



GERT SIBANDE DISTRICT MUNICIPALITY  
Financial statements  
for the year ended 30 June 2018

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## General Information

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Legal form of entity	District Municipality
Nature of business and principal activities	A Category C Municipality established in terms of the Structures Act 117 of 1998 which execute some of the functions of Local Government (DC30) and Section 155(c) of the Constitution of the Republic of South Africa, 1996.
The following is included in the scope of operation	Local Government - Service Delivery in Mpumalanga
Speaker	Nkosi JM
Executive Mayor	Chirwa MG
Chief Whip	Nkosi SGT
Mayoral committee	Buthelizi BM Dhlamini ES Masina LL Nhlapo NS Nhlengethwa DG Sekhonde BG
Councillors	Botha C Brussow JLI De Ville JR De Vries GR Dlamini LBR Greyling GS Joubert LK Karim LS Khumalo MJ Khumalo MS Kubheka MN Maboa-Boltman NF Maboea SA Madonsela ME Makhubu ML Makola MB Malatsi PV Masondo TS Mathebula SB Mazibuko KD Mbhele JS Mlotshwa TL Mkhaliphi BJ Mkwanazi CB Mtshali BH Motha VM Ngubeni A Ngwenya M Ngxonono TY Nkosi BG Nkosi DP Nkosi KP Nkosi MJ Nkosi MS Nkosi VL Sebolela JD Sibanyoni SI Sibeko PT Zulu TSM
Grading of local authority	3

# **GERT SIBANDE DISTRICT MUNICIPALITY**

Financial Statements for the year ended 30 June 2018

## **General Information**

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<b>Chief Finance Officer (CFO)</b>	<b>Buthelezi ZR</b>
<b>Accounting Officer</b>	<b>Habile CA</b>
<b>Registered office</b>	<b>Cnr Joubert &amp; Oosthuise Street Ermelo Mpumalanga 2351</b>
<b>Business address</b>	<b>Cnr Joubert &amp; Oosthuise Street Ermelo Mpumalanga 2351</b>
<b>Postal address</b>	<b>PO Box 1748 Ermelo Mpumalanga 2350</b>
<b>Bankers</b>	<b>FNB</b>
<b>Auditors</b>	<b>Auditor General Of South Africa</b>
<b>Attorneys</b>	<b>Panel of attorneys</b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

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

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### Abbreviations

COGTA	Mpumalanga Provincial Department of Co-operative Governance and Traditional Affairs
CIGFARO	Chartered Institute of Government Finance Audit and Risk Officers
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
GSDM	Gert Sibande District Municipality
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Account
MPAC	Municipal Public Accounts Committee
VAT	Value Added Tax

# **GERT SIBANDE DISTRICT MUNICIPALITY**

Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

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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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

The 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 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 municipality 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the 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 financial statements. The financial statements have been examined by the municipality's external auditors.e financial statements set out on pages 5 to 64, which have been prepared on the going concern basis, were approved by the on 31 August 2018 and were signed on its behalf by:

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**Habile CA**  
**Municipal Manager**

**Ermelo**  
**31 August 2018**

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Figures in Rand	Notes	2018	2017 Restated*
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	3	148,022,646	91,296,278
Inventories	4	81,052,857	86,937,423
Other financial assets - investments	5	-	80,000,000
Receivables from exchange transactions	6	2,746,601	3,697,090
VAT receivable	7	22,558,350	23,443,834
		<b>254,380,454</b>	<b>285,374,625</b>
Non-Current Assets			
Heritage assets	8	159,250	159,250
Intangible assets	9	215,134	322,627
Property, plant and equipment	10	303,947,569	297,374,243
Receivables from non-exchange transactions	11	1,283,310	1,021,856
		<b>305,605,263</b>	<b>298,877,976</b>
<b>Total Assets</b>		<b>559,985,717</b>	<b>584,252,601</b>
<b>Liabilities</b>			
Current Liabilities			
Finance lease obligation	12	1,216,951	742,213
Payables from exchange transactions	13	62,473,286	82,838,236
Provisions	14	2,987,331	3,225,227
Unspent conditional grants and receipts	15	4,022,260	24,247,452
		<b>70,699,828</b>	<b>111,053,128</b>
Non-Current Liabilities			
Finance lease obligation	12	1,281,170	1,879,609
Provisions	14	4,856,855	4,577,548
Retirement benefit obligation	17	741,216	755,964
		<b>6,879,241</b>	<b>7,213,121</b>
<b>Total Liabilities</b>		<b>77,579,069</b>	<b>118,266,249</b>
<b>Net Assets</b>		<b>482,406,648</b>	<b>465,986,352</b>
Accumulated surplus		482,406,648	465,966,610

\* See Note 35

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Figures in Rand	Notes	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Fair value adjustments		-	4,330,992
Gain on disposal of assets and liabilities		87,662	-
Interest received - investment	18	16,346,681	14,853,282
Other income	19	296,683	485,174
Health income		285,092	206,176
Service charges	20	2,629,338	2,794,364
<b>Total revenue from exchange transactions</b>		<b>19,645,456</b>	<b>22,669,988</b>
<b>Revenue from non-exchange transactions</b>			
Public contributions and donations		-	530,543
Transfers and Subsidies - Received	21	431,698,560	358,478,445
<b>Total revenue from non-exchange transactions</b>		<b>431,698,560</b>	<b>359,008,988</b>
<b>Total revenue</b>		<b>451,344,016</b>	<b>381,678,976</b>
<b>Expenditure</b>			
Depreciation and amortisation	22	(19,717,453)	(17,835,915)
Employee related costs	23	(130,848,598)	(111,194,694)
Finance costs	24	(1,137,750)	(665,209)
Lease rentals on operating lease	25	(126,100)	(497,620)
Loss on disposal of assets and liabilities		-	(230,890)
Operating Costs	26	(58,278,215)	(46,030,387)
Remuneration of councillors	27	(12,527,187)	(11,593,628)
Transfers and Subsidies - Paid	28	(212,268,678)	(93,150,386)
<b>Total expenditure</b>		<b>(434,903,981)</b>	<b>(281,198,729)</b>
<b>Surplus for the year</b>		<b>16,440,035</b>	<b>100,480,247</b>

\* See Note 35

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	365,506,103	365,506,103
Adjustments		
Correction of errors	(19,740)	(19,740)
<b>Balance at 01 July 2016 as restated*</b>	<b>365,486,363</b>	<b>365,486,363</b>
Changes in net assets		
Surplus for the year	100,480,247	100,480,247
Total changes	100,480,247	100,480,247
<b>Restated* Balance at 01 July 2017</b>	<b>465,966,613</b>	<b>465,966,613</b>
Changes in net assets		
Surplus for the year	16,440,035	16,440,035
Total changes	16,440,035	16,440,035
<b>Balance at 30 June 2018</b>	<b>482,406,648</b>	<b>482,406,648</b>

\* See Note 35



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Figures in Rand	Notes	2018	2017 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		285,092	206,176
Grants		411,473,368	367,694,108
Interest income		16,344,148	14,830,838
Other receipts		3,881,817	3,279,538
		<u>431,984,425</u>	<u>386,010,660</u>
<b>Payments</b>			
Employee costs		(142,423,712)	(122,395,068)
Suppliers		(284,267,893)	(170,048,135)
Finance costs		(714,336)	-
		<u>(427,405,941)</u>	<u>(292,443,203)</u>
<b>Net cash flows from operating activities</b>	29	<b><u>4,578,484</u></b>	<b><u>93,567,457</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(26,355,941)	(6,372,359)
Proceeds from sale of property, plant and equipment	10	-	120,000
Purchase of financial assets		80,000,000	(80,000,000)
Purchase of other		-	(345,136)
		<u>53,644,059</u>	<u>(86,597,495)</u>
<b>Net cash flows from investing activities</b>		<b><u>53,644,059</u></b>	<b><u>(86,597,495)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(1,496,173)	(317,936)
		<u>56,726,370</u>	<u>6,652,026</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>56,726,370</u></b>	<b><u>6,652,026</u></b>
Cash and cash equivalents at the beginning of the year		91,296,278	84,644,252
<b>Cash and cash equivalents at the end of the year</b>	3	<b><u>148,022,648</u></b>	<b><u>91,296,278</u></b>

\* See Note 35

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1,500,000	700,000	<b>2,200,000</b>	2,629,338	<b>429,338</b>	More laboratory testing had to be done than anticipated.
Health income	400,000	-	<b>400,000</b>	285,092	<b>(114,908)</b>	Not material
Other income	372,640	57,530	<b>430,170</b>	557,661	<b>127,491</b>	Not material
Interest received - investment	7,000,000	7,285,000	<b>14,285,000</b>	16,369,125	<b>2,084,125</b>	Increased in conditional grants resulting in more investments made which attracted more interest
<b>Total revenue from exchange transactions</b>	<b>9,272,640</b>	<b>8,042,530</b>	<b>17,315,170</b>	<b>19,841,216</b>	<b>2,526,046</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants and subsidies	411,612,000	24,108,000	<b>435,720,000</b>	431,698,560	<b>(4,021,440)</b>	Some of the projects are multi year therefore included in the inventory not expenditure.
<b>Total revenue</b>	<b>420,884,640</b>	<b>32,150,530</b>	<b>453,035,170</b>	<b>451,539,776</b>	<b>(1,495,394)</b>	
<b>Expenditure</b>						
Personnel	(138,988,000)	2,965,849	<b>(136,022,151)</b>	(130,848,598)	<b>5,173,553</b>	Some of the vacant positions could not be filled in time resulting in savings on personnel expenditure
Remuneration of councillors	(13,282,370)	631,830	<b>(12,650,540)</b>	(12,527,186)	<b>123,354</b>	Not material
Depreciation and amortisation	(18,281,000)	(1,737,000)	<b>(20,018,000)</b>	(19,717,741)	<b>300,259</b>	Some of the budgeted assets were purchased later in the year than budgeted for.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reasons for material variances
Figures in Rand						
Finance costs	-	(650,000)	<b>(650,000)</b>	(1,137,750)	<b>(487,750)</b>	More finance lease transactions entered into by the municipality.
Lease rentals on operating lease	-	(3,068,000)	<b>(3,068,000)</b>	(2,700,619)	<b>367,381</b>	
Grants and subsidies	(255,407,325)	29,748,520	<b>(225,658,805)</b>	(212,269,547)	<b>13,389,258</b>	Some of the projects done on behalf of local municipalities has not been completed therefore included in inventory until completed and transferred.
General expenses	(57,006,660)	(3,977,989)	<b>(60,984,649)</b>	(58,277,345)	<b>2,707,304</b>	Earlier implementation of cost containment measures.
<b>Total expenditure</b>	<b>(482,965,355)</b>	<b>23,913,210</b>	<b>(459,052,145)</b>	<b>(437,478,786)</b>	<b>21,573,359</b>	
<b>Operating surplus</b>	<b>(62,080,715)</b>	<b>56,063,740</b>	<b>(6,016,975)</b>	<b>14,060,990</b>	<b>20,077,965</b>	
Gain on disposal of assets and liabilities	-	-	-	87,662	<b>87,662</b>	Not material
<b>Surplus before taxation</b>	<b>(62,080,715)</b>	<b>56,063,740</b>	<b>(6,016,975)</b>	<b>14,148,652</b>	<b>20,165,627</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(62,080,715)</b>	<b>56,063,740</b>	<b>(6,016,975)</b>	<b>14,148,652</b>	<b>20,165,627</b>	

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1. Presentation of Financial Statements

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

These 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.

The District has finalised and prepared the annual financial statements on version 6.1 of mSCOA. Items were reclassified and renamed in terms of mSCOA.

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

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

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

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

##### Impairment testing

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

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

##### Useful lives of property, plant and equipment and other assets

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. 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 17.

### 1.3 Cash and cash equivalents

Cash and cash equivalents are measured at their fair value.

### 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.

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.

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

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

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

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.

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

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Item	Depreciation method	Average useful life
Land		Indefinite

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# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.4 Property, plant and equipment (continued)

Buildings		
• Office Building	Straight line	30
• Laboratories	Straight line	30
• Disaster centres	Straight line	30
Plant and equipment	Straight line	5
Furniture and fixtures		
• Office furniture	Straight line	7
• Elevator system	Straight line	20
• Transformer	Straight line	50
Motor vehicles		
• Motor vehicles	Straight line	7
• Construction vehicles	Straight line	10
Office equipment	Straight line	7
IT equipment	Straight line	5
Lab equipment	Straight line	7
Communication equipment	Straight line	2
Park facilities		
• Public parking	Straight line	30
• Carports/garages/shelters	Straight line	15
Lease copiers	Straight line	3
Specialised vehicles		
• Emergency vehicles	Straight line	12
Heritage		Indefinite

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.

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 municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

### 1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.5 Intangible assets (continued)

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:

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Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	5 Years

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Intangible assets are derecognised:

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

### 1.6 Heritage assets

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

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

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

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

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

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

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

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

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### 1.6 Heritage assets (continued)

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

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

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

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

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.7 Financial instruments

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

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

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

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



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### 1.7 Financial instruments (continued)

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.

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;

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### 1.7 Financial instruments (continued)

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

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

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

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

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

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

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

### Initial recognition

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

The entity recognises financial assets using trade date accounting.

### Initial measurement of financial assets and financial liabilities

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

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

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### 1.7 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:

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Financial Statements for the year ended 30 June 2018

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### 1.7 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.

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Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.7 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.

# GERT SIBANDE DISTRICT MUNICIPALITY

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### 1.7 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.

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.

### 1.8 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.

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

#### Operating leases - lessee

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

### 1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or

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Financial Statements for the year ended 30 June 2018

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### 1.9 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

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Financial Statements for the year ended 30 June 2018

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

#### Identification

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

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

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

#### Reversal of an impairment loss

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

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

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

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

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

### 1.11 Accumulated reserves

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

### 1.12 Study bursary assets

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible instruments and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the municipality, is included in equity.

Combined units are compound instruments, consisting of a debenture (liability) component and a share (equity) component. The debentures are carried at amortised cost, and any premium or discount on issue is written off over the redemption period using the effective interest rate method.

Issue costs are apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

### 1.13 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.13 Employee benefits (continued)

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

#### Post-employment benefits

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.13 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

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

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

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

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

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

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.13 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.15 Commitments (continued)

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.16 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Interest, royalties and dividends

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

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

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

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

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

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

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

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

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

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



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

#### Transfers

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

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

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

#### Services in-kind

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.18 Investment income

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

### 1.19 Comparative figures

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

### 1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.21 Fruitless and wasteful expenditure

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

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

### 1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.22 Irregular expenditure (continued)

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.

### 1.23 Budget information

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

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

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

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

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

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

### 1.24 Related parties

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

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

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

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

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

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

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

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

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

### 1.25 Events after reporting date

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Accounting Policies for the year ended

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### 1.25 Events after reporting date (continued)

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

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

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

### 1.26 Value Added Tax

The municipality accounts for value added taxation on the payment basis

### 1.27 Offsetting

Assets, liabilities, revenue and expenses have not been offsetted when offsetting is required or permitted by a Standard of GRAP

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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### 2. New standards and interpretations

#### GRAP 34: Separate Financial Statements

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

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

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

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

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

#### GRAP 35: Consolidated Financial Statements

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

To meet this objective, the Standard:

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

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

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

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

It is unlikely that the standard will have a material impact on the municipality's 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 expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

#### GRAP 37: Joint Arrangements

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

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

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

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

It is unlikely that the standard will have a material impact on the municipality's 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 expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

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

#### **GRAP 110: Living and Non-living Resources**

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

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

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

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

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

#### **GRAP 20: Related parties**

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

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

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

### **GRAP 32: Service Concession Arrangements: Grantor**

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

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

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

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 108: Statutory Receivables**

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

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

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

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

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

#### **GRAP 109: Accounting by Principals and Agents**

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

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

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

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

The impact of this standard is currently being assessed.

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

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

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

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

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

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

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



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

#### **IGRAP 19: Liabilities to Pay Levies**

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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

# **GERT SIBANDE DISTRICT MUNICIPALITY**

Financial Statements for the year ended 30 June 2018

## **Notes to the Financial Statements**

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### **2. New standards and interpretations (continued)**

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

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand 2018 2017

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8,100	8,100
Bank balances	148,022,647	91,288,178
	<b>148,030,747</b>	<b>91,296,278</b>

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 - Current Account - 010-5397-1462	3,301,021	24,506,882	18,486,736	3,302,475	24,506,882	84,363,124
ABSA BANK - Call Account - 40-6821-1572	-	-	65,881,806	-	-	-
NEDBANK - Current Account - 1454106999	-	-	275,527	-	-	275,527
FNB BANK - Current Account - 62638396334	25,373,183	17,163,959	-	144,624,910	66,781,296	-
FNB BANK - Call Type - 6261377848	119,149,124	50,162,177	-	-	-	-
<b>Total</b>	<b>147,823,328</b>	<b>91,833,018</b>	<b>84,644,069</b>	<b>147,927,385</b>	<b>91,288,178</b>	<b>84,638,651</b>

### 4. Inventories

Work in progress	80,892,356	86,795,959
Inventories operational	160,501	141,464
	<b>81,052,857</b>	<b>86,937,423</b>

#### Work in process

GSDM is the implementing agent on behalf of the Department of Water and Sanitation for projects in Chief Albert Luthuli, Msukaligwa and Dipaleseng Local Municipalities in terms of the gazetted DORA Grant allocations that were transferred to GSDM. These projects are uncompleted multi year projects and have been accounted for as inventory.

#### Inventories operational

Inventory stock have been maintained throughout the financial year relating to the printing and stationery needs of all departments.

#### Inventory pledged as security

No inventory was pledged as security

### 5. Other financial assets - investments

#### **At amortised cost**

Investments are all at amortised cost - 80,000,000

#### **Current assets**

Investments at approved financial institutions - 80,000,000

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>6. Receivables from exchange transactions</b>		
Other receivables	2,715,868	3,646,446
Deposits	28,200	28,200
Accrued interest	2,533	22,444
	<b>2,746,601</b>	<b>3,697,090</b>

### Credit quality of Receivables from exchange transactions

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### Fair value of Receivables from exchange transactions

#### Receivables from exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R2,756,805 - (2017: R3,697,090 -) were past due but not impaired.

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

#### 7. VAT receivable

VAT	24,956,634	25,041,702
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#### 8. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain and portraits	159,250	-	159,250	159,250	-	159,250

#### Reconciliation of heritage assets - June 2018

	Opening balance	Total
Mayoral chain and portraits	159,250	159,250

#### Reconciliation of heritage assets - June 2017

	Opening balance	Revaluation increase/(decrease)	Total
Mayoral chain and portraits	154,250	5,000	159,250

#### 9. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,253,486	(1,038,352)	215,134	1,253,486	(930,859)	322,627

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand 2018 2017

### 9. Intangible assets (continued)

#### Reconciliation of intangible assets - June 2018

	Opening balance	Amortisation	Total
Computer software	322,627	(107,493)	215,134

#### Reconciliation of intangible assets - June 2017

	Opening balance	Amortisation	Total
Computer software	1,253,486	(930,859)	322,627

### 10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	345,575,077	(85,733,901)	259,841,176	336,483,323	(73,413,438)	263,069,885
Furniture and fixtures	10,849,618	(6,400,366)	4,449,252	10,614,612	(5,273,352)	5,341,260
IT equipment	13,504,222	(6,508,142)	6,996,080	9,251,265	(4,346,958)	4,904,307
Land	360,000	-	360,000	360,000	-	360,000
Motor vehicles	32,070,571	(16,757,804)	15,312,767	26,058,453	(14,485,386)	11,573,067
Plant and equipment	27,442,100	(10,453,806)	16,988,294	21,343,473	(9,217,749)	12,125,724
<b>Total</b>	<b>429,801,588</b>	<b>(125,854,019)</b>	<b>303,947,569</b>	<b>404,111,126</b>	<b>(106,736,883)</b>	<b>297,374,243</b>

#### Reconciliation of property, plant and equipment - June 2018

	Opening balance	Additions	Disposals	Depreciation	Impairment reversal	Total
Buildings	263,069,885	9,091,752	-	(11,266,520)	-	260,895,117
Furniture and fixtures	5,341,260	270,960	(27,238)	(1,146,120)	10,390	4,449,252
IT equipment	4,904,307	4,426,586	(80,662)	(2,290,508)	36,357	6,996,080
Land	360,000	-	-	-	-	360,000
Motor vehicles	11,573,067	6,468,000	(111,200)	(2,617,100)	-	15,312,767
Plant and equipment	12,125,724	6,098,200	-	(2,290,018)	-	15,933,906
<b>Total</b>	<b>297,374,243</b>	<b>26,355,498</b>	<b>(219,100)</b>	<b>(19,610,266)</b>	<b>46,747</b>	<b>303,947,122</b>

#### Reconciliation of property, plant and equipment - June 2017

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Impairment reversal	Total
Buildings	273,517,249	2,239,226	-	-	(12,881,602)	-	263,069,885
Furniture and fixtures	2,553,039	726,354	(20,982)	3,041,912	(978,227)	19,164	5,341,260
IT equipment	1,988,461	3,192,878	(212,143)	925,986	(1,130,395)	139,520	4,904,307
Land	360,000	-	-	-	-	-	360,000
Motor vehicles	11,294,219	2,746,612	(710,400)	-	(2,191,316)	433,952	11,573,067
Plant and equipment	11,704,409	654,380	-	358,080	(591,145)	-	12,125,724
<b>Total</b>	<b>301,417,377</b>	<b>9,559,450</b>	<b>(943,525)</b>	<b>4,325,978</b>	<b>(17,772,685)</b>	<b>592,636</b>	<b>297,374,243</b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

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Figures in Rand	2018	2017
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### 10. Property, plant and equipment (continued)

#### Pledged as security

The municipality do not have assets pledged as security:

#### Remaining useful life extension

#### Reconciliation of Work-in-Progress - June 2018

	Included within Other PPE	Total
Opening balance	4,797,505	4,797,505
Additions/capital expenditure	9,091,754	9,091,754
	<b>13,889,259</b>	<b>13,889,259</b>

#### Reconciliation of Work-in-Progress - June 2017

	Included within Other PPE	Total
Opening balance	2,558,279	2,558,279
Additions/capital expenditure	2,239,226	2,239,226
	<b>4,797,505</b>	<b>4,797,505</b>

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.

### 11. Receivables from non-exchange transactions

Other debtors	30,264	-
Study bursaries	1,253,046	1,021,856
	<b>1,283,310</b>	<b>1,021,856</b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,701,631	1,364,793
- in second to fifth year inclusive	1,439,835	2,411,652
	<u>3,141,466</u>	<u>3,776,445</u>
less: future finance charges	(643,345)	(1,154,623)
<b>Present value of minimum lease payments</b>	<b><u>2,498,121</u></b>	<b><u>2,621,822</u></b>
<b>Present value of minimum lease payments due</b>		
- within one year	1,216,951	742,213
- in second to fifth year inclusive	1,281,170	1,879,609
	<u>2,498,121</u>	<u>2,621,822</u>
Non-current liabilities	1,281,170	1,879,609
Current liabilities	1,216,951	742,213
	<b><u>2,498,121</u></b>	<b><u>2,621,822</u></b>

Gert Sibande District Municipality lease certain computer equipment under finance leases from Vodacom and Nashua.

The average lease term was 2-3 years and the average effective borrowing rate was 10.5% (2017: 10.5%).

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

### 13. Payables from exchange transactions

Accrual payables	29,088,122	62,168,777
Health payments	-	24,743
Other creditors	5,361	381,200
Retentions	22,466,087	11,279,339
Staff leave pay	10,913,716	8,984,177
	<b><u>62,473,286</u></b>	<b><u>82,838,236</u></b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

2018

2017

### 14. Provisions

#### Reconciliation of provisions - June 2018

	Opening Balance	Additions	Reversed during the year	Total
Provision for staff bonuses	2,253,565	2,604,350	(2,253,565)	2,604,350
Provision for performance bonuses	971,662	382,981	(971,662)	382,981
Provision for long service awards	4,577,548	279,307	-	4,856,855
	<b>7,802,775</b>	<b>3,266,638</b>	<b>(3,225,227)</b>	<b>7,844,186</b>

#### Reconciliation of provisions - June 2017

	Opening Balance	Additions	Reversed during the year	Total
Provision staff bonuses	2,005,067	2,253,565	(2,005,067)	2,253,565
Provision performance bonuses	595,418	625,742	(249,498)	971,662
Provisions for long service awards	4,327,000	250,548	-	4,577,548
	<b>6,927,485</b>	<b>3,129,855</b>	<b>(2,254,565)</b>	<b>7,802,775</b>

Non-current liabilities			4,856,855	4,577,548
Current liabilities			2,987,331	3,225,227
			<b>7,844,186</b>	<b>7,802,775</b>

#### Provision for staff bonuses

Staff bonus to employees is in accordance with the collective bargaining agreement. Provision is made for the full cost of accrued bonuses at reporting date. The provision will be realised as employees bonuses are paid out. Additional relates to full financial impact per department for the period under review.

#### Provision for performance bonuses

Performance bonuses are being paid to the Accounting Officer and General Manager after evaluation of performance.

#### Provision for long service awards

Benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. The leave days awarded have been converted to a percentage of annual salary to the next interval by allowing for future salary growth.

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Rural roads asset management systems grant	-	138,632
Infrastructure skills development grant	140,298	-
Department of water and sanitation	3,881,962	24,108,820
	<b>4,022,260</b>	<b>24,247,452</b>

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

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

See note 21 for reconciliation of grants from National/Provincial Government.



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>15. Unspent conditional grants and receipts (continued)</b>		
These amounts are invested in a ring-fenced investment until utilised.		
<b>16. VAT payable</b>		
Tax refunds payables	16,790,599	1,597,868
<b>17. Retirement benefit obligations</b>		
<b>Defined benefit plan</b>		
Post retirement medical aid plan		
The post employment medical aid plan liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by member basis, taking into account matters arising in respect of principal member and their spouses. Ages were calculated as age last birthday on 30 June 2016		
The Project Unit Credit Method was used as prescribed by GRAP 25. The method is based on the approximation that the post-retirement benefit is normally built up over the employee's working life.		
The actuarial valuation of PRMA liability involves the following:		
The projection of future post retirement medical contributions subsidy cashflow, taking into account probabilities of survival withdraw, ill-health retirement and death in service. The medical contribution subsidies in respect of the audit dependants of employees, increasing the projected subsidy cashflows in line with expected long term contribution escalation. Discounting these cashflows in order to express the post employment medical aid plan liability in the current Rand terms.		
The amount represents the municipality's liability for post-employment medical aid benefit for the two remaining pensioners under the new defunctional plan. Current employees do not enjoy post-retirement medical aid benefits.		
Employees of the municipality belong to the approved Pension Funds. These are defined contribution plans. The municipality has no legal or contractual obligation to pay further contributions. Contributions are recognised as an expense in the statement of financial performance in the year in which they become payable.		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Balance at 1 July	(755,964)	(724,000)
Contributions paid	78,052	73,295
Interest costs	(63,304)	(63,000)
Actuarial gain	-	(42,259)
	<b>(741,216)</b>	<b>(755,964)</b>
<b>18. Interest received - investments and other receivables</b>		
<b>Interest revenue</b>		
Bank	16,162,396	14,727,805
Interest received receivables	184,285	125,477
	<b>16,346,681</b>	<b>14,853,282</b>
<b>19. Other income</b>		
LG Seta	194,944	215,506
Tender deposits	11,864	34,868
Refund telephone	73,004	72,158
Sundry	16,871	162,642
	<b>296,683</b>	<b>485,174</b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>20. Service charges</b>		
Water testing services	2,629,338	2,794,364
<b>21. Transfers and Subsidies - Received</b>		
EPWP grant	4,459,000	3,113,000
COGTA	-	1,097,159
Data cleansing grant	-	233,806
Department of water and sanitation(DWS)	139,744,858	69,394,688
Equitable share	10,369,000	12,494,000
Financial management grant (FMG)	1,250,000	1,250,000
Infrastructure skills development grant (ISDG)	5,359,702	5,500,000
Revenue replacement grant	268,207,000	263,261,000
Rural road asset management systems grant (RAMS)	2,309,000	2,134,792
	<b>431,698,560</b>	<b>358,478,445</b>

### Equitable Share

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

### Revenue replacement grant

Current-year receipts	268,207,000	263,261,000
Transferred to revenue	(268,207,000)	(263,261,000)
	-	-

The purpose of the revenue replacement grant is to fund basic infrastructure within the areas and funding business administration costs.

### Finance management grant

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

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

### EPWP grant

Current-year receipts	4,459,000	3,113,000
Conditions met - transferred to revenue	(4,459,000)	(3,113,000)
	-	-

The purpose of the grant is to incentives provincial departments to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

	2018	2017
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### 21. Transfers and Subsidies - Received (continued)

#### Road asset management grant (RAMS)

Balance unspent at beginning of year	138,632	73,424
Current-year receipts	2,309,000	2,200,000
Conditions met - transferred to revenue	(2,309,000)	(2,134,792)
Amount paid back to National Treasury	(138,632)	-
	<u>-</u>	<u>138,632</u>

The purpose of the grant is to assist rural district municipalities to set up rural roads asset management systems.

#### Infrastructure skills development grant (ISDG)

Balance unspent at beginning of year	-	1,682,723
Current-year receipts	5,500,000	5,500,000
Conditions met - transferred to revenue	(5,359,702)	(5,500,000)
Paid back	-	(1,682,723)
	<u>140,298</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 15)

The reason for the unspent amount relates to the appointment of students late in the financial year and the absorption of the students by

The purpose of the grant is to strengthen capacity of local government, to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills available.

#### Data cleansing Grant

Balance unspent at beginning of year	-	233,806
Conditions met - transferred to revenue	-	(233,806)
	<u>-</u>	<u>-</u>

The purpose of the grant is to assist municipalities with the implementation of geographic information systems and related projects.

#### COGTA

Balance unspent at beginning of year	-	1,097,159
Conditions met - transferred to revenue	-	(1,097,159)
	<u>-</u>	<u>-</u>

The purpose of the grant is to assist municipalities with reticulation interventions to improve service delivery and reduce interruptions as well as bulk supply and sanitation.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>21. Transfers and Subsidies - Received (continued)</b>		
<b>Department of water and sanitation (DWS)</b>		
Balance unspent at beginning of year	24,108,820	-
Current-year receipts	119,518,000	97,263,800
Conditions met - transferred to revenue	(139,744,858)	(69,394,687)
Settlement of outstanding claims from DWA	-	(3,760,293)
	<b>3,881,962</b>	<b>24,108,820</b>

Conditions still to be met - remain liabilities (see note 15).

The main reason for the unspent amount is as a result of planning and feasibility study that took longer than anticipated.

The purpose of the grant is to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water

## 22. Depreciation and amortisation

Intangible assets	107,493	78,377
Property, plant and equipment	19,609,960	17,757,538
	<b>19,717,453</b>	<b>17,835,915</b>

## 23. Employee related costs

Bargaining council	23,692	20,136
Basic	83,241,167	69,538,819
Bonus	6,628,013	5,679,098
Car allowance	12,303,375	11,521,879
Group insurance	1,449,602	1,202,817
Housing benefits and allowances	872,053	747,160
Leave pay accrual charge	3,731,370	2,966,148
Medical aid - company contributions	4,954,846	4,291,249
Overtime payments	1,217,983	1,433,422
Pension fund	14,770,264	12,448,947
Telephone allowance	1,187,780	932,723
UIF	468,453	412,296
	<b>130,848,598</b>	<b>111,194,694</b>

Annual Remuneration of key management personnel for 2018

-

The following Remuneration was paid to Key Management and are included in the above employee relate

-

- CA Habile - Employed from 1 July 2017 to 30 August 2017 and from 1 October to 30 June 2018
- ME Thabethe - Acted as Municipal Manager from 31 August 2017 to 30 September 2017
- AY Singh - Employed from 1 July 2017 to 30 August - contract expired
- SJF Gates - Acted from 1 September to 3 December 2017
- ZR Buthelezi - Appointed from 4 December 2017
- PO Chiloane - Acted from 1 July 2017 to 31 January 2018
- MJ Mkhonza - Appointed from 1 February 2018
- M Barnabas - Acted from 1 July to 31 May 2018
- NC Ndhlovu - Appointed from 4 June 2018
- TD Hlanyane - Acted from 1 July 2017 to 31 January 2018

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand 2018 2017

### 23. Employee related costs (continued)

k. ME Michele - Appointed from 1 February 2018

Position	Name		Annual remuneration	Performance bonus	Leave paid out	Acting allowance	Total
Municipal Manager	CA Habile	a	,346,052.60	142,221.33	432,352.60	-	,920,626.53
General Manager - ITS	ME Thabethe	b	,148,858.02	-	-	12,980.74	,161,838.76
Chief Financial Officer	AY Singh	c	227,154.33	190,767.74	303,198.60	-	721,120.67
Acting Chief Financial Officer	SFJ Gates	d	-	-	-	23,110.15	23,110.15
Chief Financial Officer	ZR Buthelezi	e	685,292.65	-	-	-	685,292.65
Acting General Manager - Planning	PO Chiloane	f	-	-	-	18,682.73	18,682.73
General Manager - Planning	MJ Mkhonza	g	423,009.36	-	-	-	423,009.36
Acting General Manager	M Barnabas	h	-	-	-	93,475.21	93,475.21
General Manager - Corporate	NC Ndhlovu	i	79,854.63	-	-	-	79,854.63
Acting General Manager - CSS	TD Hlanyane	j	-	-	-	32,664.27	32,664.27
General Manager	ME Michele	k	420,750.43	-	-	-	420,750.43
Total for 2018	-	-	,330,972.02	332,989.07	735,551.20	180,913.10	,580,425.39

Annual Remuneration of key management personnel for 2017

-

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand 2018 2017

### 23. Employee related costs (continued)

The following Remuneration was paid to Key Management and are included in the above

# All positions were filled for the 2016/2017 financial year

Position	Name		Annual remuneration	Performance bonus	Leave paid out	Acting allowance	Total
Municipal Manager	CA Habile	#	,422,213.00	-	-	-	,422,213.00
Chief Financial Officer	AY Singh	#	,240,574.00	-	-	-	,240,574.00
General Manager - Planning	S Zikalala	#	,240,574.00	-	-	-	,240,574.00
General Manager - Corporate	MS Dlamini	#	,264,409.00	-	-	-	,264,409.00
General Manager - ITS	ME Thabethe	#	255,955.00	-	-	-	255,955.00
General Manager - CSS	M Kunene	#	,406,336.00	-	-	-	,406,336.00
Total for 2017	-	-	,830,061.00	-	-	-	,830,061.00

### 24. Finance costs

Long service awards 1,137,750 665,209

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>25. Leases</b>		
This committed expenditure relates to rental of offices in Evander from Govan Mbeki LM and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.		
<b>Govan Mbeki LM</b>		
Significant leasing arrangements include:		
- that there is no contingent rent payment		
- there is no purchase option in the rental contract and there is provision for 5% escalation per year		
- there is no restrictions imposed by lease arrangement, such as return of net surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing		
<b>Authorised operational expenditure</b>		
<b>Govan Mbeki LM</b>		
- within one year	126,100	497,620
Rental was payable on or before the commencement date of the contract and subsequent payments was plaid or before the first day of the following month over a 36 months.		
<b>Operating lease commitments - as lessee (expense)</b>		
- within one year	126,100	497,620
<b>26. Operating Costs</b>		
Advertising	407,735	362,481
Auditors fees	3,821,323	3,722,650
Bank charges	124,904	160,298
Cleaning	962,734	935,920
Conferences and seminars	-	50,746
Consulting and professional fees	4,029,214	1,037,276
Contracted security services (Guarding of municipal property)	4,582,476	3,617,584
Entertainment	1,466,914	1,409,445
Equipment	-	304,596
IT expenses	3,176,805	669,882
Relocation cost	3,276,406	-
Motor vehicle expense	3,191,934	2,236,942
Insurance	1,056,398	1,447,033
Subscription and membership fees	1,485,264	1,506,431
Municipal and other services	3,808,465	3,814,620
Workmans compensation	762,042	755,989
Postage and courier	5,949	9,008
Printing and stationery	291,293	384,019
Protective clothing	383,136	245,912
Rental equipment	-	3,711,421
Repairs and maintenance	8,869,944	6,029,356
Royalties and license fees	2,128,806	1,923,142
Technical Support	1,964,285	1,384,037
Telephone and fax	3,354,872	2,650,362
Training	2,105,068	1,758,516
Travel - local	7,022,248	5,902,721
	<b>58,278,215</b>	<b>46,030,387</b>

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>27. Remuneration of councillors</b>		
Executive Mayor	1,016,992	942,780
Mayoral Committee Members	4,048,042	3,616,509
Speaker	785,113	758,396
Councillors	5,298,266	5,363,026
Mayoral committee contributions and other allowances	583,849	478,043
Councillors contributions and other allowances	432,093	459,308
	<b>12,164,355</b>	<b>11,618,062</b>

### In-kind benefits

The Executive Mayor, Speaker, Chief Whip, Mayoral Committee Members as well as MPAC chairperson are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

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

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

Councillors	Basic	Car allowance	Cellphone	Pension, medical	Total
Chirwa MG	631,309.56	242,001.98	40,800.00	102,880.05	1,016,991.59
-	<b>631,309.56</b>	<b>242,001.98</b>	<b>40,800.00</b>	<b>102,880.05</b>	<b>1,016,991.59</b>
-	-	-	-	-	-
<b>Speaker</b>	-	-	-	-	-
Nkosi M	505,046.75	193,601.27	4,080.00	82,385.46	785,113.48
-	<b>505,046.75</b>	<b>193,601.27</b>	<b>4,080.00</b>	<b>82,385.46</b>	<b>785,113.48</b>
-	-	-	-	-	-
<b>Chief Whip</b>	-	-	-	-	-
Nkosi SGT	462,208.02	18,501.22	40,800.00	-	521,509.24
-	<b>462,208.02</b>	<b>18,501.22</b>	<b>40,800.00</b>	-	<b>521,509.24</b>
-	-	-	-	-	-
<b>Mayoral committee</b>	-	-	-	-	-
Dlamini ES	454,815.76	181,501.22	40,800.00	97,744.34	774,861.32
Buthelezi BM	447,041.87	181,502.22	40,800.00	102,347.25	771,691.34
Nhlapho NS	441,054.94	181,502.22	40,800.00	100,927.64	764,284.80
Masina LL	447,041.87	181,502.22	40,800.00	102,352.91	771,697.00
Sekhonde BG	450,793.73	181,502.22	40,800.00	101,665.76	774,761.71
Nhlengethwa DG	473,481.50	181,502.22	40,800.00	78,811.24	774,594.96
-	<b>2,714,229.67</b>	<b>1,089,012.32</b>	<b>244,800.00</b>	<b>583,849.14</b>	<b>4,631,891.13</b>
-	-	-	-	-	-
<b>Other Councillors</b>	<b>3,152,630.74</b>	<b>1,189,850.72</b>	<b>434,275.36</b>	<b>432,093.44</b>	<b>5,208,850.26</b>

### 28. Transfer and subsidies paid

#### Other subsidies

Grant paid to local municipalities	212,268,678	93,150,386
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# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>29. Cash generated from operations</b>		
Surplus	16,440,035	100,480,247
<b>Adjustments for:</b>		
Depreciation and amortisation	19,717,453	17,835,915
Gain on disposal of assets	87,662	230,890
Fair value adjustments	-	(4,330,992)
Finance costs - Finance leases	423,413	151,209
Movements in retirement benefit obligation	(14,748)	31,964
Movements in provisions	41,411	875,290
Accrued Interest	(2,533)	(22,444)
Donated assets	-	(530,543)
<b>Changes in working capital:</b>		
Inventories	5,884,566	(72,016,394)
Receivables from exchange transactions	950,489	3,325,466
Movement in other receivables	755,394	199,276
Payables from exchange transactions	(20,364,950)	41,466,150
Movement in VAT receivable	885,484	(3,344,240)
Unspent conditional grants and receipts	(20,225,192)	9,215,663
	<b>4,578,484</b>	<b>93,567,457</b>

### 30. Auditors fees

Auditors fees	3,821,323	3,722,650
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### 31. Commitments

This committed expenditure relates to property and projects as well as operational commitments and will be financed by retained surpluses, existing cash resources and funds internally generated.

Capital commitments - already contracted for but not provided for - Property, plant and equipment	19,395,603	27,686,148
Operating commitments - already contracted for but not provided for - Projects and operations	160,673,248	79,823,246
	<b>180,068,851</b>	<b>107,509,394</b>

### 32. Financial instruments disclosure

#### Categories of financial instruments

#### 2018

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	2,746,601	2,746,601
Cash and cash equivalents	148,022,646	-	148,022,646
	<b>148,022,646</b>	<b>2,746,601</b>	<b>150,769,247</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	62,473,286	62,473,286

#### 2017

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

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### 32. Financial instruments disclosure (continued)

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3,697,090	3,697,090
Cash and cash equivalents	91,296,278	-	91,296,278
Other financial assets - investments	-	80,000,000	80,000,000
	<b>91,296,278</b>	<b>83,697,090</b>	<b>174,993,368</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	82,838,236	82,838,236

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

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### 33. Contingencies

#### Contingent liabilities for the period ended 30 June 2018

##### Inhlakanipho Consultants-Contractual

The dispute arose out of tender 11/2007: Upgrading of Empuluzi Water Treatment Works

Plaintiff is claiming R 3 402 590. The estimated legal cost to date amounts to R 894 000. The matter was successfully defended and the claim was dismissed with cost. Plaintiff was granted leave to appeal.

##### Hlakoapitsi CC

Hlakoapitse is seeking damages of R 127 006. Judgement was received on 17 March 2015 in favour of GSDM.

Estimated legal cost is amounts to approximately R 200 000. Judge ruled in favour of GSDM. Plaintiff might take GSDM to trial.

##### Botha FR vs Mvakali SW & GSDM

Plaintiff is suing GSDM for R 24 730 as a result of a motor vehivlr accident. Estimated legal cost amounts to R 77 000. Awaiting matter to be set down for trial and witnesses.

##### Aqua Transport & Plant Hire vs GSDM

Plaintiff is suing council to the amount of R 47 570. The matter is before the Ermelo Magistrates court. Legal fees is estimated at R 59 000. Parties intends to settle matter out of court.

##### Tactical Security Services CC vs GSDM

Plaintiff is suing council to the amount of R 1 013 990. The matter is before the high court (Gauteng Division Pretoria) The estimated legal fees is R 360 000 to date. The matter is set down for trial.

##### Vermaak N/PG Glass vs GSDM

Plaintiff is suing council to the amount of R 15 914. The matter will be in front of the Ermelo Magistrate's court under case number 2323/2017. The estimated legal fees to date amounts to R 100 000. Application for summary judgement by plaintiff was dismissed with cost. The matter is at discovery stage. There is a good prospect of successfully defending the matter.

##### Methula NF vs GSDM

Plaintiff suing GSDM for R 1 100 000 as a result of an accident in which plaintiff sustained bodily injuries. Legal fees to date amounts to R 380 000. Matter is in pleading stage hence prospect of defence is unknown.

##### Watco Consulting vs GSDM

Plaintiff is suing council to the amount of R 134 546. The estimated legal fees to date amounts to R 87 000. The matter is set down for witnesses and trial under case number 3411/2015 in the Ermelo Magistrates court

##### Mr. M vs GSDM

Mr. M is suing GSDM for unfair dismissal in the Labour Court. The amount is yet to be determined. The legal cost to date amounts to R 460 000. Awaiting trial date.

##### BDW Eiendomme CC vs GSDM/Vs Nzimande

BDW Eiendomme CC is suing GSDM as a result of a motor vehicle accident. Legal council estimates financial exposure including cost to amount to R 250 000. Awaiting trial date.

Detailed information on pending cases can be obtained in the claims register of the municipality.

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand 2018 2017

### 34. Related parties

#### Relationships

Accounting Officer - CA Habile Refer to accounting officer's report.  
 Chief Financial Officer - ZA Buthelezi - From 1 December 2017 Management  
 General Manager: Corporate Services - NC Ndhlovu - From 4 June 2018 Management  
 General Manager: Community and Social Services - ME Michele - From 1 February 2018 Management  
 General Manager: Planning and Economic Development - MJ Mkhonza - From 1 February 2018 Management  
 General Manager: Infrastructure and Technical Services - ME Thabethe Management

#### Related party transactions

##### Contributions paid to related parties

SALGA 1,370,450 1,438,432

Refer to note 25 for amounts paid to management.

### 35. Prior-year adjustments

The following adjustments were effected in the period under review:

#### Statement of financial position

##### 2017

	Note	As previously reported	Correction of error	Re-classification	Restated
VAT - receivables (1)	7	11,499,157	11,944,677	-	23,443,834
Unspend conditional grant (1)	15	12,302,775	11,944,677	-	24,247,452
Property, plant and equipment (2)	10	295,676,938	1,697,306	-	297,374,244
Payables form exchange transaction - retention (3)	13	83,022,464	(184,228)	-	82,838,236
Receivables form exchange transactions -onther receivables (1)	6	3,674,646	-	22,444	3,697,090
Receivables form non - exchange transactions -onther receivables (1)	11	22,444	-	(22,444)	-
		<b>406,198,424</b>	<b>25,402,432</b>	<b>-</b>	<b>431,600,856</b>

#### Statement of financial performance

##### 2017

	Note	As previously reported	Correction of error	Re-classification	Restated
Depreciation and amortisation (2)	22	(19,533,220)	1,697,305	-	(17,835,915)
Transfers and subsidies - paid (3)	28	(93,344,614)	184,228	-	(93,160,386)
Other Income ( 2)	19	3,279,538	-	(2,794,364)	485,174
Service charges (2)	20	-	-	2,794,364	2,794,364
Repairs and maintenance (3)		6,029,356	-	(6,029,356)	-
Opeating cost (3)	26	40,001,030	-	6,029,356	46,030,386
<b>Surplus for the year</b>		<b>(63,567,910)</b>	<b>1,881,533</b>	<b>-</b>	<b>(61,686,377)</b>

#### Cash flow statement

##### 2018

#### Errors

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

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### 35. Prior-year adjustments (continued)

The following are explanations of the period errors occurred during the year under review.

The following prior period errors adjustments occurred:

#### Error 1

Correction of VAT wrongly paid to SARS as Output VAT on RBIG grant funds received. Grant funding are regarded as to be taxed at zero VAT (R11,944,677.19)

#### Error 2

Correction of depreciation wrongly calculated on machine and equipment (R1,967) and furniture and equipment (R1,695,338.41)

#### Error 3

Correction of retention on projects wrongly calculated and retained as retention (R184,228.47)

#### Error 4

Correction of retention written back in previous years claimed in 2017/18 (R19,740). The amounts not material. Payables from exchange transactions - retention's increases and accumulated surplus for previous year decreased. The retention were paid out during the year

#### Error 5

Correcting of irregular expenditure wrongly reported in 2016/17 corrected as Council approved the amount to be written back in March 2017. Note for irregular expenditure was removed.

### Reclassifications

The following amounts have not been reclassified as a result of the implementation of mSCOA:

#### Reclassification 1

Accrued interest amounting to R22,444 was previously reported as receivables form non - exchange transaction and reclassified as receivables form exchange transaction.

#### Reclassification 2

Service charges to the amount of R2,794,364 was reported as part of other income in 2016/17 and in the current period the item is separately reported as a line item.

#### Reclassification 3

Repairs and maintenance to the amount of R6,029,356 was included and reported as part of operational cost in the 2017/18 financial year

### 36. 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.

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand	2018	2017
<b>36. Risk management (continued)</b>		
<b>Credit risk</b>		
Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.		
<b>Market risk</b>		
<b>Interest rate risk</b>		
As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.		
<b>37. Fruitless and wasteful expenditure</b>		
Add: Fruitless Expenditure - current year	1,816	-
Less: Fruitless and wasteful expenditure - recovered	(1,816)	-
	<u>-</u>	<u>-</u>
Fruitless expenditure relates to interest that accumulated due to late payment on Telkom account.		
<b>38. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	1,370,450	1,438,432
Amount paid - current year	(1,370,450)	(1,438,432)
	<u>-</u>	<u>-</u>
<b>Audit fees</b>		
Current year subscription / fee	3,821,323	3,722,500
Amount paid - current year	(3,821,323)	(3,722,500)
	<u>-</u>	<u>-</u>
<b>PAYE, UIF and SKILLS</b>		
Current year subscription / fee	25,697,079	21,352,664
Amount paid - current year	(25,697,079)	(21,352,664)
	<u>-</u>	<u>-</u>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	31,531,006	28,404,757
Amount paid - current year	(31,531,006)	(28,404,757)
	<u>-</u>	<u>-</u>
<b>VAT</b>		
VAT receivable	22,558,350	23,443,834

VAT output payables and VAT input receivables are shown in note 7.

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

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand

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### 39. Deviations 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 council and includes a note to the financial statements

#### Deviations for 2017

The amount for deviations as at 30 June 2017 was R2 519 486

#### Deviations for 2018

The amount for deviations as at 30 June 2018 is R756 022. See details below:

Date	Supplier name	Deviation	Reasons for Deviation	Amount
14-Jul-17	CIGFARO IMFO	Only 1 quotation was obtained for training for the region	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	215,000.00
4-Aug-17	The Institute of the Internal Auditors	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	22,173.00
11-Aug-17	SAMSRA National	Only 1 quotation was obtained for payment of affiliation fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	6,000.00
17-Aug-17	ICC Durban	Only 1 quotation was obtained for training for the region	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	3,250.00

# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand			2018	2017
<b>39. Deviations from supply chain management regulations (continued)</b>				
3-Oct-17	SALGA	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	8,000.00
4-Oct-17	IMFO	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	7,499.00
4-Oct-17	IMFO	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	27,562.00
4-Oct-17	Library & Information Association	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	10,650.00
5-Oct-17	Schneider electric	Only 1 quotation was obtained	Section 36 (a)(v) :In any other exceptional case where it is impractical or impossible to follow the official procurement process	170,551.98
10-Oct-17	SAICE	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;	11,200.00



# GERT SIBANDE DISTRICT MUNICIPALITY

Financial Statements for the year ended 30 June 2018

## Notes to the Financial Statements

Figures in Rand				2018	2017
<b>39. Deviations from supply chain management regulations (continued)</b>					
19-Oct-17	SAICE	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;		5,300.00
19-Oct-17	IMPSA	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;		3,550.00
25-Oct-17	The Institute of Risk Management	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;		10,146.00
2-Nov-18	SAICE	Only 1 quotation was obtained for registration fees	Section 36 (a)(ii) :if such goods or services are produced or available from a single service provider only;		2,660.63
1-Jun-18	NJS SECURITY	Competitive bidding process not followed. Only 3 quote was obtained	Section 36 (a)(i) In an emergency to procure security services to the Executive Mayor on urgent basis		261,729.66
			TOTAL AMOUNT		765,272.27