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

General Information

Nature of business and principal activities	• Provision of a democratic and accountable Local Government for communities in the mopani district area; •Ensuring the provision of services to these communities in a sustainable manner; •Promotion of social and economic development; •Promotion a safe and healthy environment; and •Encourage the involvement of communities and community organisations in the matters of Local Government in the mopani district
Grading of District Municipality	4
Accounting Officer	Monakedi S.R
Chief Finance Officer	Kgatla Q
Registered office	Government Building Main Road Giyani 0826
Business address	Government Building Main Road Giyani 0826
Postal address	Private Bag X9687 Giyani 0826
Website	www.mopani.gov.za
Currency	South African Rands
Rounding off	Nearest Rand
Bankers	ABSA
Auditors	Auditor - General South Africa
Audit Committee	Dr Manzini H.N (Chairperson) Adv. Kholong S.S.T Mr Hlomane H.G Mrs Mudau M.S Mr Nevhutalu T.G CA (SA)

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

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

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CFO	Chief Financial Officer
CoGHSTA	Cooperative Governance Human Settlements and Traditional
DWS	Department of Water and Sanitation
EPWP	Extended Public Works Programme
FIFO	First-In-First-Out
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
ICIGFARO	Chartered Institute of Government Finance, Audit and Risk officers
IT	Information Technology
JSE	Johannesburg Stock Exchange
LP	Limpopo Province
LG SETA	Local Government Sector Education and Training Authority
LNW	Lepelle Northern Water
LMs	Local Municipalities
LSA	Long Service Award
MDM	Mopani District Municipality
MWIG	Municipal Water Infrastructure Grant
PMDS	Perfomance Management and Development System
PPE	Property, Plant and Equipment
PAYE	Pay As You Earn
RHIG	Rural Housing Grant
SDL	Skills Development Levy
SALGBC	South African Local Government Bargaining Council
SALGA	South African Local Government Association
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSA	Water Service Authority
WSOG	Water Service Operating Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 75, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
Monakedi S.R

Accounting Officer's Report

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

1. Review of activities

Main business and operations

2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to secure funding through the national treasury.The most significant of these is that the accounting continues to secure funding through national treasury for the ongoing operations of the municipality.Other factors affecting going concern are as follows:

As at 30 June, the municipality's current liabilities exceed the current assets by R 3,917,788,522 resulting in the municipality to be technicaly insolvent. This fact on its own does bar the municipality to continue being a going concern given that going concern implies that the municipality will be in existence within 12 months of the balance sheet dates.The factors indicated below confirms that the municipality will be in existence within 12 months of the balance sheet date.

a) The municipality is experiencing challenges of collecting own revenue from water and sanitation. This is due to weakness and controls involving management of revenue at the local municipalities since the latter are service providers and the district is the service authority.

b) The municipality is service significant historic obligations that do not necessarily have source of funding other than the funding from National Treasury. These obligations include Lepelle Northern Water estimated at R548 million, Department of Water Affairs estimated at R250 million, as well as litigations and claims that come on an ad hoc basis. These litigations and claims can easily cost the municipality over R100 million per annum.

c) There is a need to relook into the municipality’s obligations against its resources as the situation currently is not sustainable.

d) The municipality invests a significant amount of resources in the water and sanitation infrastructure with little if any return. This is as the municipality spend a full calendar year without a cent being received from water and sanitation consumers.

e) It is extremely difficult to effectively monitor the cash flow of the municipality because a lot of payments are historic and come on surprise bases. These payments come in various form including, historic claims of contractors on projects, historic legal fees, unpredictable and excessive overtime payments from essential services sections, etc.

f) More often than not, MIG funding transfer for committed projects from National Treasury gets delayed putting more pressure on the liquidity of the municipality.

g) There is also a significant portion of payments for infrastructure projects funded through own funding outside budgets as most of the payments are made to avoid litigations.

Even though the current liabilities exceed the current assets the municipality is a going concern because of the following reasons:

a) There is a commitment from National Treasury to fund the operations of the municipality through equitable share and conditional grants. This is substantiated by past practice and gazettes issued by National Treasury for the MTREF period under consideration.

b) There is no change in the legislation that impact on the municipality's ability to continue as a going concern;

c) There is plans to ensure that there is effective spending of funds.

Accounting Officer's Report

d) There is no communication or statement issued by national treasury to the effect that the municipality will no longer qualify funds from the national treasury in the foreseable future.

(e) The municipality has rearranged its long term debts to have significant portions financed over a long term to allow for liquidity.

(f) In the medium to long - term, the municipality is taking consideration over water and sanitation function with the aim of maximising revenue collection and recovery of debtors, the monies which will be utilised to pay creditors with speed and return to good liquidity and solvency positions.

(g) The municipality has prepared a healthy cashflow projection for the 2018/2019 financial year which has to date been complied with.

(h) The municipality is spending within budget votes which will assist in keeping expenses and liability repayments within budgeted resources.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

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

6. Auditors

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

Statement of Financial Position as at June 30, 2018

Figures in Rand	Note(s)	2018	2017 *Restated
Assets			
Current Assets			
Inventories	7	14,175,417	14,756,932
Receivables from exchange transactions	8	228,041,494	191,554,393
VAT receivable	9	104,728,852	85,888,375
Consumer debtors	10	73,021,613	165,724,557
Cash and cash equivalents	11	131,303,661	7,761,017
		551,271,037	**465,685,274**
Non-Current Assets			
Property, plant and equipment	3	5,169,974,905	4,899,795,934
Intangible assets	4	7,187,185	8,119,393
Heritage assets	5	432,000	432,000
Asset Held for Sale		15,504	15,504
		5,177,609,594	**4,908,362,831**
Total Assets		**5,728,880,631**	**5,374,048,105**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	1,607,574,278	1,471,453,863
Unspent conditional grants and receipts	12	65,441,472	2,186,553
Employee cost related provision	13	49,379,433	51,392,496
Consumer deposits		4,351,591	4,039,720
		1,726,746,774	**1,529,072,632**
Non-Current Liabilities			
Finance lease liability	6	8,153,138	-
Employee cost related provision	13	85,349,118	80,502,509
Provision on Landfill site	13	18,100,781	11,971,993
		111,603,037	**92,474,502**
Total Liabilities		**1,838,349,811**	**1,621,547,134**
Net Assets		**3,890,530,820**	**3,752,500,971**
Accumulated surplus		3,890,530,823	3,752,500,976

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 *Restated
Revenue			
Revenue from exchange transactions			
Service charges	16	178,850,094	166,927,478
Interest on outstanding debtors		39,628,665	40,355,569
Other income	18	1,908,427	677,360
Interest received - investment		5,437,907	7,128,364
Total revenue from exchange transactions		**225,825,093**	**215,088,771**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	19	1,254,190,123	961,718,681
Total revenue	15	**1,480,015,216**	**1,176,807,452**
Expenditure			
Employee costs	20	(373,206,925)	(321,203,213)
Remuneration of Councillors	21	(11,676,551)	(11,934,680)
Depreciation and amortisation	22	(177,883,702)	(226,767,209)
Finance cost	23	(225,612)	(214,110)
Debt Impairment	24	(65,967,708)	(56,090,683)
Bulk purchases	25	(288,788,797)	(298,587,131)
Contracted services	26	(68,498,688)	(62,549,812)
Grants and subsidies paid		(1,325,647)	(863,815)
General expenses	27	(235,161,626)	(390,051,208)
Total expenditure		**(1,222,735,256)**	**(1,368,261,861)**
Operating surplus (deficit)		**257,279,960**	**(191,454,409)**
Surplus (deficit) for the year		**257,279,960**	**(191,454,409)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2016	**3,943,955,385**	**3,943,955,385**
Surplus for the year	(191,454,409)	(191,454,409)
Total changes	(191,454,409)	(191,454,409)
Balance at July 1, 2017	**3,633,250,863**	**3,633,250,863**
Surplus for the year	257,279,960	257,279,960
Total changes	257,279,960	257,279,960
Balance at June 30, 2018	**3,890,530,823**	**3,890,530,823**
Note(s)		

Statement Of Financial Position

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Taxation		135,219,168	-
Grants		1,317,445,042	984,091,077
Interest income		4,345,432	7,028,526
Other receipts		1,908,427	683,275
VAT refund		58,006,459	139,768,167
		1,516,924,528	1,131,571,045
Payments			
Employee costs		(383,400,497)	(259,732,629)
Suppliers		(548,933,335)	(461,418,511)
Finance costs		(225,612)	(214,110)
		(932,559,444)	(721,365,250)
Net cash flows from operating activities	29	**584,365,084**	**410,205,795**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(459,705,628)	(511,811,022)
Cash flows from financing activities			
Finance lease payments		(1,116,807)	-
Net increase/(decrease) in cash and cash equivalents		**123,542,649**	**(101,605,227)**
Cash and cash equivalents at the beginning of the year		7,761,017	109,357,699
Cash and cash equivalents at the end of the year	11	**131,303,666**	**7,752,472**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	237,721,250	(2,503,757)	**235,217,493**	178,850,094	**(56,367,399)**	24.08
Interest on outstanding debtors	-	-	**-**	39,628,665	**39,628,665**	
Other income - (rollup)	1,040,000	620,000	**1,660,000**	1,908,427	**248,427**	13.68
Interest received - investment	10,300,000	(4,000,000)	**6,300,000**	5,437,907	**(862,093)**	9.62
Total revenue from exchange transactions	**249,061,250**	**(5,883,757)**	**243,177,493**	**225,825,093**	**(17,352,400)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,337,249,000	40,942,287	**1,378,191,287**	1,254,190,123	**(124,001,164)**	9.30
Total revenue	**1,586,310,250**	**35,058,530**	**1,621,368,780**	**1,480,015,216**	**(141,353,564)**	
Expenditure						
Personnel	385,589,864	(18,612,932)	**366,976,932**	(373,206,925)	**(740,183,857)**	196.47
Remuneration of councillors	8,508,768	3,179,504	**11,688,272**	(11,676,551)	**(23,364,823)**	363.89
Depreciation and amortisation	184,687,757	-	**184,687,757**	(177,883,702)	**(362,571,459)**	197.71
Finance costs	-	-	**-**	(225,612)	**(225,612)**	
Debt Impairment	-	-	**-**	(65,967,708)	**(65,967,708)**	
Bulk purchases	152,840,000	12,000	**152,852,000**	(288,788,797)	**(441,640,797)**	2.89
Contracted Services	-	-	**-**	(68,498,688)	**(68,498,688)**	
Debt Impairment	23,398,895	(827,000)	**22,571,895**	(1,325,647)	**(23,897,542)**	
General Expenses	(755,025,284)	16,248,428	**(738,776,856)**	(235,161,626)	**503,615,230**	3.23
Total expenditure	**-**	**-**	**-**	**(1,222,735,256)**	**(1,222,735,256)**	
Operating surplus	**1,586,310,250**	**35,058,530**	**1,621,368,780**	**257,279,960**	**(1,364,088,820)**	
Transfer Recognised - Capital	640,834,648	(30,359,022)	**610,475,626**	-	**(610,475,626)**	100
Surplus before taxation	**2,227,144,898**	**4,699,508**	**2,231,844,406**	**257,279,960**	**(1,974,564,446)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**2,227,144,898**	**4,699,508**	**2,231,844,406**	**257,279,960**	**(1,974,564,446)**	

Reconciliation

Mopani District Municipality

(Registration number DC33)
Annual Financial Statements for the year ended June 30, 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	338,752,968	-	**338,752,968**	228,041,494	**(110,711,474)**	51.59
VAT receivable	-	-	**-**	104,728,852	**104,728,852**	-
Consumer debtors	298,578,682	-	**298,578,682**	73,021,613	**(225,557,069)**	75.54
Cash and cash equivalents	-	-	**-**	131,303,661	**131,303,661**	
	637,331,650	**-**	**637,331,650**	**551,271,037**	**(86,060,613)**	
Non-Current Assets						
Property, plant and equipment	4,802,348,242	-	**4,802,348,242**	5,169,974,905	**367,626,663**	0.08
Intangible assets	10,241,957	-	**10,241,957**	7,187,185	**(3,054,772)**	29.83
Heritage assets	-	-	**-**	432,000	**432,000**	
Asset Held for Sale	-	-	**-**	15,504	**15,504**	
	4,812,590,199	**-**	**4,812,590,199**	**5,177,609,594**	**365,019,395**	
Total Assets	**5,449,921,849**	**-**	**5,449,921,849**	**5,728,880,631**	**278,958,782**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	531,127,376	-	**531,127,376**	1,607,574,278	**1,076,446,902**	66.53
Consumer deposits	4,674,666	634,946	**4,039,720**	-	**(4,039,720)**	0.07
Unspent conditional grants and receipts	-	-	**-**	65,441,472	**65,441,472**	
Employee cost related provision	-	-	**-**	49,379,433	**49,379,433**	
Consumer deposits	-	-	**-**	4,351,591	**4,351,591**	
	535,802,042	**634,946**	**535,167,096**	**1,726,746,774**	**1,191,579,678**	
Non-Current Liabilities						
Operating lease liability	-	-	**-**	8,153,138	**8,153,138**	
Employee cost related provision	63,364,489	-	**63,364,489**	85,349,118	**21,984,629**	34.69
Provision on Landfill site	-	-	**-**	18,100,781	**18,100,781**	
	63,364,489	**-**	**63,364,489**	**111,603,037**	**48,238,548**	
Total Liabilities	**599,166,531**	**634,946**	**598,531,585**	**1,838,349,811**	**1,239,818,226**	
Net Assets	**4,850,755,318**	**(634,946)**	**4,851,390,264**	**3,890,530,820**	**(960,859,444)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	4,850,755,318	(4,850,755,318)	**-**	3,890,530,820	**3,890,530,820**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Other revenue	238,000,000	-	**31,660,000**	-	**(31,660,000)**	
Government - operating	763,067,000	-	**764,008,000**	-	**(764,008,000)**	
Government - capital	559,950,000	-	**559,950,000**	-	**(559,950,000)**	
	1,561,017,000	**-**	**1,355,618,000**	**-**	**(1,355,618,000)**	
Payments						
Employee costs	(701,814,000)	-	**(741,973,000)**	-	**741,973,000**	
Net cash flows from operating activities	**859,203,000**	**-**	**613,645,000**	**-**	**(613,645,000)**	
Cash flows from investing activities						
Capital assets	(640,835,000)	30,359,000	**(610,476,000)**	-	**610,476,000**	
Net increase/(decrease) in cash and cash equivalents	218,368,000	30,359,000	**3,169,000**	-	**(3,169,000)**	
Cash and cash equivalents at the beginning of the year	(109,357,699)	30,359,000	**(610,476,000)**	-	**610,476,000**	
Cash and cash equivalents at the end of the year	**109,010,301**	**60,718,000**	**(607,307,000)**	**-**	**607,307,000**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Trade receivables or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

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

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Post retirement benefits

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

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

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

Effective interest rate

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

Allowance for doubtful debts

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

Cash and Cash equivalents

Cash and Cash equivalents are measured at cost.

Cash includes cash on hand cash with banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with bankst

Trade payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Events after balance sheet date

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

1.4 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Intangible assets (continued)

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Licenses and franchises	5 years
Computer software	5 years
Blyde Water Utility	20 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.

The gain or loss arising from the derecognition of intangible assets is determined as the difference betwen the net disposal proceeds.Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.5 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.5 Heritage assets (continued)

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

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

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 municipality or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.6 Inventories

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

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

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

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

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

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

The cost of inventories 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.

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

1.7 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

1.7 Construction contracts and receivables (continued)

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

[Specify judgements made]

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in municipality or deficit.

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

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

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

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.9 Share capital / contributed capital

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

1.10 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.

Accounting Policies

1.10 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.

1.10 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the 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 municipality or deficit.

Accounting Policies

1.10 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

1.10 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.

Long term service awards

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.

Accounting Policies

1.10 Employee benefits (continued)

Accumulated leave days

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.

1.11 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

Accounting Policies

1.11 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 31.

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.

Accounting Policies

1.11 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in municipality or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.8 and .

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

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

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

Accounting Policies

1.11 Provisions and contingencies (continued)

Termination benefits

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2018. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of two years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2018 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 13.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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 municipality or deficit, using the effective interest rate method.

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

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

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

1.13 Investment Property

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

1.14 Borrowing costs

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

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

1.15 Comparative figures

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

1.16 Unauthorised expenditure

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

Accounting Policies

1.16 Unauthorised expenditure (continued)

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

1.17 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 -
- this Act; or
- 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.

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.

1.18 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

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

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

Accounting Policies

1.19 Related parties

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 32: Service Concessions 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 provision, as well as the effective date.

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

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is set out in note Changes in Accounting Policy.

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 has adopted the standard for the first time when the Minister sets effective date for the standard.

The impact of the policy is set out in note Changes in Accounting Policy.

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

This interpretation of the standard 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 agreement, either through 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 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 perfomance obligation and the right to receive a significant interest in a service concession asset.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements

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Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after July 1, 2018 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the the transitional provision in that standard expires.

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
.

Notes to the Annual Financial Statements

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.3 Standards and interpretations not yet effective or relevant

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

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cashgenerating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset’s service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset’s service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

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

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

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non- cash generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

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

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

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. “Generally accepted accounting practice” has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

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

2. New standards and interpretations (continued)

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

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

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	11,980,776	-	11,980,776	11,980,776	-	11,980,776
Buildings	152,584,965	(71,773,833)	80,811,132	158,367,239	(71,984,541)	86,382,698
Office equipment	1,078,127,732	-	1,078,127,732	685,661,109	-	685,661,109
Infrastructure	7,381,713,319	(3,426,718,690)	3,954,994,629	7,346,646,371	(3,267,260,027)	4,079,386,344
Other property, plant and equipment	67,497,558	(29,740,502)	37,757,056	61,286,609	(25,629,252)	35,657,357
Other leased Assets	6,336,305	(32,725)	6,303,580	760,375	(32,725)	727,650
Total	**8,698,240,655**	**(3,528,265,750)**	**5,169,974,905**	**8,264,702,479**	**(3,364,906,545)**	**4,899,795,934**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Prior adjustments	Write offs	Impairment	Transfers	Depreciatio
Land	11,980,776	-	-	-	-	-	
Buildings	86,382,698	801,403	-	-	-	-	(6,372,96
Work in progress	685,661,109	463,699,663	727,653	-	(1,957,049)	(70,003,644)	
Infrastructure	4,079,386,344	438,386	3,271,711	(7,742,115)	(24,347,761)	70,003,644	(166,015,58
other property, plant and equipment	35,657,357	-	2,099,699	-	-	-	
leased Assets	727,650	6,755,158	(727,650)	(451,578)	-	-	
	4,899,795,934	**471,694,610**	**5,371,413**	**(8,193,693)**	**(26,304,810)**	**-**	**(172,388,54**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Prior year adjustments	Transfers received	Depreciation	Total
Land	11,980,776	-	-	-	-	11,980,776
Buildings	98,213,283	65,000	(5,009,116)	-	(6,886,469)	86,382,698
Work In Progress	464,903,877	472,365,012	(213,156,399)	(38,451,381)	-	685,661,109
Infrastructure	4,034,276,465	38,386,381	169,219,071	-	(162,495,573)	4,079,386,344
Other property, plant and equipment	38,291,349	994,629	-	-	(3,628,621)	35,657,357
leased Assets	2,797	-	727,651	-	(2,798)	727,650
	4,647,668,547	**511,811,022**	**(48,218,793)**	**(38,451,381)**	**(173,013,461)**	**4,899,795,934**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Heritage assets

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.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	1,577,760	(1,267,421)	310,339	1,577,760	(1,034,781)	542,979
Bylde Utility	7,576,414	(699,568)	6,876,846	13,991,354	(6,414,940)	7,576,414
Total	**9,154,174**	**(1,966,989)**	**7,187,185**	**15,569,114**	**(7,449,721)**	**8,119,393**

Reconciliation of intangible assets - 2017

	Opening balance	**Amortisation**	**Total**
Computer software, other	824,028	(281,049)	542,979
Blyde Utility	8,275,981	(699,567)	7,576,414
	9,100,009	**(980,616)**	**8,119,393**

Pledged as security

Carrying value of intangible assets pledged as security:

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	432,000	-	432,000	432,000	-	432,000

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral Chain	432,000	432,000

Reconciliation of heritage assets 2017

	Opening balance	Difference	Revaluation increase/(decrease)	Total
Art Collections, antiquities and exhibits	432,000	-	-	432,000
Collections of insects, butterflies and fossils	-	(6)	6	-
	432,000	**(6)**	**6**	**432,000**

6. Finance lease liability

	2018	2017
Non-current liabilities	(8,153,138)	-

The Municipality entered into a finance lease with XLP Document Solutions for the rental of photocopying or printing machinery.

Cost	7,700,880
Depreciation	451,578
Net Carrying Amount	7,249,302

	Not Later than 1 year	Later than 1 year >5 years
Minimum lease payments	3,350,422	5,584,037
Present value of minimum lease payments	2,251,501	4,785,938
Finance charges	1,098,921	798,100

7. Inventories

	2018	2017
Consumable stores	16,770,550	14,287,634
Ba - Phalaborwa Municipality	-	6,545
Greater Giyani Municipality	-	60,553
Greater Tzaneen Municipality	61,441	310,749
Greater Letaba Municipality	56,618	91,451
	16,888,609	14,756,932
Inventories (write-downs)	(2,713,192)	-
	14,175,417	**14,756,932**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from exchange transactions

Staff Debtors	389,918	429,868
Audit Committee Proportional Payment	2,612,341	2,612,341
Councillors Debtors	1,093,333	170,168
Service Providers	1,865,543	1,067,701
Interest receivable	865,962	-
Greater Tzaneen Municipality	11,631	1,462,446
Ba - Phalaborwa Municipality	209,838,173	174,447,276
National Treasury	11,364,593	11,364,593
	228,041,494	**191,554,393**

9. VAT receivable

VAT	104,728,852	85,888,375

10. Consumer debtors

Gross balances		
Water	650,962,446	583,351,809
Sewerage	96,056,977	88,877,119
Total gross balances	**747,019,423**	**672,228,928**
Less: Allowance for impairment		
Water	(608,094,199)	(529,587,083)
Sewerage	(65,903,611)	(80,641,641)
Total allowance for impairments	**(673,997,810)**	**(610,228,724)**
Net balance		
Water	42,868,247	53,764,726
Sewerage	30,153,366	8,235,478
Total net balance	**73,021,613**	**62,000,204**
Water		
Current (0 -30 days)	6,850,882	8,983,625
31 - 60 days	8,602,678	3,823,778
61 - 90 days	3,845,386	3,379,997
91 - 120 days	3,158,242	2,907,115
121 - 365 days	9,605,265	7,853,656
> 365 days	618,899,993	556,403,639
Impairment	(588,318,736)	(529,587,083)
Total	**62,643,710**	**53,764,727**
Sewerage		
Current (0 -30 days)	3,389,989	1,649,277
31 - 60 days	1,199,828	1,064,305
61 - 90 days	2,178,673	916,207
91 - 120 days	2,740,673	1,876,078
121 - 365 days	12,663,133	5,182,076
>365 days	73,884,462	78,204,792
Impairment	(85,679,075)	(80,641,641)
Total	**10,377,683**	**8,251,094**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(610,228,726)	(571,131,593)
Contributions to allowance	(65,967,707)	(39,097,133)
Bad debts writtedn ofss	2,198,623	-
Total	**(673,997,810)**	**(610,228,726)**

Consumer debtors per local municipality

Consumer debtors	-	-
Ba - Phalaborwa Municipality	460,027,217	446,121,307
Greater Tzaneen Municipality	96,363,435	71,785,675
Greater Giyani Municipality	122,845,762	98,404,735
Greater Letaba	66,229,819	33,545,888
Consumer debtors	1,553,190	-
Total	**747,019,423**	**649,857,605**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	18,026,614	5,431,485
Short-term deposits	113,277,047	2,329,532
	131,303,661	**7,761,017**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	**June 30, 2017**	**June 30, 2016**	**June 30, 2018**	**June 30, 2017**	**June 30, 2016**
ABSA BANK - 40-5277-1364	18,021,112	5,431,485	16,804,189	18,021,112	5,431,485	16,804,189
ABSA BANK - 40-8091-1671	32,405,565	2,083,248	53,038,542	32,405,565	2,083,248	53,038,542
ABSA BANK - 40-8091-1613	80,871,817	237,738	39,514,968	80,871,817	237,738	39,514,968
Growbus - 40-8937-0832	5,502	-	-	5,502	-	-
Total	**131,303,996**	**7,752,471**	**109,357,699**	**131,303,996**	**7,752,471**	**109,357,699**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	27,011,629	-
Rural Transport Grant	2,049,000	2,049,000
Water Services Infrastructutre Grant	36,380,843	137,553
Total	**65,441,472**	**2,186,553**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Employee cost related provision

Reconciliation of employee cost related provision - 2018

	Opening Balance	Additions	Total
Performance bonus provision	6,557,413	949,335	7,506,748
Post retirement medical aid benefits	64,052,881	2,669,792	66,722,673
Long service awards	61,284,711	(785,581)	60,499,130
Total	**131,895,005**	**2,833,546**	**134,728,551**

Reconciliation of employee cost related provision - 2017

	Opening Balance	Additions	Total
Performance bonus provision	6,445,653	111,760	6,557,413
Post retirement medical aid benefits	62,168,459	1,884,422	64,052,881
Longs service awards	57,847,331	3,437,380	61,284,711
Total	**126,461,443**	**5,433,562**	**131,895,005**

	2018	2017
Non-current liabilities	85,349,118	80,502,509
Current liabilities	49,379,433	51,392,496
	134,728,551	**131,895,005**

13. Employee cost related provision (continued)

An actuarial valuation has been perfomed.

Post retirement medical aid benefit

The municipality offers employees LSA for every five years of service completed from ten years of service to 45 yearsof service inclusive . (Table shown above)

Completed Service (in years)	Long Service bonuses (% of Annual Earnings)	Description
10	4.0%	10/250xannual earnings
15	8.0%	10/250xannual earnings
20,25,30,35,40,45	12%	10/250xannual earnings

Past and future Changes in the Accrued Liability

The table shows the development of the Acrued Liability over the curent period and projects the employer's unfunded accrued liability and periodic cost over the 2 years following the valuation date.

	Year ended 30/06/2018	Year ended 30/06/2019	Year ended 30/06/2020
Opening Accrued Liability	14,299,132	15,566,721	14,877,448
Current service costs	948,359	1,010,689	1,094,879
Interest cost	1,114,328	1,179,190	1,144,684
Benefits vesting	(1,835,728)	(2,879,152)	(2,317,855)
Total Annual Expense	**226,959**	**(689,273)**	**(78,292)**
Acturial Loss	**1,040,630**	**-**	**-**
Closing Accrued Liability	**15,566,721**	**14,877,448**	**14,799,156**

History of Liabilities

The table below summarises accrued liabilities and the plan assets for the current period and the previous two periods

Liability history	**30/06/2017**	**30/06/2018**
Accrued liability	(54,241)	(54,456)
Fair value plan asset	-	-
Deficit	(54,241)	(54,456)

Provision for landfill site

Opening Balance	11,971,993
Additions	6,128,788
Total	**18,100,781**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Payables from exchange transactions

Trade payables	357,742,608	403,812,694
Retentions	57,473,945	45,272,129
Other payables	(2,264,631)	3,770,018
Agency fees payables	4,533,567	2,674,123
Greater Letaba municipality	71,111,962	52,750,608
Greater Tzaneen municipality	209,840,441	176,890,916
Maruleng municipality	24,003,740	23,422,304
Lepelle Northern Water	547,977,908	490,042,470
Greater Giyani Municipality	12,181,503	24,686,086
Trade creditors at local municipalities	5,519,449	5,325,233
Department of Water and Sanitation	319,453,786	242,807,282
Total	**1,607,574,278**	**1,471,453,863**

The balance of payables pertains to inter municipality transactions with the local municiplaities for which the distinct municipality has a service level agreement for the provision of water and sanitation to the locals

GRAP 104 has been considered in the valuation of these payables.

15. Revenue

Service charges	178,850,094	166,927,478
Interest on Outstanding Debtors	39,628,665	40,355,569
Other income	1,908,427	677,360
Interest received - investment	5,437,907	7,128,364
Government grants & subsidies	1,254,190,123	961,718,681
	1,480,015,216	**1,176,807,452**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	178,850,094	166,927,478
Interest on Outstanding Debtors	39,628,665	40,355,569
Other Income	1,908,427	677,360
Interest received - investment	5,437,907	7,128,364
	225,825,093	**215,088,771**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,254,190,123	961,718,681

16. Service charges

Sale of water	165,531,593	140,979,327
Sewerage and sanitation charges	13,318,501	25,948,151
	178,850,094	**166,927,478**

17. Other revenue

Interest on Outstanding Debtors	39,628,665	40,355,569
Other income	1,908,427	677,360
	41,537,092	**41,032,929**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Other income

Sundry Income	879,068	129,521
Insurance claims	68,964	95,914
Reconnection fees	69,627	64,502
Tender fees	890,768	387,423
Total	**1,908,427**	**677,360**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Government grants and subsidies

	2018	2017
Operating grants		
Equitable share grant	757,360,000	625,707,000
EPWP grant	1,725,000	1,943,000
Finance Management Grant (FMG)	1,795,000	1,460,000
LP - Health (EHP)	10,674,000	14,188,986
LGW SETA grant	725,042	569,248
LP Econ (Biosphere) grant	216,000	200,000
Total operating and capital grants	**772,495,042**	**644,068,234**
Capital grants		
Municipal infrastructure grant (MIG)	420,736,371	208,500,000
Water Services Infrastructure Grant	58,756,710	109,150,447
Rural Roads Asset Management Grant	2,202,000	-
	481,695,081	**317,650,447**
	1,254,190,123	**961,718,681**

Municipal Infrastructure Grant

	2018	2017
Balance unspent at beginning of year	-	75,662,544
Current-year receipts	447,748,000	208,500,000
Conditions met - transferred to revenue	(420,736,371)	(208,500,000)
Other	-	(75,662,544)
Total	**27,011,629**	**-**

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

The purpose of the grant is to improve access to basic service infrastructure for poor communities.

Finance management grant

	2018	2017
Current-year receipts	1,795,000	1,460,000
Conditions met - transferred to revenue	(1,795,000)	(1,460,000)
Total	**-**	**-**

Rural transport grant

	2018	2017
Balance unspent at beginning of year	2,049,000	85,875
Current-year receipts	2,202,000	2,049,000
Conditions met - transferred to revenue	(2,202,000)	(85,875)
Total	**2,049,000**	**2,049,000**

The purpose of the grant is to improve data on rural roads to guide infrastructure development.

EHP Grant

	2018	2017
Balance unspent at beginning of year	-	450,486
Current-year receipts	-	13,738,500
Conditions met - transferred to revenue	-	(14,188,986)
	-	**-**

The purpose of the grant is to ensure that transferred schemes are fully functional and operated by skilled personnel to ensure optimal service delivery by the WSA.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Government grants and subsidies (continued)

LP Econ (Biosphere)

Balance unspent at beginning of year	-	200,000
Current-year receipts	216,000	-
Conditions met - transferred to revenue	(216,000)	(200,000)
	-	-

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

The purpose of the grant is for the implementation of man and bio-sphere programs for the conservation of nature and sustainable uses of natural resources.

Extended public works programme grant

Current-year receipts	1,725,000	1,943,000
Conditions met - transferred to revenue	(1,725,000)	(1,943,000)
Total	-	-

The purpose of the grant is to improve opportunities for sustainable employment due to experience and learning gained.

Water Service Infrastructure Grant

Balance unspent at beginning of year	137,553	-
Current-year receipts	95,000,000	109,150,447
Conditions met - transferred to revenue	(58,756,710)	(109,012,894)
	36,380,843	**137,553**

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

20. Employee related costs

Basic	205,213,289	173,844,736
Bonus	15,173,571	13,206,917
Medical aid - company contributions	11,140,893	10,344,503
UIF	1,452,876	1,382,570
Workman compensation	142,726	124,120
SDL	2,934,211	(14,209,338)
Other payroll levies	13,685,268	10,102,910
Leave pay provision charge	36,247	-
Post employments benefits	85,643	54,166
Defined contribution plans	30,449,110	26,181,390
Overtime payments	41,641,172	39,213,345
Long-service awards	812,810	658,441
Transport allowance (bus coupons)	19,168,000	30,894,276
Car allowance	27,542,996	17,930,831
Housing benefits and allowances	5,763,212	6,114,033
Leave redemption	(2,136,509)	5,254,088
Bargaining council	15,724	14,582
Cellphone allowance	22,608	39,308
Shift allowance	63,078	52,335
Total	**373,206,925**	**321,203,213**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Employee related costs (continued)

Remuneration of municipal manager

Annual Remuneration	1,023,885	216,365
Car Allowance	317,188	111,901
Contributions to UIF, Medical and Pension Funds	235,213	38,289
Total	**1,576,286**	**366,555**

Remuneration of chief finance officer

Annual Remuneration	852,541	852,541
Car Allowance	168,000	176,895
Performance Bonuses	-	131,935
Contributions to UIF, Medical and Pension Funds	63,569	63,569
Total	**1,084,110**	**1,224,940**

Remuneration of director community services

Annual Remuneration	855	855,409
Car Allowance	143,531	252,790
Performance Bonuses	-	205,373
Contributions to UIF, Medical and Pension Funds	143,531	202,950
Total	**287,917**	**1,516,522**

Remuneration of director engineering services

Annual Remuneration	856,262	163,473
Car Allowance	240,000	40,000
Contributions to UIF, Medical and Pension Funds	171,054	28,246
Total	**1,267,316**	**231,719**

Remuneration of director water services

Annual Remuneration	634,632	754,374
Car Allowance	423,088	375,986
Contributions to UIF, Medical and Pension Funds	192,029	274,983
Cell	37,355	40,559
Total	**1,287,104**	**1,445,902**

Remuneration of director office of the executive Mayor

Annual Remuneration	634,091	600,629
Car Allowance	423,629	200,210
Contributions to UIF, Medical and Pension Funds	206,981	-
Cell	37,355	22,851
Total	**1,302,056**	**823,690**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

20. Employee related costs (continued)

Executive Mayor's allowances

Annual Remuneration	634,091	600,629
Car Allowance	423,629	200,210
Contributions to UIF, Medical and Pension Funds	206,981	-
Other	37,335	22,851
Total	**1,302,036**	**823,690**

Speaker's allowances

Annual Remuneration	600,135	480,502
Car Allowance	157,009	160,167
Contributions to UIF, Medical and Pension Funds	149,942	-
Other	32,800	22,851
Total	**939,886**	**663,520**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Remuneration of Councillors

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Remuneration of Councillors (continued)

Remuneration per councillor	Salary	Cellphone Allowance	Travel Allowance	Advance/Back Pay
Councillor NM Maswanga	263 950.48	28 800	68 774	31 677
Councillor R Ramothwala	9 286	-	-	365
Councillor CM Ramathoka	251 659.36	28 800	-	21 869
Councillor D Malemela	22 880	28 800	-	4 640
Councillor DG Mushwana	251 659	28 800	-	21 869
Councillor FM moroatsh	322 964	28 800	124 208	24 665
Councillor GA Maluleke	322 964	-	-	31 677
Councillor GH Modjadji	475 926	28 800	-	9 280
Councillor GM Malatji	42 642	-	-	24 655
Councillor JG Mashele	35 502	28 800	-	9 280
Councillor KI Rapatsa	322 964	28 800	-	24 665
Councillor KJ Malepe	9 286	-	-	365
CouncillorM Mathedimo	80 590.64	-	-	3 161
Councillor MA Mathaba	9286	28 800	-	-
Councillor MB Maenetsa	475 926	28 800	-	-
Councillor MC Mohale	35 502	28 800	-	9280
Councillor MC Mkhwashu	322 964	28 800	-	24 665
Councillor MD Maake	9 286	-	-	365
Councillor MD Popela	80 590.64	-	-	365
Councillor MF Madike	263 950.48	28 800	68 774	3 161
Councillor MF Manyama	80 590.64	28 800	68 774	25 048
Councillor MF Sefusi	263 950.48	28 800	-	3 161
Councillor MI Shimange	263 950.48	28 800	68 774	25 048
Councillor ML Maloko	35 850	-	-	25 048
Councillor ML Mokgobi	9 286		-	6 960
Councillor MM Makwala	263 950.48		-	365
Councillor MMA Mathebu	251 659.36	28 800	-	25 048
Councillor MO Maswanga	9 286	28 800	-	21 869
Councillor MR Chauke	251 659.36	28 800	-	365
Councillor MR Maake	9 286	-	-	21 869
Councillor MR Nyakane	475 926	28 800	124 208.64	365
Councillor MV Mangoro	475 926	28 800	124 208.64	69 934.42
Councillor NA Sono	47 278	-	-	69 934.42
Councillor NH Zandamel	475 926	28 800	124 208.64	12 528
Councillor NM Mahasha	47 728	-	4 793.34	69 934.42
Councillor NN Baloyi	475 926	3 388	6 391.12	
Councillor Osi LP Rapha	14 379.96	3 388	6 391.12	1 535
Councillor Osi ML Mogob	29 333.28	3 388	6 391.12	1 535
Councillor Osi SSS Seko	29 333.28	28 800	6 391.12	1 535
Councillor Osigad MJ	322 964	-	-	1 535
Osigad MJ SE	9 286	-	-	24 665
Councillor PT Malatji	31 828	-	-	365
Councillor R Makasela	9 286	28 800	124 208.64	8 352
Councillor RE Pohl	29 556	28 800		6 496
Councillor SCT Shising	475 926	-	-	31 677
Councillor S EJ Mathons	251 659.36	-	-	21 869
Councillor S MA Helm	20 724	3 388	3 994.45	5 568
Councillor S MM Makwela	26 844	3 388	6 391.12	5 568
Councillor SC Makwala	35 850	3 388	6 391.12	5 568
Councillor SI M Ntsanwi	29 333.28	3 388	6 391.12	1 535
Councillor SI MAM Hlane	322 964	28 800	-	1 535
Councillor SI MC Mathev	29 333.28	-	-	1 535
Councillor SI TLP Nwami	29 333.28	-	-	24 665

Notes to the Annual Financial Statements

Figures in Rand		2018	2017

21. Remuneration of Councillors (continued)

Councillor SJ Nkuna	322 964	-	-	365
Councillor SV Manganye	9 286	-	-	365
Councillor T Makhubela	9 286	-	-	365
Councillor TC Zitha	9 286	-	-	365
Councillor TJ Senyolo	9 286	-	-	365
Councillor TN Mthomben	9 286	-	-	-
Councillor WD Sedibeng	507 653.52	-	-	-
Councillor XJ Valoyi	9 286	-	-	-
	10 913 694.40	**664 092**	**1 080 267.79**	**793 751.26**

22. Depreciation and amortisation

	2018	2017
Property, plant and equipment	177,883,702	225,786,592
Intangible assets	-	980,617
	177,883,702	**226,767,209**

23. Finance costs

	2018	2017
Interest Paid	225,612	214,110

24. Debt impairment

	2018	2017
Debt impairment	65,967,708	56,090,683

25. Bulk purchases

	2018	2017
Water	288,788,797	298,587,131

26. Contracted services

	2018	2017
Information Technology Services	18,837,525	38,184,902
Fleet Services	4,912,895	-
Operating Leases	12,831,978	2,841,230
Specialist Services	433,184	-
Other Contractors	31,483,106	21,523,680
	68,498,688	**62,549,812**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. General expenses

Advertising	460,207	192,671,539
Auditors remuneration	2,029,319	3,890,681
Bank charges	164,311	142,436
Consulting and professional fees	12,741,648	43,152,533
Entertainment	1,086,216	4,305
Insurance	718,016	424,373
Conferences and seminars	392,672	548,713
Motor vehicle expenses	583,588	104,364
Fuel and oil	1,907,077	5,787,886
Postage and courier	1,778	4,261
Printing and stationery	500,649	1,135,632
Protective clothing	179,690	149,868
Repairs and maintenance	-	7,519,487
Secretarial fees	422,607	650,845
Software expenses	635,616	48,509
Subscriptions and membership fees	365,339	376,727
Telephone and fax	4,001,464	2,718,345
Travel - local	1,089,733	1,335,296
Electricity	-	9,567
Audit Committe Allowance	1,378,556	2,760,107
Disaster Relief Fund	8,281,342	209,400
Imbizo	2,524,725	2,344,025
Forensic Audit	-	856,168
Expense 9	7,016,447	8,945,408
Perfomance Management	4,220,603	452,330
Stores and Material	10,777,912	10,245,118
Chemicals	6,791,422	7,182,553
Other expenses	140,585,880	96,380,732
Restructuring	26,304,809	-
	235,161,626	**390,051,208**

28. Auditors' remuneration

Fees	2,029,319	3,890,681

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

29. Cash generated from operations

Surplus	257,279,960	45,973,360
Adjustments for:		
Depreciation and amortisation	177,883,702	171,751,370
Gain on sale of assets and liabilities	34,046,926	-
Debt impairment	63,720,973	56,580,736
Movements in operating lease assets and accruals	(6,813,967)	-
Movements in provisions	7,479,355	5,321,802
Water and sanitation transactions	(119,250,091)	(47,296,644)
Benefit vesting	(1,865,694)	-
Interest cost	6,538,278	-
Curent service costs	3,624,362	-
Changes in working capital:		
Inventories	581,515	40,386,188
Receivables from exchange transactions	(36,487,101)	(52,473,085)
Consumer debtors	28,981,972	(9,153,433)
Payables from exchange transactions	123,918,581	262,893,633
VAT	(18,840,477)	12,758,355
Unspent conditional grants and receipts	63,254,919	(74,212,262)
Consumer deposits	311,871	(2,324,225)
	584,365,084	**410,205,795**

30. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	648,278,973	371,312,018
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	11,589,010	12,765,281
Total capital commitments		
Already contracted for but not provided for	648,278,973	371,312,018
Not yet contracted for and authorised by accounting officer	11,589,010	12,765,281
	659,867,983	**384,077,299**

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

Figures in Rand	2018	2017

31. Contingent liabilities

Plaintiff / Mopani District Municipality

The matter involves a service provider who did not honour his obligation to the supplier of materials in terms of a cession agreement.Flotek MDM and the contractor for R571 957.26.

Plaintiff / Mopani District Municipality
The plaintiff is suing the MDM for the injury she sustained allegedly at a MDM sewage manhole in Manhole in Modjadjiskloof for R950 000.

Plaintiff / Mopani District Municipality

The plaintiff is suing the MDM as a result of motor vehicle collision involving an MDM employee.Claim for R27 700.68.

Plaintiff / Mopani District Municipality

The plaintiff is suing the MDM for awarding the tender to a JV which did not qualify ,namely: Base Measure: Tlong Re Yeng JV was a CIDB Grade 8 company and the tender required Grade 9 company.Claim for R10 000 000**.**

Plaintiff / Mopani District Municipality
The plaintiff is suing the MDM for failure to prevent a veld fire. R4 685 140.00

Plaintiff / Mopani District Municipality

The plaintiff is suing MDM for failing to honour its financial obligations - cession.Claim for R1 680 499.05.

Plaintiff / Mopani District Municipality

Plaintiff has issued simple summones fort the services rendered as a Sub Contractor at Nandoni pipeline project. Claim for R939 641.11.

Plaintiff / Mopani District Municipality

Plaintiff is claiming money as per the cession agreement. Claim for R2 183 902.58.

Plaintiff / Mopani District Municipality

Car accident: Plaintiff's motor vehicle hit a pothole and it was involved in an accident in Modjadjiskloof & G-Kgapane road.As a result the plaintiff suffered a right leg fracture injury.The plaintiff alleged that the accident was solely caused by the negligence of the Defendents (GLM & MDM). R3 500 000.

Plaintiff / Mopani District Municipality

The plaintiff is suing the MDM for been involved in a motor vehicle accident with an employee of the MDM.The plaintiff alleges that the accident was solely caused by the negligence of the MDM. R37 384.18.

Plaintiff / Mopani District Municipality

The Plaintiff is suing the MDM for failing to pay the Water Use Licence holder. In terms of the law the MDM must pay the water use charges as a holder of the licence.Claim for R175 645 917.12.

Plaintiff / Mopani District Municipality

Outstanding payment by borehole operators.

Plaintiff / Mopani District Municipality

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Contingent liabilities (continued)
An application for an order to pay an amount of R29 730 283.66 for work allegedly done .Technical report on Sefofotse to Ditshosane/Ramahlatsi Bulk and Reticulation (Bellevue. Sefpfptse, Maupa, Jamela, Mohlabaneng, Lebaka, Shawela, Ditshosine and Maphalle)

Plaintiff / Mopani District Municipality

Civil - contract: termination of contract for the building of Offices in Tzaneen . Counter-claim in the amount R43 611 996.70.

Plaintiff / Mopani District Municipality
Non-payment, a claim on the basis of a disputed invoice in the mount of R931 520.58.

Plaintiff / Mopani District Municipality
A claim payment as a result of a cession in the amount of R231 361.02

Plaintiff / Mopani District Municipality

A claim for work done in the amount of R4 500 135.99.

Contingent assets

MDM / Cane a lot trading

The MDM is suing the service provider for fraudulently claiming money which was not due to them. The company was appointed to build 150 units of VIP Toilets. The company only built 15 out of that number and claimed the entire payment.The MDM is now suing the company for misrepresentation done. Claim for R1 080 000.

MDM / Endecon Unbuntu

Municipality filed for review of the appointment on the extension Modjzdj Water Works and the project value on appointment was R2 185 000

MDM / Kgafela Construction

The municipality is suing the contractor and contractor is suing the MDM for cancellation of the contract to build an office building at the Disaster Management Centre based in Tzaneen. Claim by the municipality is R14 140 976.84 and claim by Kgafela is R43 611 996.70

Liquidity risk

32. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Councillors	Refer to disclosure note on remuneration of councillors
Members of key management	Refer to disclosure note on remuneration of senior management

33. Prior period errors

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Prior period errors (continued)

1. During the year it was noted that some projects that some projects were incorrectly expensed, these projects were subsequently capitalised in the current year.
The effect of the adjustment is as follows
;

Accumulated Surplus	(9,372,828)
Property Plant and Equipment	9,372,828

2. It was noted that some od the completed projects were incorreclty not capitalised, these projects were subsequently capitalised in the current year.
The reclassification was as follows;

Work in progress	20,047,005
Infrastructure assets	(20,047,005)

3. It was noted that some of the repairs and maintenance expenditure was incorrectly classified as work in progress, resulting in an overstatement in PPE and understatement in expenditure

Accumulated Surplus	5,247,642
Property Plant and Equipment	(5,247,642)

4. It was noted that in the current year that some water assets not within the municipal durisdiction were incorreclty capitalised, resulting in an overstatement in PPE.
The entry was corrected as follows

Accumulated Surplus	35,052,540
Property, plant and equipment	(51,165,157)
Accumulated depreciation	16,112,616

5. It was noted that PPE was overstated due to some assets which were incorrectly capitalised;
The entry was corrected as follows

Accumulated Surplus	(4,639,274))
Property, plant and equipment	(11,592,793)
Accumulated depreciation	6,953,518

6. It was noted that VAT was incorrectly accounted for and understated for.
The entry was corrected as follows:

VAT Receivables	34,215,473
Accumulated surplus	(34,215,473)

7. We noted that the prior year creditors schedule did not agree to the creditors balance as per trial balance which resulted in an understatement in payables;

Accumulated Surplus	112,616,172
Payables from exchange transactions	(112,616,172)

8. We noted that some of the projects were incorrectly expensed and not capitalised, resulting in ana overstatement in expenditure and understatemrnt in PPE:

Accumulated Surplus	112,616,172
Payables from exchange transactions	(112,616,172)

9. It was noted that the prior year payments for staff debtors were incorrectly credited to the suspense account and not the staff debtors account resulting in an understatement in the salary suspence account and an overstatement in receivables.

Accumulated Surplus	2,671.80
Receivables from exchange transactions	(2,671.80)

10. We noted that the transactions for infrastructure water were incorrectly debited to assets under construction, resulting in an overststement in PPE and understatement in expenditure
.

Accumulated Surplus	3,445,000

33. Prior period errors (continued)

Payables from exchange transactions	(3,445,000)

11. We noted that some of the staff debtors continued to be received even after the debt was fully settled, resulting in an understatement in receivables and an overstatement in employee related costs.

Accumulated Surplus	(1,607)
Receivables from exchange transactions	1,607

12. It was noted that the Maruleng landfill site was ommitted from the trial balance in the prior year,resulting in an understatement in PPE and understatement in expenditure:

Accumulated Surplus	(2,615,722)
Property, plant and equipment	2,803,844
Accumulated depreciation	(188,122)

13. It was noted that some infrastructure assets were incorrectly not capitalised even though the construction was completed in the prior year.

Accumulated Surplus	(3,529,843)
Property Plant and Equipment	3,529,843

14. We noted that VAT was incorrectly claimed in the prior year even though it is not recoverable form SARS, resulting in overstatement in VAT:

VAT Receivables	(69,284,733)
Accumulated surplus	69,284,733

15. We noted that Vat was incoreectly accounted for in some of the prior year invoices resulting in an understatement of VAT receivable.

VAT Receivables	1,420,578
Accumulated surplus	(1,420,578)

16. An audit finding raised in the prior period noted that there were differences between the trial balance, general ledger and financial statements.The adjustment was only corrected in the prior year as follows:

Payables from exchange transactions	(15,594,645)
Accumulated surplus	15,594,645

17. We noted that some of the entries in the accruals listing were not noted in the general ledger which resulted in an understatement of trade payables.

Payables from exchange transactions	(10,303,320)
Accumulated surplus	10,303,320

18. Interest on call account was incorrectly acounted for, resulting in an understatement in receivables and interest received.

Accumulated Surplus	(99,838)
Receivables from exchange transactions	99,838

19. A bank accounted was ommited from record resulting in an understatementof cash and cash equivalents.

Accumulated Surplus	(8,545)
Cash and cash equivalents	8,545

20. We noted that intermuncipal water transactions were incorrecty accounted for,resulting in a decrease in consumer deposits.

Accumulated Surplus	10,549,332
Consumer debtors	(10,549,332)

21. We noted that intermuncipal water transactions were incorrecty accounted for,resulting in an overstatement in receivables and payable.

Accumulated Surplus	(976.13)
Consumer debtors	(336,446)
Payables from exchange transactions	337,44

33. Prior period errors (continued)

22. We noted that service fees due to Maruleng was incorrectly mapped which resulted in an understatement in payables.

Payables from exchange transactions	(174,665)
Accumulated	surplus
174,665	

23. It was noted that inter-municipal accounts were incorrectly accounted for and the error was accounted for as follows:

Payables from exchange transactions	(233,284)
Accumulated surplus	233,284

24. We noticed that indigent debtors were incorrectly accounted for, resulting in an understatement of in debt impaiment. The error was accounted for as follows

Accumulated Surplus	1,330 429
Consumer debtors	(1,330,429)

25. It was discovered that water inventory bought by Ba-Phalaborwa and ceded to Mopani, was incorrectly accounted for
:

Accumulated Surplus	3,836,449
Payables from exchange transactions	(3,836,449)

26. It was noted that some project were not capitalised.The error was corrected as follows:

PPE Infrastructure	182,275,436
PPE WIP	(182,275,463)
Accumulated Surplus	6,451,029
Accumulated depreciation	(6,451,029)

27. Boreholes were supposed to be written off in the prior year, but enrty was ommitted, the error was corrected as follows:

PPE Infrastructure	(24,379,498)
Accumulated Surplus	11,573,561
Accumulated depreciation	12,805,937

28. We noted that some of the expenses vote were not posted to accumulated surplus by the system in the prior year, but treated as balance sheet votes, the reclassification was done as follows:

Accumulated surplus	1,111,061
General expenses	(1,105,060)
Contracted services	(6,001.23)

29. Debt impairment was incorrectly overstated in the prior year:

Accumulated surplus	(1,820,482)
Consumer debtors	1,820,482

30. it was discovered that intercompany water transactions were incorrectly accounted for:

Accumulated Surplus	(2,648,087)
Receivables	2,648,087

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Prior period errors (continued)

Statement of finacial position		
Increase in Property, plant and equipment	-	(48,218,854)
Decrease in Vat receivable	-	(33,648,681)
Increase in receivables from exchange transactions	-	(6,399,024)
Increase in payables in exchange transactions	-	(138,409,979)
Increase in cash and cash equivalents	-	8,545
Decrease in consumer debtors	-	(10,570,410)
Decrease in accumulated surplus	-	237,238,403
Net Increase/Decrease in accumulated surplus	**-**	**-**

Statement of financial performance		
Increase in general expenses	-	177,739,853
Increase in repairs and maintenance	-	5,247,642
Decrease in depreciation	-	55,015,839
Increase in employee related costs	-	14,326
Increase in interest on investments	-	(99,838)
Increase in debt impairment	-	(490,053)
Net decrease in accumulated surplus	**-**	**237,427,769**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

33. Prior period errors (continued)

Statement of financial position

Current Assets	**Balance Previously Reported**	**Prior period adjustments**	**Restatec Balance**
Vat receivable	119,537,056	(33,648,681)	85,88
Receivable from exchange transactions	197,953,417	(6,399,024)	191,55
Cash and cash equivalents	7,752,471	8,545	7,76
Consumer debtors	176,294,968	(10,570,410)	165,72
	501,537,912	**400,318,771**	**400,31**
Non current assets			
Property,plant and equipment	4,948,014,790	-48,218,854	4,89
Total current assets	4,948,014,790	-48,218,854	4,89
Liabilities			
Current liabilites			
Payables from exchange transactions	1,333,043,885	138,409,979	
Total current liabilities	1,333,043,885	138,409,979	
Accumulated surplus	3,989,739,359	(237,238,404)	
Net assets	3,989,739,359	(237,238,404))	
Statement of financial perfomance as at 30 June 2017			
Revenue			
Revenue from exchange transactions			
Interest received - investment	7,028,526	99,838	
Total Revenue	1,333,043,885	99,838	
Expenditure			
Employee related costs	(321,188,887)	(14,326)	
Depreciation and amortisation	(171,751,370)	(55,015,839)	
Debt Impairment	(56,580,736)	(490,053)	
General expenses	(116,205,665)	(177,739,852)	
Total Expenditure	(86,967,367)	(5,247,642)	
Total expenditure	(752,694,025)	(237,527,607)	
Effect on accumulated surplus	(745,665,499)	(237,427,770)	

34. Going concern

We draw attention to the fact that at June 30, 2018, the municipality had an accumulated surplus of 3,890,530,823 and that the municipality's total liabilities exceed its assets by 3,890,530,823.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Going concern (continued)

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

As at 30 June 2018, the municipality's current liabilities exceeds current assets by R4,426,875,840.

a) The municipality is experiencing challenges of collecting own revenue from water and sanitation. This is due to weakness in controls involving management of revenue at the local municipalities since the latter are service providers and the district is the service authority.

b) The municipality is service significant historic obligations that do not necessarily have source of funding other than the funding from National Treasury. These obligations include Lepelle Northern Water estimated at R540 million, Department of Water Affairs estimated at R320 million, as well as litigations and claims that come on an ad hoc basis. These litigations and claims can easily cost the municipality over R100 million per annum.

c) There is a need to relook into the municipality's obligations against its resources as the situation currently is not sustainable.

d) The municipality invests a significant amount of resources in the water and sanitation infrastructure with little if any return. This is as the municipality spend a full calendar year without a cent being received from water and sanitation consumers.

e) It is extremely difficult to effectively monitor the cash flow of the municipality because a lot of payments are historic and come on surprise bases. These payments come in various form including, historic claims of contractors on projects, historic legal fees, unpredictable and excessive overtime payments from essential services sections, etc.

f) More often than not, MIG funding transfer for committed projects from National Treasury gets delayed putting more pressure on the liquidity of the municipality.

g) There is also a significant portion of payments for infrastructure projects funded through own funding outside budgets as most of the payments are made to avoid litigations.

Even though the current liabilities exceed the current assets the municipality is a going concern because of the following reasons:

a) There is a commitment from National Treasury to fund the operations of the municipality through equitable share and conditional grants. This is substantiated by past practice and gazettes issued by National Treasury for the MTREF period under consideration.

b) There is no change in the legislation that impact on the municipality's ability to continue as a going concern;

c) There is plans to ensure that there is effective spending of funds.

d) There are repayment arrangements in place to defer significant portions of the trade payables of Lepelle Northern Water and Department of Water Affairs to future years to allow for liquidity and solvency.

(e) The municipality is taking consideration over water and sanitation function with the aim of maximising revenue collection and recovery of debtors, the monies which will be utilised to pay creditors with speed and return to good liquidity and solvency positions.

35. Unauthorised expenditure

Opening balance	159,154,582	159,154,582
Current year	154,239,337	10,059,501
	-	-
Unauthorised expenditure awaiting condonement	**313,393,919**	**169,214,083**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

35. Unauthorised expenditure (continued)

Unauthorised expenditure increased due to the significant difference between the budgeted and actual subsistence allowances,medical aid and stores and materials figures.

36. Fruitless and wasteful expenditure

Opening balance	165,834,771	165,715,645
Current year	17,885,948	119,126
	-	-
Fruitless and Wasteful Expenditure awaiting condonement	**183,720,719**	**165,834,771**

The fruitless and wasteful expenditure relates to incorrect allocation of late payments and vat incorrectly recorded.

37. Irregular expenditure

Opening balance	186,332,521	169,214,083
Add: Irregular Expenditure - current year	10,664,876	17,118,438
Irregular Expenditure awaiting condonement	**196,997,397**	**186,332,521**

38. Additional disclosure in terms of Municipal Finance Management Act

Distribution Losses

Sales Kl) Total	49,760,250	103,561,681
Purchases (kl) Total	29,283,992	50,785,366
Percentage water losses at the plants (%)	**69**	**66**

PAYE and UIF

Current year subscription / fee	53,536,466	40,000,000
Amount paid - current year	(57,937,157)	(47,888,000)
Amount paid - previous years	4,400,691	7,888,000
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	6,722,076	9,596,000
Amount paid - current year	6,722,076	(36,450,000)
	13,444,152	**(26,854,000)**

VAT

VAT receivable	104,728,852	85,888,375

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

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Deviation from supply chain management regulations

In terms of Section 36 of the Municipal Supply Chain Management Regulations, any deviation from the supply chain management policy needs to be approved/condoned by the Municipal Manager. The total deviations for the quarter amounted to R15 895 803.60 (2017: R4 328 185.75) which has been tabled to council for noting in terms of Section 36(2). Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that deviations must be included as a note to the financial statements Major deviations related to emergency procurement of borehole spares and pipes in order to avoid interuption of essential service (Water Supply).

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.