions	2 223 951	-
Payables from exchange transactions	(3 194 846)	3 656 098
VAT	(2 892 369)	(813 358)
Unspent conditional grants and receipts	28 688 742	(6 032 996)
	137 695 591	**58 256 662**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	48 000 000	72 245 590

Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	79 206 000	47 821 410

Total capital commitments		
Already contracted for but not provided for	48 000 000	72 245 590
Not yet contracted for and authorised by accounting officer	79 206 000	47 821 410
	127 206 000	**120 067 000**

Total commitments

Total commitments		
Authorised capital expenditure	127 206 000	120 067 000

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Contingencies

Matter type	Department	File number	Matter	Amount	Total
LABOUR COURT MATTER	Corporate Services	0211/16	TW Dube	R409 070	409 070
LITIGATION MATTER INSTITUTED AGAINST ADM	Corporate Services	0001/15	Phungo Inc	R171 622	171 622
LITIGATION MATTER INSTITUTED AGAINST ADM	Municipal Manager	0279/17	Integrity Forensic Investigation	R728 714	728 714
LITIGATION MATTER INSTITUTED AGAINST ADM	Corporate Services	0299/18	Claim for medical expenses by employee S A Cele as a result of injury on duty (IOD)	R75 174	75 174
LITIGATION MATTER INSTITUTED AGAINST ADM	Community Services	0203/16	Claim for Damages arising out of injuries sustained by a member of the public while attending a June 16 celebration in 2016	R10 000 000	10 000 000
OTHER LEGAL MATTER ATTENDED TO BY LEGAL	Engineering Services	223/17	Servitudes	R241 994	241 994
					11 626 574

37. Related parties

Relationships
Shareholder with joint control uThukela Water (Proprietary) Limited
The entity, uThukela Water (Pty) Ltd, is jointly owned and controlled by Amajuba DM, Newcastle LM and uMzinyathi DM and supplies the municipality with bulk water services.
Related party balances

Amounts included in trade Recievables(Trade Payables)

Regarding related parties		
uThukela Water (Proprietary) Limited	(29 664 174)	(31 652 655)

38. Prior period errors

The adjustment of prior year errors resulted from incorrect and incomplete accounting. Adjustment for errors in the prior year is as follows:

Statement of financial position		
Property, plant and equipment	12 040 633	2 880 760
Unspent conditional grants and receipts	(1 370 522)	-
-Incorrect accounting in the 2015 and 2016 financial years	-	(18 663 683)

39. Prior-year adjustments

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

Statement of financial position

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

39. Prior-year adjustments (continued)

2017

	Note	As previously reported	Correction of error	Restated
Unspent grants and subsidies	14	7 425 912	(1 370 522)	6 055 390
Buildings	3	16 816 864	146 146	16 963 010
Plant and machinery	3	2 051 481	264 277	2 315 758
Furniture and fixtures	3	562 371	187 234	749 605
Motor vehicles	3	3 699 222	560 174	4 259 396
Office equipment	3	1 289 589	349 038	1 638 627
IT Equipment	3	40 261	15 369	55 630
Park facilities	3	20 504 272	(51 782)	20 452 490
Wastewater network	3	31 166 544	4 974 115	36 140 659
Water network	3	176 323 033	16 057 856	192 380 889
Capital Work in Progress	3	95 406 257	(7 720 750)	87 685 507
Intangible asset - Software (Accmunalated depreciation)	4	(3 323 712)	463 458	(2 860 254)
Accumulated surplus		592 499 738	18 012 436	610 512 174
Inventory	7	6 926 767	681 018	7 607 785
		951 388 599	**32 568 067**	**983 956 666**

Statement of financial performance

2017

	Note	As previously reported	Correction of error	Restated
Government grants and subsidies	22	222 877 430	1 370 522	224 247 952

Errors

The following prior period errors adjustments occurred:

Unspent grant and subsidies

In correcting errors on grants, the municipality had to process a journal correcting incorrect accounting entries which occurred in prior years on MIG and WSIG. The effect of the journal passed resulted in the disclosures for 2017 restated Income, Expenditure and Unspent Grants.

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

39. Prior-year adjustments (continued)

Property, plant and equipment

Buildings
Prior year opening balanaces understated.

Plant and machinery
Prior error movables found_ 2016 effect

Furniture and fixtures
Prior year error on opening balances_2016 effect

Motor Vehicles
Prior year opening balance understated

Office equiqment
Prior year error, moveable found _2016 effect

IT equipment
Prior year error

Park facilities
Prior year error, Infrastructure new found items_2016/2017 effect

Wastewater network
Prior year error, Infrastructure new found items _2016/2017 effect

Water network
Prior year error, Infrastructure new found items_2016/2017 effect

Capital Work in progress
Work in progress transferred to Water network during 2017 financial year.

40. Risk management

Liquidity risk

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

Capital risk management

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position. Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt. There are no externally imposed capital requirements.

Total borrowings	**2018**	**2017**
Finance lease obligation	167 358	295 170
Other financial liabilities	8 103 063	8 889 018
Total: (Finance lease obligation & Other financial liabilities)	8 270 421	9 184 188
Less: Cash and cash equivalents	(54 079 120)	(21 008 587)
	(45 808 699)	(11 824 399)
Total equity	630 855 496	590 684 366
Total capital	585 046 797	578 859 967

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

41. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 605 228 371 and that the municipality's total liabilities exceed its assets by R 605 228 371.

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.

42. Unauthorised expenditure

Balance brought forward	612 265 650	576 758 735
Budget overspending	31 678 155	35 506 915
	643 943 805	**612 265 650**

The unauthorised expenditure relates to overspending of the budget.

The matter is still under investigation and appropriate action will be taken when the matter is finalised
There is currently no disciplinarhy action taken in respect to this unauthorised expenditure

43. Fruitless and wasteful expenditure

Opening balance	1 926 271	1 877 630
Fruitless and wasteful expenditure- current year	205 176	48 641
	2 131 447	**1 926 271**

Fruitless and wasteful expenditure relates to penalties incurred because of late payments.
Interest charges on overdue accounts: The Municipality was charged for interest on outstanding accounts. The main creditors that charged interest consist of:

Creditors	
Telkom	6 246
ESKOM	48 159
SARS	128 727
Newcastle Municipality	8 316
AUDITOR GENERAL	942
EMADLANGENI MUNICIPALITY	4 009
MCHUNU N	8 777
	205 176

44. Irregular expenditure

Opening balance	50 896 237	50 592 459
Add: Irregular Expenditure - current year	-	303 778
	50 896 237	**50 896 237**

Analysis of expenditure awaiting condonation per age classification

Current year	-	303 778
Prior years	50 896 237	50 592 459
	50 896 237	**50 896 237**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2018	2017
Current year subscription / fee	845 780	915 426
Amount paid - current year	(845 780)	(915 426)
	-	-

Audit fees

	2018	2017
Current year subscription / fee	2 554 705	2 158 666
Amount paid - current year	(2 554 705)	(2 158 666)
	-	-

PAYE and UIF

	2018	2017
Current year subscription / fee	15 992 309	15 599 043
Amount paid - current year	(15 992 309)	(15 599 043)
	-	-

Pension and Medical Aid Deductions

	2018	2017
Current year subscription / fee	16 214 253	15 884 055
Amount paid - current year	(16 214 253)	(15 884 055)
	-	-

VAT

	2018	2017
VAT receivable	8 991 723	6 099 354

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

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 Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2018	2017
Expenditure on emergency repairs	850 316	819 137
Exceptional cases where it is impractical or impossible to follow the official procurement processes	4 327 252	693 112
Expenditure on goods or services which are produced by, or available from, a single provider only	223 676	1 621 174
	5 401 244	**3 133 423**

46. Utilisation of Long-term liabilities reconciliation

	2018	2017
Long-term liabilities raised	8 103 063	8 889 018

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

47. Deviation from supply chain management regulations

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

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

The services and goods as detailed below were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

No.	Date Reported to Accounting Officer /Council	Date of Payment /Date of order	Payment Number/ Order nu mber	Amount	Description of Incident	Service Provider
			7650	1 665	Confidential laser pay slips	Payday Software Systems (PTY) LTD
2	23 October 2017	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
3	23 October 2017	27-09-2017	7681	5 490	Generator Repairs	Utrecht Auto and General
4	30 January 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
5	30 January 2018	11-10-2017	7701	1 545	Repair of water testing equipment	Hanna Instruments (PTY)LTD
6	30 January 2018	13-10-2017	7702	27 769	Repair motor for Buffalo flat pump station	Power Armature Winders
7	30 January 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
8	30 January 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
9	30 January 2018	06-12-2017	7703	3 304	Confidential laser pay slips	Payday Software Systems (PTY) LTD
10	30 January 2018	06-12-2017	7801	59 850	Sport wear & water bottles for SALGA games	EKAYA PROMO
11	30 January 2018	06-12-2017	7802	62 000	Catering for SALGA games (07 & 11 December 2017)	63M3
12	23 April 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
13	23 April 2018	17-01-2017	7704	5 050	Lexmark x544 low voltage power supply	ITEC
14	23 April 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
15	23 April 2018	14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
16	23 April 2018	12-02-2018	7705	21 899	Repairs of a telemetry System by the main supplier for Utrecht raw water pump station	Vangard Projects
17	23 April 2018	01-03-2018	7706	10 906	Supply and delivery of PA meter probe HI 1131	Hanna Instrument
18	23 April 2018	23-03-2018	7707	151 029	Servicing and repair of the chlorination units at Durnacol.	Water IQ cc
19	23 April 2018	26-03-2018	7708	179 398	ESRI Software Maintenance Renewal	Esri South Africa
20	23 April 2018	28-03-2018	7709	23 940	Installation of a level indicator (robot) at Utrecht Reservoir.	Fickelect PTY LTD
21		14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
22		14-09-2017	7666	22 011	Security Services	Ocean Dawn Security

47. Deviation from supply chain management regulations (continued)

23	15-05-2018	7712	23 597	Maintenance of skit units and fire trailers	Construction and Cutting Machine
24	18-05-2018	7713	405 191	Office 365, Business premium.	First Technology KZN (PTY) Ltd
25	21-05-2018	7714	37 305	Provision of accommodation at the strategic planning session for 35 people and catering for 27 people	Grey Goose Farm Lodge CC
26	21-05-2018	7715	853 367	GRAP compliant fixed asset register for 2017/2018 financial year	Market Demand Trading
27	30-05-2018	7718	623 070	Appointment of Security service provider for the provision of 4 hand guns, 2 rifles, 2 safes and one retainer for 18 months.	Ummvemve T/A Security 4 u
28	- 14-09-2017	7666	22 011	Security Services	Ocean Dawn Security
29	- 08-06-2018	7619	79 235	Removal of sludge from water treatment process units	Kantech Services
30	- 08-06-2018	7720	53 604	Building the chamber, modify the pipework complete with valves and lids	Kantech Services
31	- 14-06-2018	7721	1 253	Repairs to stihl circular saw TS 420 JIC 124000	Construction and cutting
32	- 18-06-2018	7722	149 628	CaseWare software licence and updates	Adapt IT (Pty)Ltd
33	- 25-06-2018	7724	388 800	Replacing faulty meters and installation of new domestic meters in Dannhauser and eMadlangeni.	Purangie Enterprise (Pty) Ltd
34	- 28-06-2018	7725	12 330	Repair electro brushcutters, Sthil FS 450, Honda GXV160, Shindaiwa B450	NN Mowerman

48. Water losses

Water losses are as follows:

	2018	2017
Units lost (Kl)	4 731 124	3 645 757
Total loss in Rand Value	51 712 781	33 718 261

Distribution losses relates to unaccounted water distributed. The foregoing costs, which represents 92% of households and 8% businesses of the water purchases for the year, has been included in bulk purchases. The average cost per unit in 2018 amounts to R10.93033801 (2017: R9.248632278). The level of the distribution losses are not within the acceptable norms.