NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements
for the year ended 30 June 2019

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(Registration number EC126)
Annual Financial Statements for the year ended 30 June 2019

GENERAL INFORMATION

LEGAL FORM OF ENTITY	Local Municipality Ngqushwa Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Munipal Structures Act (Act no. 117 of 1998) The municipality's operations are governed by the Municipal Finance Management Act No 56 of 2003.
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Ngqushwa is a Local Municipality rendering basic services such as Refuse Collection, Infrastructure Development and Economic Development Community Services.
LEGISLATION GOVERNING THE MUNICIPALITY OPERATIONS	Constitution of the Republic of South Africa (Act 108 of 1998) Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Goverment: Municipal Systems Act (Act 32 of 2000) Local Goverment: Municipal Structures Act (Act 117 of 1998) Municipal Property Rates Act (Act 6 of 2004) Division of Revenue Act (Act 1 of 2007)
EXECUTIVE COMMITTEE	M. T. Siwisa (Mayor) N. Magingxa (Speaker) (Member of the Executive Committee) F. Pumaphi (Chief whip) (Member of the Executive Committee) L. Kolisi (Member of the Executive Committee) Z. R. Nduneni (Member of the Executive Committee) S. S Maneli (Member of the Executive Committee)
COUNCILLORS	N. Mtati N. C. Gxasheka P. Sitole D. Ncanywa N. Jako L. Moyeni T. Sikweyiya N. Leve N. V. Gxasheka N. Mquqo S. Gwavu R. Taylor N. Fulani N. Mpoli (Deceased on the 8th August 2019) N. Lawu M. L Luzipho Z. Jowela
TRADITIONAL LEADERS	N. Ngqondi (Princess) L. Zitshu (Prince) N. Mhlauli (Prince) Z. Njokweni (Chief) A. Goni (Prince)
GRADING OF LOCAL AUTHORITY	3
CHIEF FINANCIAL OFFICER (CFO)	Mr.V.C Makedama

GENERAL INFORMATION

ACCOUNTING OFFICER	Mrs. M. P. Mpahlwa
REGISTERED OFFICE	Corner of N2 and R345 Road Peddie 5640
BUSINESS ADDRESS	Corner of N2 and R345 Road Peddie 5640

GENERAL INFORMATION

POSTAL ADDRESS	P.O Box 539 Peddie 5640
BANKERS	First National Bank
AUDITORS	Auditor General of South Africa
LEGAL REPRESENTATIVE	Dyushu and Majebe Attorneys
CONTACT DETAILS	Email: mmpahlwa@ngqushwamun.gov.za Telephone: 040 673 3095 www.ngqushwamun.gov.za

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

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ABBREVIATIONS

ASB	Accounting Standard Board
CETA	Construction Education and Training Authority
GRAP	Generally Recognised Accounting Practice
IEC	Independent Electoral Commission
SALGBC	South African Local Government Bargaining Council
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
PAYE	Pay As You Earn
SARS	South African Revenue Services
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
mSCOA	Municipal Standard Chart of Accounts

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

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 she 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 01 July 2019 to 30 June 2020 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 66, which have been prepared on the going concern basis, were approved by the council on 31 August 2019 and were signed on its behalf by:

Mrs. M. P. Mpahlwa
Accounting officer

30 November 2019

Peddie

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note(s)	30 June 2019	30 June 2018 Restated*
ASSETS			
Current Assets			
Inventories	3	9,852,500	9,852,500
Operating lease asset	4	311,045	396,993
Receivables from non-exchange transactions	5	14,606,091	10,281,930
Receivables from exchange transactions	6	6,795,664	5,256,940
VAT receivable	7	3,400,048	3,568,352
Cash and cash equivalents	8	1,311,775	1,503,665
		36,277,123	**30,860,380**
Non-Current Assets			
Intangible assets	9	671,320	875,046
Investment property	10	26,673,500	28,094,865
Property, plant and equipment	11	261,578,384	243,435,390
Heritage assets	12	3	3
		288,923,207	**272,405,304**
Total Assets		**325,200,330**	**303,265,684**
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	13	20,537,803	19,593,205
Payables from non-exchange transactions	14	714,963	581,193
		21,252,766	**20,174,398**
Non-Current Liabilities			
Provisions	15	13,829,320	12,806,070
Total Liabilities		**35,082,086**	**32,980,468**
Net Assets		**290,118,244**	**270,285,216**
Accumulated surplus		290,118,240	270,285,215

* See Note 38

Statement of Financial Performance for the year ended 30 JUNE 2019

	Note(s)	30 June 2019	30 June 2018 Restated
Revenue			
Revenue from exchange transactions			
Service charges	16	805,722	758,857
Rental of facilities and equipment	17	162,379	155,982
Agency fees	18	391,981	309,521
Licences and permits	19	1,756,357	1,715,473
Other revenue	20	1,174,225	2,000,966
Interest earned on Outstanding Debtors	21	2,085,764	1,985,149
Interest received - investment	22	1,211,707	755,148
Total revenue from exchange transactions		**7,588,135**	**7,681,096**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	31,240,118	25,080,555
Transfer revenue			
Government grants	24	118,744,784	113,223,544
Fines and penalties	25	1,154,950	449,700
Other transfer revenue	26	8,136,314	57,541,399
Total revenue from non-exchange transactions		**159,276,166**	**196,295,198**
Total revenue		**166,864,301**	**203,976,294**
Expenditure			
Employee related costs	27	(67,704,904)	(59,080,377)
Remuneration of councillors	28	(10,066,659)	(9,521,166)
Depreciation and amortisation	29	(20,919,994)	(18,593,356)
Impairment of assets	30	-	(14,881,096)
Finance costs	31	(788,304)	(889,246)
Debt impairment	32	399,151	(545,461)
Contracted services	33	(11,246,226)	(18,254,069)
Other expenditure	34	(35,084,578)	(28,766,608)
Total expenditure		**(145,411,514)**	**(150,531,379)**
Operating surplus		**21,452,787**	**53,444,915**
Loss on disposal and revaluation of assets	35	(1,619,762)	(5,765,455)
Surplus for the year		**19,833,025**	**47,679,460**

* See Note 38

Statement of Changes in Net Assets for the year ended 30 June 2019

	Accumulated surplus	Total net assets
Opening balance as previously reported	219,799,464	219,799,464
Adjustments		
Correction of errors	2,806,291	2,806,291
Balance at 01 July 2017 as restated*	**222,605,755**	**222,605,755**
Changes in net assets		
Surplus for the year	47,679,460	47,679,460
Total changes	47,679,460	47,679,460
Restated* Balance at 01 July 2018	**270,285,215**	**270,285,215**
Changes in net assets		
Surplus for the year	19,833,025	19,833,025
Total changes	19,833,025	19,833,025
Balance at 30 June 2019	**290,118,240**	**290,118,240**

Note(s)

* See Note 38

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	Note(s)	30 June 2019	30 June 2018 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Billed Services		28,508,562	37,015,451
Government Grants		126,881,098	114,563,505
Interest Revenue		3,297,471	2,740,298
Receipt from other services		3,168,849	3,119,317
		161,855,980	157,438,571
Payments			
Cash paid to Suppliers and Employees		(128,545,423)	(121,399,624)
Finance costs		(95,545)	(129,609)
		(128,640,968)	(121,529,233)
Net cash flows from operating activities	36	**33,215,012**	**35,909,339**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	11	(33,581,535)	(36,577,984)
Proceeds from Sale of Property, Plant and Equipment	11	183,636	606,233
Purchase of Intangible Assets	9	(47,656)	(92,460)
Proceeds from insurance		38,652	392,720
Net cash flows from investing activities		**(33,406,903)**	**(35,671,491)**
Net increase/(decrease) in Cash and Cash Equivalents		**(191,891)**	**237,848**
Cash and Cash Equivalents at the beginning of the year		1,503,665	1,265,817
Cash and Cash Equivalents at the end of the year	8	**1,311,774**	**1,503,665**

* See Note 38

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
STATEMENT OF FINANCIAL PERFORMANCE						
REVENUE						
REVENUE FROM EXCHANGE TRANSACTIONS						
Service Charges	755,323	(151,065)	**604,258**	805,722	**201,464**	a)
Rental of Facilities and Equipment	572,207	80,000	**652,207**	162,379	**(489,828)**	b)
Licences and Permits	2,248,877	-	**2,248,877**	1,756,357	**(492,520)**	c)
Other Revenue	4,468,009	152,000	**4,620,009**	1,174,225	**(3,445,784)**	d
Agency Fees	509,106	-	**509,106**	391,981	**(117,125)**	e)
Interest Earned - Outstanding Debtors	4,343,234	(357,315)	**3,985,919**	2,085,764	**(1,900,155)**	f)
Interest Revenue	2,701,720	70,000	**2,771,720**	1,211,707	**(1,560,013)**	g)
Total Revenue from Exchange Transactions	**15,598,476**	**(206,380)**	**15,392,096**	**7,588,135**	**(7,803,961)**	
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
Property Rates	28,779,832	(3,311,972)	**25,467,860**	31,240,118	**5,772,258**	h)
TRANSFER REVENUE						
Tranfers recognised-operational/ Goverment grants	111,837,000	6,800,000	**118,637,000**	118,744,784	**107,784**	i)
Fines and Penalties	3,899,788	1,500,000	**5,399,788**	1,154,950	**(4,244,838)**	j)
Other Transfer Revenue	10,446,167	5,121,434	**15,567,601**	8,136,314	**(7,431,287)**	k)
Total Revenue from Non-Exchange Transactions	**154,962,787**	**10,109,462**	**165,072,249**	**159,276,166**	**(5,796,083)**	
Total Revenue	**170,561,263**	**9,903,082**	**180,464,345**	**166,864,301**	**(13,600,044)**	
EXPENDITURE						
Employee Related Costs	(66,807,175)	1,688,453	**(65,118,722)**	(67,704,904)	**(2,586,182)**	l)
Remuneration of Councillors	(9,439,403)	956,542	**(8,482,861)**	(10,066,659)	**(1,583,798)**	m)
Depreciation and Amortisation	(15,052,845)	5,000,000	**(10,052,845)**	(20,919,994)	**(10,867,149)**	n)
Finance Costs	(2,100,000)	2,100,000	**-**	(788,304)	**(788,304)**	0)
Debt Impairment	(2,169,600)	500,000	**(1,669,600)**	-	**1,669,600**	p)
Debt Impairment	(1,911,272)	(522,199)	**(2,433,471)**	399,151	**2,832,622**	q)
Contracted Services	(23,482,205)	(8,573,733)	**(32,055,938)**	(11,246,226)	**20,809,712**	r)
Other Expenditure	(16,918,204)	(1,725,073)	**(18,643,277)**	(35,084,578)	**(16,441,301)**	s)
Total expenditure	**(137,880,704)**	**(576,010)**	**(138,456,714)**	**(145,411,514)**	**(6,954,800)**	
Operating Surplus	**32,680,559**	**9,327,072**	**42,007,631**	**21,452,787**	**(20,554,844)**	
Loss on Disposal of Assets	-	-	**-**	(1,619,762)	**(1,619,762)**	u)
Surplus for the year	**32,680,559**	**9,327,072**	**42,007,631**	**19,833,025**	**(22,174,606)**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
STATEMENT OF FINANCIAL POSITION						
ASSETS						
CURRENT ASSETS						
Inventories	3,345,700	-	**3,345,700**	9,852,500	**6,506,800**	w)
Operating Lease Asset	-	396,993	**396,993**	311,045	**(85,948)**	x)
Receivables from Non exchange	19,546,231	(6,697,658)	**12,848,573**	14,606,091	**1,757,518**	y)
Receivables from Exchange Transactions	-	6,697,658	**6,697,658**	6,795,664	**98,006**	z)
Vat Receivables	9,988,402	(396,993)	**9,591,409**	2,891,412	**(6,699,997)**	aa)
Cash and cash equivalents	1,265,817	-	**1,265,817**	1,311,775	**45,958**	bb)
	34,146,150	**-**	**34,146,150**	**35,768,487**	**1,622,337**	
NON-CURRENT ASSETS						
Intangible assets	1,248,448	(269,939)	**978,509**	671,320	**(307,189)**	dd)
Investment property	24,058,000	-	**24,058,000**	26,673,500	**2,615,500**	ee)
Property, plant and equipment	185,132,600	9,597,001	**194,729,601**	261,578,384	**66,848,783**	ff)
Heritage assets	-	-	**-**	3	**3**	
	210,439,048	**9,327,062**	**219,766,110**	**288,923,207**	**69,157,097**	
Total Assets	**244,585,198**	**9,327,062**	**253,912,260**	**324,691,694**	**70,779,434**	
LIABILITIES						
CURRENT LIABILITIES						
Payables from exchange transactions	22,345,739	-	**22,345,739**	20,537,803	**(1,807,936)**	gg)
Payables from Non-Exchange Transactions	-	-	**-**	714,963	**714,963**	hh)
	22,345,739	**-**	**22,345,739**	**21,252,766**	**(1,092,973)**	
NON-CURRENT LIABILITIES						
Provisions	3,190,987	-	**3,190,987**	13,829,320	**10,638,333**	(ii)
Total Liabilities	**25,536,726**	**-**	**25,536,726**	**35,082,086**	**9,545,360**	
Net Assets	**219,048,472**	**9,327,062**	**228,375,534**	**289,609,608**	**61,234,074**	
Accumulated surplus	219,048,472	9,327,062	**228,375,534**	286,218,700	**57,843,166**	(jj)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
CASH FLOW STATEMENT						
CASH FLOWS FROM OPERATING ACTIVITIES						
RECEIPTS						
Billed Services	60,308,997	-	**60,308,997**	28,508,562	**(31,800,435)**	(jj)
Government Grants	122,283,167	11,799,833	**134,083,000**	126,881,098	**(7,201,902)**	(kk)
Interest Revenue	7,044,954	-	**7,044,954**	3,297,471	**(3,747,483)**	(ll)
Receipts from Other Services	12,054,272	-	**12,054,272**	3,168,849	**(8,885,423)**	(mm)
	201,691,390	**11,799,833**	**213,491,223**	**161,855,980**	**(51,635,243)**	
PAYMENTS						
Cash paid to Suppliers and Employees	(120,702,858)	(50,000)	**(120,752,858)**	(128,545,423)	**(7,793,198)**	(nn)
Finance costs	(2,125,000)	-	**(2,125,000)**	(95,545)	**2,029,455**	(00)
	(122,827,858)	**(50,000)**	**(122,877,858)**	**(128,640,968)**	**(5,763,743)**	
Net Cash Flows from Operating Activities	**78,863,532**	**11,749,833**	**90,613,365**	**33,215,012**	**(57,398,986)**	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of Property, Plant and Equipment	(32,680,568)	(9,327,062)	**(42,007,630)**	(33,581,535)	**8,426,095**	(pp)
Proceeds from Sale of Property, Plant and Equipment	(31,130,128)	-	**(31,130,128)**	183,636	**31,313,764**	(qq)
Purchase of Intangible Assets	-	-	**-**	(47,656)	**(47,656)**	(rr)
Proceeds from Insurance Claim	-	-	**-**	38,652	**38,652**	(ss)
Net Cash Flows from Investing Activities	**(63,810,696)**	**(9,327,062)**	**(73,137,758)**	**(33,406,903)**	**39,730,855**	
Net increase/(decrease) in cash and cash equivalents	15,052,836	2,422,771	**17,475,607**	(191,891)	**(17,668,131)**	
Cash and Cash Equivalents at the beginning of the year	1,200,000	-	**1,200,000**	1,503,665	**303,665**	(tt)
Cash and Cash Equivalents at the end of the year	**16,252,836**	**2,422,771**	**18,675,607**	**1,311,774**	**(17,364,466)**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Explanation of material differences between budget and actual amounts:

The acc ounting policies on pages 16 to 34 and the notes on pages 35 to 66 form an integral part of the annual financial statements

a) Properties that were surveyed and billed during the financial year but not included in the budget.

b) The rental of facilities budget includes the budget for hall hire which was over budgeted.

c) Over estimation of application for learners and drivers licences.

d) Direct income - less revenue collected during the financial year.

e) Less collection on behalf of Department of transport which results to less agency fees.

f) Due to debt interest written off during the financial year

g) Less interest generated due to cashflow limitation.

h) More properties that were surveyed and billed during the financial year but not included in the budget.

i) Due to incorrect treatment of the expense.

j) Fewer fines issued during the financial year.

k) Included in the budget amount was from education Seta which was subsequentl not entirely received.

l) Less than 10%.

m) Less than 10%

n) the depreciation was under budgeted for as the municipality was striving to prepare and complete the funded budget.

o) Less than 10%.

p) Less than 10%.

q) Less than 10%..

r) Less than 10%..

s) Less than 10%..

t) Less than 10%..

u) No budget made for loss on disposal.

w) Under budgeting due to insufficiant availability of informtion .

x) Amount has been incorrectly included under other debtors.

y) Increase in debtors due to properties that were surveyed and billed during the financial year

z) Less than 10%

aa) Debtors who subsequently paid the municipality

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

bb) Less than 10%

dd) Less addition purchased than budgeted for due to cashflow management limitations.

ee) Fair Value adjustments.

ff) Increase in additions due to additional funds received from Infrastructutre National Transfering Office.

gg) Decrease dueto payables paid by the municipality

hh) Incorrectly included with trade payables transaction

ii) Increase due to change in calculated provision liability

jj) Collection of old debt interest

kk) Less than 10%

ll) Decreased in interest due to limitation of cashflows

mm) Low collection during the financial year,less fines paid, less application for drivers licenses paid and other direct income

oo) The 95 545 refers to over due accounts interest charged

pp) Due to cashflow limitations

qq) Over budgeting for proceeds to be received by the municipality

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 Presentation Currency

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

1.2 Going Concern Assumption

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

1.3 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:

RECEIVABLES

The municipality assesses its trade 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 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.

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 15 - Provisions.

ALLOWANCE FOR DOUBTFUL DEBTS

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

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

ACCOUNTING POLICIES

1.4 Investment property (continued)

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

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

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

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

SUBSEQUENT MEASUREMENT - FAIR VALUE METHOD

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

1.5 Property, plant and equipment (continued)

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 cost less accumulated depreciation and any impairment losses except for land which is carried at cost being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

ITEM	DEPRECIATION METHOD	AVERAGE USEFUL LIFE
Land		Indifinite
Buildings	Straight line	9 - 30 years
Plant and machinery	Straight line	10 - 15 years
Furniture and fixtures	Straight line	5 - 7 years
Motor vehicles	Straight line	7 years
Office equipment	Straight line	5 - 7 years
Computer equipment	Straight line	3 - 5 years
Security equipment	Straight line	5 years
Other equipment	Straight line	5 years
Infrastructure		
• Roads paved	Straight line	30 years
• Roads Graded	Straight line	7 - 25 years
• Electricity (Street lights and High Masts)	Straight line	7 - 20 years
Minor Assets		Immediately
Park facilities	Straight line	5 - 76 years
Maintenance Equipment	Straight line	10 years
Landfill Sites	Straight line	69 - 98 years
Work in progress		Not depreciated

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.

ACCOUNTING POLICIES

1.5 Property, plant and equipment (continued)

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

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

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

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

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

ACCOUNTING POLICIES

1.6 Intangible assets

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

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

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

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.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

ITEM	DEPRECIATION METHOD	AVERAGE USEFUL LIFE
Computer software, other	Straight line	5 years

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

1.7 Heritage Assets

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

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

ACCOUNTING POLICIES

1.7 Heritage Assets (continued)

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.

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

INITIAL MEASUREMENT

Heritage assets are measured at cost.

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

SUBSEQUENT MEASUREMENT

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

IMPAIRMENT

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

DERECOGNITION

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

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

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

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

1.8 Financial Instruments

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

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

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

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

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

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

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

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

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

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

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

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

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

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

CLASSIFICATION

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

CLASS	CATEGORY
Receivables from Exchange Transactions	Financial asset measured at amortised cost
Receivables from Non-exchange Transactions	Financial asset measured at amortised cost
Vat Receivables	Financial asset measured at amortised cost
Operating Lease Asset	Financial asset measured at amortised cost
Cash and Cash Equivalents	Financial asset measured at fair value

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

CLASS	CATEGORY
Payables from Exchange Transactions	Financial liability measured at amortised cost
Payables from Non-Exchange Transactions	Financial liability measured at amortised cost

INITIAL RECOGNITION

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

The entity recognises financial assets using trade date accounting.

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

INITIAL MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

GAINS AND LOSSES

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

IMPAIRMENT AND UNCOLLECTIBILITY OF FINANCIAL ASSETS

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

ACCOUNTING POLICIES

1.8 Financial Instruments (continued)

DERECOGNITION

FINANCIAL ASSETS

The entity derecognises financial assets using trade date accounting.

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

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

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

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

FINANCIAL LIABILITIES

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

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

PRESENTATION

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

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

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

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

ACCOUNTING POLICIES

1.9 Leases

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

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

OPERATING LEASES - LESSOR

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

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

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

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

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

1.10 Inventories

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

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

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

1.11 Impairment of Cash-Generating Assets

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

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

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

ACCOUNTING POLICIES

1.11 Impairment of Cash-Generating Assets (continued)

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 are made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets.Additional text

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

[Specify judgements made]

1.13 Employee Benefits

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

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

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

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

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

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

ACCOUNTING POLICIES

1.13 Employee Benefits (continued)

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

SHORT-TERM EMPLOYEE BENEFITS

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

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

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

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

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

1.14 Provisions and Contingencies

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

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

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

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

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

ACCOUNTING POLICIES

1.14 Provisions and Contingencies (continued)

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

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

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

Provisions are not recognised for future operating surplus.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

1.15 Revenue from Exchange Transactions

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

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

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

MEASUREMENT

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

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

1.15 Revenue from Exchange Transactions (continued)

RENDERING OF SERVICES

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

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

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

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

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

INTEREST

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

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

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

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

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

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

1.16 Revenue from Non-Exchange Transactions

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

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

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

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

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

ACCOUNTING POLICIES

1.16 Revenue from Non-Exchange Transactions (continued)

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

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

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

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

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

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

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

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

RECOGNITION

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

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

MEASUREMENT

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

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

FINES

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

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

1.17 Investment Income

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

1.18 Borrowing Costs

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

ACCOUNTING POLICIES

1.18 Borrowing Costs (continued)

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

1.19 Comparative Figures

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

1.20 Unauthorised Expenditure

Unauthorised expenditure means:

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

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

1.21 Fruitless and Wasteful Expenditure

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

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

1.22 Irregular Expenditure

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

1.23 Budget Information

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

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

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

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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

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

1.24 Related Parties

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

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

ACCOUNTING POLICIES

1.24 Related Parties (continued)

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

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

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

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

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

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

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

1.25 Valued Added Tax

The municipality accounts for value added tax on accrual basis but pays over to /claims from SARS on a payment basis.

1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets. An expense is recognised in the municipality’s statement of financial performance when, and only when the goods are received and or services consumed. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) are allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Other Expenditure which constitute several expense items which are not individually significant and
- Losses on the disposal of assets are reported separately from expenses on the Statement of Financial Performance.

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:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. NEW STANDARDS AND INTERPRETATIONS (continued)

GRAP 21 (AS AMENDED 2016): IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

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

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

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

GRAP 26 (AS AMENDED 2016): IMPAIRMENT OF CASH-GENERATING ASSETS

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

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

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

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

GRAP 31 (AS AMENDED 2016): INTANGIBLE ASSETS

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

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

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. NEW STANDARDS AND INTERPRETATIONS (continued)

GRAP 103 (AS AMENDED 2016): HERITAGE ASSETS

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

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

The municipality has adopted the amendment for the first time in the 2019 annual financial statements.

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

3. INVENTORIES

Land to be transferred to beneficiaries	9,852,500	9,852,500

4. OPERATING LEASE ASSET

Leases for Land	311,045	396,993

The municipality lets land to tenants under leases covering periods ranging from 3 - 30 years. The leases are subject to escalation clauses as per the lease agreement resulting in straight lining of the rentals received and receivable.
The amount included above represents the difference between the actual rentals received and the calculated straight line lease.

Minimum lease payments receivable		
within one year	247,392	130,718
in second to fith year inclusive	1,567,459	588,541
later than five years	23,630,783	887,551
	25,445,634	**1,606,810**

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Property Rates	11,819,550	11,652,601
Less: Impairment on Property Rates	(4,330,659)	(4,877,270)
Other Receivables	7,117,200	3,506,599
	14,606,091	**10,281,930**

Property Rates		
0-30 Days	522,727	472,525
31-60 Days	179,460	118,331
61-90 Days	101,698	104,821
91-120 Days	121,154	87,011
121-150 Days	104,850	75,470
Over 151 Days	10,789,662	10,794,441
	11,819,551	**11,652,599**

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

SUMMARY OF TOTAL DEBTORS (EXCHANGE AND NON-EXCHANGE) BY CUSTOMER CLASSIFICATION

	30 June 2019	30 June 2018 Restated
Residential		
0-30 Days	479,623	383,469
31-60 Days	188,629	135,038
61-90 Days	163,383	106,307
91-120 Days	169,171	100,897
121-150 Days	153,726	123,681
Over 151 Days	6,852,482	7,301,402
	8,007,014	8,150,794
Less: Allowance for impairment	(6,539,532)	(6,840,039)
	1,467,482	**1,310,755**
Business		
0-30 Days	356,188	375,036
31-60 Days	125,734	122,723
61-90 Days	80,669	81,736
91-120 Days	74,725	66,364
121-150 Days	70,394	67,018
Over 151 Days	3,532,704	2,837,693
	4,240,414	3,550,571
Less: Allowance for impairment	(1,722,832)	(1,821,476)
	2,517,582	**1,729,095**
Government		
0-30 Days	272,159	188,884
31-60 Days	126,429	91,668
61-90 Days	121,726	33,526
91-120 Days	121,848	34,195
121-150 Days	122,066	88,405
Over 151 Days	9,535,265	8,555,744
	10,299,493	**8,992,422**
Total debtor past due but not impaired		
0-30 Days	947,390	947,390
31-60 Days	126,428	91,668
61-90 Days	121,726	33,526
91-120 Days	121,848	34,195
121-150 Days	122,066	88,405
Over 151 Days	9,535,265	8,555,744
	10,974,723	**9,750,928**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

5. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

RECONCILIATION OF PROVISION FOR IMPAIRMENT ALLOWANCE

Opening balance	8,661,515	8,116,055
Provision for impairment	(399,151)	545,460
	8,262,364	**8,661,515**

TOTAL DEBTORS (EXCHANGE AND NON-EXCHANGE)

Balance Net of Credit Balances	22,193,464	20,693,787
Gross up of Credit Balance	353,456	-
	22,546,920	**20,693,787**

6. RECEIVABLES FROM EXCHANGE TRANSACTIONS

GROSS BALANCES

Refuse	1,230,788	1,173,464
Rent	172,977	134,707
Interest on Overdue Accounts	9,323,604	7,733,014
	10,727,369	**9,041,185**

LESS: ALLOWANCE FOR IMPAIRMENT

Refuse	(450,981)	(491,161)
Rent	(63,388)	(56,382)
Interest on Overdue Accounts	(3,417,336)	(3,236,702)
	(3,931,705)	**(3,784,245)**

NET BALANCE

Refuse	779,807	682,303
Rent	109,589	78,325
Interest on Overdue Accounts	5,906,268	4,496,312
	6,795,664	**5,256,940**

REFUSE

Current (0 -30 days)	130,863	103,399
31 - 60 days	43,109	46,809
61 - 90 days	43,139	31,881
91 - 120 days	26,529	31,304
121 - 150 days	24,569	23,838
> 151 days	962,580	936,231
	1,230,789	**1,173,462**

HOUSING RENTAL

Current (0 -30 days)	60,937	7,285
91 - 120 days	-	-
121 - 150 days	-	-
> 151 days	112,040	127,422
	172,977	**134,707**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

6. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

INTEREST ON OVERDUE ACCOUNTS		
Current (0 -30 days)	393,442	364,180
31 - 60 days	218,223	184,288
61 - 90 days	220,940	84,866
91 - 120 days	218,061	83,140
121 - 150 days	216,766	179,796
> 151 days	8,056,170	6,836,745
	9,323,602	**7,733,015**

7. VAT RECEIVABLE

VAT Input Control Account	2,787,342	1,867,624
VAT Output Control Account	(202,097)	(204,665)
VAT Receivable from SARS	814,803	1,905,393
	3,400,048	**3,568,352**

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Bank Balances	754,422	1,019,122
Investments	557,353	484,543
	1,311,775	**1,503,665**

THE MUNICIPALITY HAD THE FOLLOWING BANK ACCOUNTS:

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
FNB Main Account-62022000898	754,422	1,019,122	1,145,308	754,422	1,019,122	1,145,308
FNB Reserve Fund ccount - 62035920596	-	-	1,784	-	-	1,784
FNB MIG Account - 62270667531	-	-	13,003	-	-	13,003
FNB Rates Accounts-62414349763	536,929	484,543	96,119	536,929	484,543	96,119
FNB EPWP Account - 62414349763	-	-	972	-	-	972
FNB FMG Account - 62414358912	-	-	1,752	-	-	1,752
FNB Business Call Account - 62606330463	-	-	6,878	-	-	6,878
FNB Petrol Card Account-62084123787	20,423	-	-	20,423	-	-
Total	**1,311,774**	**1,503,665**	**1,265,816**	**1,311,774**	**1,503,665**	**1,265,816**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

9. INTANGIBLE ASSETS

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Intangible Assets	2,748,836	(2,077,516)	671,320	2,701,180	(1,826,134)	875,046

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

9. INTANGIBLE ASSETS (continued)

RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2019

	Opening balance	Additions	Amortization	Total
Computer Software	875,046	47,656	(251,382)	671,320

RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2018

	Opening balance	Additions	Amortization	Prior period error	Total
Computer Software	1,248,448	92,460	(470,057)	4,195	875,046

The municipality amortises all its intangible assets and none of these are regarded as having indefinite useful lives. The useful lives of the intangible assets remain unchanged from the previous year.

10. INVESTMENT PROPERTY

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	26,673,500	-	26,673,500	28,094,865	-	28,094,865

RECONCILIATION OF INVESTMENT PROPERTY - 2019

	Opening balance	Fair value adjustments	Total
Investment property	28,094,865	(1,421,365)	26,673,500

RECONCILIATION OF INVESTMENT PROPERTY - 2018

	Opening balance	Fair value adjustments	Total
Investment property	21,935,500	6,159,365	28,094,865

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated
10. INVESTMENT PROPERTY (continued)		
DETAILS OF PROPERTY		
ERF 2220 PEDDIE-LAND EXTENT 2824 HQ		
Land is leased to Engen Petroleum		
Cost at valuation	1,368,628	2,888,000
ERF 447 HAMBURG-LAND EXTENT 2824 HQ		
Portion of the Caravan Park Leased to Mrs Dorego		
- Cost at valuation	2,784,000	2,050,000
ERF 314-LAND EXTENT 989 SQUARE		
- Cost at valuation	317,616	50,000
ERF 1836 - LAND EXTENT 488 SQUARE METERS		
Leased to IEC		
- Cost at valuation	6,392	6,700
OTHER INVESTMENT LAND OWNED BY THE MUNICIPILITY		
- Cost at valuation	22,196,864	23,100,165

A valuation of the investment Property was carried out by an independent valuer (Mhlaba Valuers) and the values of the properties were adjusted to their fair market values at year end. The valuation, which conforms to international standards, was arrived at by reference to market evidence of transaction prices for similar properties. The properties were generating an average monthly income of R32 543 (June 2018: R11 142).

11. PROPERTY, PLANT AND EQUIPMENT

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	38,188,205	-	38,188,205	38,188,205	-	38,188,205
Buildings	147,402,610	(37,375,997)	110,026,613	137,844,203	(33,331,646)	104,512,557
Plant and Equipment	8,294,553	(5,215,930)	3,078,623	8,122,553	(4,577,236)	3,545,317
Office Furniture	1,705,643	(1,467,845)	237,798	1,653,483	(1,414,432)	239,051
Motor Vehicles	8,604,906	(3,900,584)	4,704,322	8,258,739	(4,056,298)	4,202,441
Office Equipment	1,727,396	(1,288,804)	438,592	1,603,863	(1,101,682)	502,181
IT Equipment	2,953,847	(2,157,369)	796,478	2,606,485	(1,701,314)	905,171
Infrastructure	183,216,914	(104,280,683)	78,936,231	152,076,842	(90,707,278)	61,369,564
Maintenance Equipment	433,801	(276,478)	157,323	433,801	(243,363)	190,438
Security Equipment	736,372	(517,857)	218,515	736,372	(445,796)	290,576
Other Equipment	493,987	(305,378)	188,609	493,987	(232,722)	261,265
Capital Works in Progress	14,587,334	-	14,587,334	18,729,034	-	18,729,034
Park Facilities	13,152,970	(3,133,229)	10,019,741	13,152,970	(2,653,381)	10,499,589
Minor Equipment	1,890,933	(1,890,933)	-	1,866,687	(1,866,686)	1
Total	**423,389,471**	**(161,811,087)**	**261,578,384**	**385,767,224**	**(142,331,834)**	**243,435,390**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

11. PROPERTY, PLANT AND EQUIPMENT (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	38,188,205	-	-	-	-	38,188,205
Buildings	104,512,529	-	-	9,558,408	(4,044,351)	110,026,613
Plant and Equipment	3,545,317	172,000	-	-	(638,694)	3,078,623
Office Furniture	239,051	52,160	-	-	(53,413)	237,798
Motor Vehicles	4,202,441	1,412,109	(304,620)	-	(605,608)	4,704,322
Office Equipment	502,140	123,534	-	-	(187,122)	438,592
IT Equipment	905,171	416,641	(26,588)	-	(498,746)	796,478
Infrastructure	61,369,535	48,500	(38,579)	31,515,428	(13,958,751)	78,936,231
Maintenance Equipment	190,531	-	-	-	(33,115)	157,323
Security Equipment	290,576	-	-	-	(72,060)	218,515
Other Equipment	261,264	-	-	-	(72,655)	188,609
Capital Works in Progress	15,338,126	40,319,888	-	(41,073,836)	-	14,587,334
Park Facilities	10,499,589	-	-	-	(479,848)	10,019,741
Minor Assets	1	24,246	-	-	(24,246)	-
	240,044,476	**42,569,078**	**(369,787)**	**-**	**(20,668,609)**	**261,578,384**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

11. PROPERTY, PLANT AND EQUIPMENT (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2018

	Opening balance	Additions through transfer of functions / mergers	Disposals	Transfers received	Depreciation	Impairment loss	Prior period error Adjustment	Total
Land	38,188,205	-	-	-	-	-	-	38,188,205
Buildings	63,565,157	57,000,000	-	5,156,742	(3,794,424)	(14,881,096)	(2,533,849)	104,512,557
Plant and Equipment	13,830,187	-	(9,656,791)	-	-	(622,152)	(5,927)	3,545,317
Office Furniture	148,061	130,847	-	-	(39,857)	-	-	239,051
Motor Vehicles	5,066,513	719,814	(649,000)	-	(1,087,634)	-	152,748	4,202,441
Office Equipment	670,767	14,600	(4,182)	-	(179,004)	-	-	502,181
IT Equipment	710,747	493,076	(67,685)	-	(284,908)	-	53,941	905,171
Infrastructure	54,007,543	-	-	15,040,141	(11,281,536)	-	3,603,415	61,369,564
Maintenance Equipment	223,555	-	-	-	(33,117)	-	-	190,438
Security Equipment	204,476	118,601	(64,822)	89,370	(57,049)	-	-	290,576
Other Equipment	373,960	-	-	-	(80,972)	-	(31,723)	261,265
Capital Works in Progress	12,035,158	38,334,645	-	(20,291,748)	-	-	(11,349,041)	18,729,034
Park Facilities	10,892,763	86,675	-	-	(479,849)	-	-	10,499,589
Minor Equipment	-	171,614	-	5,495	(177,108)	-	-	1
TOTAL	**199,917,092**	**97,069,872**	**(10,442,480)**	**-**	**(17,495,458)**	**(15,503,248)**	**(10,110,436)**	**243,435,390**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

12. HERITAGE ASSETS

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Monuments	3	-	3	3	-	3

RECONCILIATION OF HERITAGE ASSETS - 2019

	Opening balance	Total
Historical Monuments	3	3

RECONCILIATION OF HERITAGE ASSETS - 2018

	Opening balance	Total
Collections of insects, butterflies and fossils	-	-
Historical Monuments	3	3
	3	**3**

HERITAGE ASSETS

All the municipality's heritage assets are held under a freehold interest and no heritage asset have been pledged as security for any liabilities of the municipality.The heritage assets comprise of the Dick King Memorial Site, a Fingo Milkwood Tree and Fort Peddie Tower Complex.

These are not income generating assets and shown on the face of the statement of financial position at a nominal value of R1 each.

No impairment losses have been recognised on the heritage assets of the municipality at the reporting date.

These heritage assets have not been revalued due to their fair value not being easily and reliably measured due to the lack of a market for these assets.

13. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade Payables	12,355,112	12,447,643
Accrued Leave Pay	3,639,117	3,160,941
Accrued Bonus	1,397,276	1,293,411
Retentions	3,146,298	2,691,210
	20,537,803	**19,593,205**

Included in current year trade payables is a balance for Amathole District Municipality (ADM) amounting to R8 264 656 (2018: R7 131 576).

14. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Receivables with Credit Balances	353,456	221,866
Staff creditor for unpaid travel and cellphone allowances	361,507	359,327
	714,963	**581,193**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

14. PAYABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

All receivables with credit balances have been reallocated to Payables from Non-Exchange Transactions to achieve fair presentation.

15. PROVISIONS

RECONCILIATION OF PROVISIONS - 2019

	Opening Balance	Change in discount factor	Total
Provision for Rehabilitation of Landfill Sites	9,581,070	666,534	10,247,604
Provision for Long Service Awards	3,225,000	356,716	3,581,716
	12,806,070	**1,023,250**	**13,829,320**

RECONCILIATION OF PROVISIONS - 2018

	Opening Balance	Utilised during the year	Change in discount factor	Total
Provision for Rehabilitation of Landfill Sites	9,335,356	(513,923)	759,637	9,581,070
Provisions for Long Service Awards	3,003,000	-	222,000	3,225,000
	12,338,356	**(513,923)**	**981,637**	**12,806,070**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

15. PROVISIONS (continued)

REHABILITATION OF LANDFILL SITES PROVISION

The Provision for Rehabilitation of Landfill Sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation. The amount for the provision was adjusted retrospectively in accordance with the report produced by qualified engineers specialising in Landfill Sites valuations.

LONG SERVICE AWARD PROVISION

The Long Service Award is payable after every 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continuous service. The provision is an estimate of the amounts likely to be paid based on an actuarial valuation performed at the reporting date. The actuarial valuation of the long service awards accrued liability was carried out by Arch Actuarial Consulting. The assumptions used in the valuation are outlined below:

Key Assumptions:
1. Salary increase rate of CPI+1%.
2. The mortality rate of SA 85 - 90.
3. Normal retirement age of 65 years.
4. The discount rate used was yield curve as at 30 June 2019 as supplied by the Johannesburg Stock Exchange.

16. SERVICE CHARGES

Refuse Removal	805,722	758,857

17. RENTAL OF FACILITIES AND EQUIPMENT

FUEL STATION AND CARAVAN PARK		
Various Rentals	157,176	151,130
FACILITIES AND EQUIPMENT		
Billboards	5,203	4,852
	162,379	**155,982**

Some of the offices were not occupied during the year ended 30 June 2019.

At the end of the financial year, the properties were generating an average monthly income of R32 543 (2018: R11 142).

18. AGENCY FEES

eNATIS Commission	391,981	309,521

19. LICENCES AND PERMITS

Drivers License	1,656,522	1,607,027
Learners License	99,835	108,446
	1,756,357	**1,715,473**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

20. OTHER REVENUE

Movement in Landfill Site provision	26,225	513,923
Tender Fees	182,392	-
Sundry Income	780,229	889,837
Building Plan Fees	57,891	68,104
Insurance Claim for loss of Property, Plant and Equipment	38,652	323,003
Commission	88,836	69,717
	1,174,225	**1,864,584**

Sundry Income includes income from Cemetery&Burial R2197.39

21. INTEREST EARNED - OUTSTANDING DEBTORS

Interest earned on Outstanding Debtors	2,085,764	1,985,149

22. INTEREST FROM INVESTMENTS

Interest from Investments	1,211,707	754,119
Interest from SARS	-	1,029
	1,211,707	**755,148**

23. PROPERTY RATES

Gross Property Rates	31,705,542	26,375,607
Less: Rebates	(465,424)	(1,295,052)
	31,240,118	**25,080,555**

VALUATIONS

Residential	334,119,304	344,707,304
Commercial	139,491,888	139,476,888
Government	675,752,788	571,034,890
Municipal	74,002,307	84,049,307
Farms agricultural	85,104,301	85,104,301
Place Of Worship	2,396,000	2,396,000
Vacant Land	117,452,584	105,918,284
Game Hunting	6,300,000	6,300,000
Other	8,586,329	16,027
	1,443,205,501	**1,339,003,001**

Valuations on land and buildings within the boundaries of the municipality are performed every 5 years. The last general valuation came into effect on 1 July 2014. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The Municipality was due to perform its annual General Valuation at the expiry of the 5 year cycle in 2018 however, the municipality obtained an extention for the new General Valuation implementation till the 01 July 2019 wherein the General Valuation will be adopted.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

24. GOVERNMENT GRANTS

Equitable Share	75,488,000	73,615,000
Expanded Public Works Programme	1,480,000	1,531,000
Municipal Infrastructure Grant	32,922,000	31,833,000
Financial Management Grant	2,415,000	2,345,000
Integrated National Electrification Programme	6,439,784	3,899,544
	118,744,784	**113,223,544**

CONDITIONAL AND UNCONDITIONAL GRANTS

Included in above are the following grants and subsidies received:

Conditional grants received	43,256,784	39,608,544
Unconditional grants received	75,488,000	73,615,000
	118,744,784	**113,223,544**

EQUITABLE SHARE

In terms section 227 of the Constitution, this grant is used to to enable the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

EXPANDED PUBLIC WORKS PROGRAMME

Current-year receipts	1,480,000	1,531,000
Conditions met - transferred to revenue	(1,480,000)	(1,531,000)
	-	-

The grant was received from National Roads and Public Works.

The grant was used for stipends for unemployed youths.

MUNICIPAL INFRASTRUCTURE GRANT

Current-year receipts	32,922,000	31,833,000
Conditions met - transferred to revenue	(32,922,000)	(31,833,000)
	-	-

The grant was received from National Treasury.

The grant was used for construction of community halls and extension of access roads.

	30 June 2019	30 June 2018 Restated

24. GOVERNMENT GRANTS (continued)

FINANCIAL MANAGEMENT GRANT

Current-year receipts	2,415,000	2,345,000
Conditions met - transferred to revenue	(2,415,000)	(2,345,000)
	-	-

The grant was received from National Treasury.

This grant was used to pay stipends for Financial Management Interns and Budget and Treasury Office related expenditure.

INEP GRANT

Current-year receipts	6,439,784	3,899,544
Conditions met - transferred to revenue	(6,439,784)	(3,899,544)
	-	-

The grant was received from Eskom (see note)
The grant was used to electrify Peddie villages.

25. FINES AND PENALTIES

Traffic fines issued during the year	1,154,950	449,700

26. OTHER TRANSFER REVENUE

Donation of assets from Amathole District Municipality.	-	57,100,981
Library Subsidy	400,000	350,000
LG Seta transfer	211,404	90,418
CETA	7,524,910	-
	8,136,314	**57,541,399**

Donations Income comprises of assets donated by the ADM to the municipality in the prior year. The donated assets were valued to their fair market values and recognised at fair value in the financial statements of the municipality. The assets have been included in the property, plant and equipment balance. An amount of R211 404 from Seta is Grant in kind.

	30 June 2019	30 June 2018 Restated

27. EMPLOYEE RELATED COSTS

Basic Salaries	47,722,549	41,313,250
Annual Bonus (13th Cheques)	3,224,849	3,007,711
UIF	357,827	327,874
SDL	541,838	467,486
SALGBC Levies	22,631	19,619
Redemption of Leave	1,630,813	1,656,802
Cellphone Allowance	361,716	281,303
Shift Allowance	268,444	250,509
Overtime	495,641	324,429
Housing Allowances	122,873	166,277
Medical Aid Contributions	2,693,606	2,396,885
Pension Fund Contributions	6,626,900	6,055,734
Long Service Bonus	534,082	406,742
Subsistence and Travel	3,101,135	2,405,756
	67,704,904	**59,080,377**

The amounts below have been included in the above note:

REMUNERATION OF MUNICIPAL MANAGER

Annual Remuneration	1,051,117	714,959
Backpay	22,030	23,141
SDL	11,497	7,773
UIF	1,785	1,338
Travel expenses	294,414	231,409
Term leave	-	201,479
	1,380,843	**1,180,099**

The amounts below have been included in the above note:

Included are Basic Salaries, Medical Aid all, Provident fund Allowance.

REMUNERATION OF CHIEF FINANCE OFFICER

Annual Remuneration	671,386	635,092
Travel expenses	224,988	209,950
SDL	10,711	10,256
UIF	1,785	1,785
Cellphone allowance	44,055	40,545
Backpay	18,359	21,427
Nonpensionable allowance	179,865	172,900
Bargaining levy	105	99
	1,151,254	**1,092,054**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

27. EMPLOYEE RELATED COSTS (continued)

REMUNERATION OF EXECUTIVE MANAGER: CORPORATE SERVICES

Annual Remuneration	783,331	618,135
Backpay	13,832	10,285
Travel expenses	111,871	107,382
SDL	7,236	7,903
UIF	1,785	1,338
Bargaining levy	105	66
Term leave	-	189,846
	918,160	**934,955**

Included are Basic Salaries, Medical Aid, Provident Fund Allowance & Annual leave sold.

	30 June 2019	30 June 2018 Restated

27. EMPLOYEE RELATED COSTS (continued)

REMUNERATION OF EXECUTIVE MANAGER: TECHNICAL SERVICES

Annual Remuneration	576,660	491,158
Backpay	13,832	-
Travel expenses	192,169	115,997
SDL	7,324	6,609
UIF	1,645	1,041
Cellphone allowance	-	22,849
Bargaining levy	-	33
Term leave	-	148,079
	791,630	**785,766**

REMUNERATION OF EXECUTIVE MANAGER: COMMUNITY SERVICES

Annual Remuneration	894,753	426,096
Travel expenses	155,805	51,424
SDL	10,680	2,985
UIF	1,785	595
Bargaining levy	105	8
Backpay	18,359	-
Medical aid	32,712	13,965
	1,114,199	**495,073**

28. REMUNERATION OF COUNCILLORS

Mayor	865,220	832,829
Speaker	714,384	687,010
Chief Whip	412,045	380,707
MPAC Chair	387,102	370,847
Exco	1,224,227	1,142,120
Other Councillors	6,463,682	6,107,653
	10,066,660	**9,521,166**

The Remuneration of Councillors is based on the upper limit as per the Government Gazette.

The Mayor and the Speaker each have the use of separate Council owned vehicles and are provided with an office and secretarial support at the cost of the Council for official duties. The Mayor has a designated driver for the official duties.

There were no in-kind benefits declared nor received by other Councillors.

29. DEPRECIATION AND AMORTISATION

Property, plant and equipment	20,668,611	18,128,069
Intangible Assets	251,383	465,287
	20,919,994	**18,593,356**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

30. IMPAIRMENT OF ASSETS

IMPAIRMENTS		
During the prior year, items of property, plant and equipment and investment property were impaired due to loss, damage or reduction in value.	-	14,881,096

31. FINANCE COSTS

Interest on late Payment of Suppliers	95,545	129,609
Finance costs on Landfill Site Provision	692,759	759,637
	788,304	**889,246**

32. DEBT IMPAIRMENT

Debt Impairment	(399,151)	545,461

Debt impairment is an assessment of the amounts that will not be recovered from the debtors, based on the municipality's policy. In the current year the debt impairment provision decreased by R399 151.

33. CONTRACTED SERVICES

Repairs and maintenance - PPE	3,340,514	3,125,094
Other contracted services	7,905,712	15,128,975
	11,246,226	**18,254,069**

As per Grap 17 (Paragraph 88), repairs and maintenace amount of R3 340 514 relates to repairs to property plant and equipment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

34. OTHER EXPENDITURE

Accommodation Expenses	1,923,434	2,051,330
Advertising	428,928	622,196
Agriculture	41,696	173,000
Audit Fees	3,758,508	2,859,818
Bank Charges	66,111	162,819
Catering	629,037	560,908
Computer Expenses	206,771	62,082
Conferences and Seminars	156,745	201,281
Consumables	162,217	40,657
Electricity	2,832,435	2,596,255
Employee Assistance Programme	9,670	28,801
Financial Management Enhancement	1,121,762	2,102,536
Fines and penalties	9,299	13,500
Fuel and Oil	1,514,059	1,931,849
IDP Reviewal	57,600	58,896
Learnerships and interns	8,652,704	1,530,813
Legal Expenses	1,438,037	2,403,198
Life Saver Hire	47,181	386,310
Miscellaneous Expenses	3,326,116	4,497,259
Printing and Stationery	291,462	315,771
Programmes	1,997	18,037
Public Participation	-	(3,821)
Refuse	308,154	252,000
Royalties and License Fees	980,441	772,347
Special Programmes Unit	732,030	963,123
Subscriptions and Membership Fees	741,678	626,480
Telephone	1,705,944	729,723
Tourism Development	1,200	20,000
Training	933,818	947,643
Uniforms	229,764	269,805
Water Municipal Use	2,775,780	1,571,992
	35,084,578	**28,766,608**

Included in miscellaneous expenses are, among others, Own Transport R476 483.22, Audio visuals R2 658 692.40.

35. LOSS/(GAIN) ON DISPOSAL AND REVALUATION OF ASSETS

Loss/(gain) on disposal/Revaluation of assets	1,619,762	5,765,455

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

36. CASH FLOWS FROM OPERATING ACTIVITIES

	30 June 2019	30 June 2018 Restated
Surplus for the year	19,833,025	47,679,460
ADJUSTMENTS FOR:		
Depreciation and Amortisation	20,919,994	18,593,357
Impairment Loss on Assets	-	14,881,096
Change in land fill closure provision	-	(513,923)
Debt Impairment	(399,151)	545,461
Interest cost, land fill site	-	759,637
Gain on Disposal/Revaluation on Assets	(1,619,762)	(5,765,455)
Provisions-Provision for rehabilitation of landfill sites	(26,225)	245,714
Provision for long service awards	356,716	222,000
Accrued Bonus- Increase	103,866	(53,556)
Accrued Leave Pay	478,177	349,512
Other non-cash movements	(4,100,630)	9,644,674
Interest on Landfill Site provision	692,759	-
Provision for Landfill Site	666,534	-
Donation of assets from ADM	-	(57,100,981)
CHANGES IN WORKING CAPITAL:		
VAT Receivable	1,008,276	358,775
Receivables from Exchange Transactions	(1,538,724)	1,474,975
Receivables from Non-ExchangeTransactions	(4,324,160)	8,736,610
Operating Lease Asset	85,948	1,698
Payables from exchange transactions	944,599	(3,134,798)
Payables from Non-Exchange Transactions	133,770	(115,372)
Unspent conditional grants and receipts	-	(899,545)
	33,215,012	**35,909,339**

37. COMMITMENTS

AUTHORISED CAPITAL EXPENDITURE

	30 June 2019	30 June 2018 Restated
ALREADY CONTRACTED FOR BUT NOT PROVIDED FOR		
• Property, plant and equipment	10,525,228	18,402,234

This committed expenditure relates to property, plant and equipment and will be financed through the Municipal Grants, existing cash resources and funds internally generated.

38. PRIOR-YEAR ADJUSTMENTS

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

VAT RECEIVABLES: This was a journal that was passed in adjusting vat input and output that was made in the prior year.

RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS: This was a journal processed to make adjustments on payment in advance made to Khayalihle in the prior year.

INTANGIBLE ASSETS: This was a journal processsed to reverse an overstated amortisation in the prior year.

INVESTMENT PROPERTY: This was a journal processsed to make an adjustment of ERF 314 investment property in the prior year.

PROPERTY, PLANT AND EQUIPMETNT: This was a journal made to adjust for depreciation that was made in the prior year, a correction of an advance payment made to Khayelihle suppliers. Adjusting journal made to the PPE to adjust the prior year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

38. PRIOR-YEAR ADJUSTMENTS (continued)

PAYABLES FROM EXCHANGE TRANSACTIONS: This was a journal processed to make correction on SALGA invoice and Seartec (Service provider) invoices that were not recorded in the prior year.

OTHER REVENUE: Recording proceeds received from the insurance company which was not recorded in the general ledger, as the supprting documentation for this proceeds was received after the finalization of the prior year financial statements and reallocation of INEP for prior year.

GOVERNMENT GRANTS: This was to correct an error made on amount for INEP grant that was included in the prior year.

EMPLOYEE COSTS: This was a journal made for the reclassification of daily allowance from expenditure to Employee related costs and a journal that was processed for recognition of prior year performance bonus..

DEPRECIATION & AMORTISATION: This was a journal processed to make adjustment on depreciation amount.

FINANCE COSTS: This was an adjusting journal of interest on late payment of suppliers

CONTRACTED SERVICES: This was a reclassification of other expenditure from contracted services in the prior year**.**

OTHER EXPENDITURE: This was a journal processed to make adjustments for SALGA and Saartec (Service Provider) invoices that were not recorded in the prior year. Adjustment made for reclassification from Contracted services and to Employee costs .
LOSS ON DISPOSAL:This was an adjustment made to the disposal of assets in the prior year and those assets that the municipality no longer had in possession and use.

38. PRIOR-YEAR ADJUSTMENTS (continued)

STATEMENT OF FINANCIAL POSITION

2019

	Note	As previously reported	Correction of error	Restated
Current Assets				
Vat receivables	7	2,796,369	771,983	3,568,352
Receivables from non-exchange transactions	6	10,691,930	(410,000)	10,281,930
		-	-	-
		13,488,299	361,983	13,850,282
Non-current Assets		-	-	-
Intangible Assets	9	870,853	4,193	875,046
Investment property	10	28,003,465	91,400	28,094,865
Property, plant and equipment	11	250,154,922	(6,722,532)	243,432,390
		279,029,239	(6,626,939)	272,402,301
Total Assets		292,517,538	(6,264,956)	286,252,583
Liabilities		-	-	-
Current Liabilities		-	-	-
Payables from Exchange Transactions	13	(19,460,457)	(132,748)	(19,593,205)
		(19,460,457)	(132,748)	(19,593,205)
Net Assets		273,057,081	(6,397,704)	266,659,378

STATEMENT OF FINANCIAL PERFORMANCE

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Revenue					
Revenue from exchange transactions					
Other revenue	20	1,077,629	923,337	-	2,000,966
Total revenue		**1,077,629**	**923,337**	**-**	**2,000,966**
Expenditure					
Employee related cost	27	(58,806,422)	(273,955)	106,295	(59,080,377)
Depreciation and Amortisation	26	(18,577,276)	(16,080)	-	(18,593,356)
Finance costs		(886,155)	(3,091)	-	(889,246)
Contracted services	33	(18,253,831)	(238)	-	(18,254,069)
Other expenditure	34	(28,239,356)	(527,252)	106,295	(28,766,608)
Total expenditure		(124,763,040)	(820,616)	212,590	(125,583,656)
Loss on disposal/revaluation of assets		3,538,258	(9,303,713)	-	(5,765,455)
Surplus for the year		(120,147,153)	(9,200,992)	-	(129,348,145)

	30 June 2019	30 June 2018 Restated

39. RISK MANAGEMENT

LIQUIDITY RISK

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach to managing the liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when they fall due, without incurring unacceptable losses or risking damage to the municipality's reputation.

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

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

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

The municipality’s income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.
Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer to note 8.

Any change in interest rates will not have any impact on the accumulated surplus of the municipality.
At period end financial assets exposed to interest rate risk were as follows:

Cash and Cash Equivalents - R1 311 775 (2018: R1 503 665).

CREDIT RISK

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations and arises principally from the municipality's receivables, and cash and cash equivalents. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. Receivables are amounts owing by consumers and are presented net of impairment losses.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to these customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the group of customers, taking into account their financial position, past experience and other factors:

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

Financial instrument	**2019**	**2018**
Receivables from Exhange Transactions	6,795,663	5,256,940
Receivables from Non-Exhange Transactions	14,606,091	10,281,930
Cash and Cash Equivalents	1,311,775	1,503,665
Provisions	13,829,320	12,806,070
Payables from Exchange Transaction	20,537,803	19,593,205
Payables from Non-exchange Transaction	714,963	581,193

40. GOING CONCERN

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R279 778 915 and that the municipality's total liabilities did not exceed its assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

40. GOING CONCERN (continued)

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.

41. EVENTS AFTER THE REPORTING DATE

In August 2019, after the year end but before the submission and approval of the AFS, councillor Ntomboxolo Mpoli passed away on the 08 August 2019.

42. UNAUTHORISED EXPENDITURE

Opening balance as previously reported	34,717,829	34,717,829
Add: Unauthorised expenditure-Current year	6,954,810	-
	41,672,639	**34,717,829**

Unauthorised expenditure is made out of depreciation refer to the Statement of Comparison of Budget and Actual Amounts.

43. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance as previously reported	416,897	276,428
Fruitless and wasteful expenditure for the Current year	102,429	140,469
	519,326	**416,897**

44. IRREGULAR EXPENDITURE

Opening balance as previously reported	97,342,978	53,439,937
Add: Irregular Expenditure - current year	23,369,342	43,903,041
	120,712,320	**97,342,978**

Details of irregular expenditure

Proper Supply Chain Management Processes were not followed in making the awards	23,369,342	43,903,041

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

45. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

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

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

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

Incidents		
Deviations due to Emergency procurement	194,704	1,707,353
Deviations due to Sole supplier procurement	1,867,647	1,935,433
Deviations due to Impractical of following SCM processes	868,111	3,229,963
Deviations due to Exceptional case procurement	11,300	-
	2,941,762	**6,872,749**

	30 June 2019	30 June 2018 Restated

46. CONTINGENT LIABILITIES

Contingencies arise from pending litigation on contractual disputes and damage claims. As the conclusion of the process is dependent on the setting of the dates by the respective courts, the timing of the economic outflow is therefore uncertain.

Halana | Motor vehicle damages no. HWN 50 EC collided with vehicle no.HLF 494 EC| Pending investigation on merits	26,380	56,380
Kwane (2017) | Higher purchase agreement between NLM, Kwane and BLC Company.Contract to be declared invalid | Discovery stages. Kwane filled notice for discovery.	-	750,000
Kwane (2018) | Kwane suing NLM for unlawful termination of contract | Counsel is briefed to draw memorandum on the evidence and/merits.	10,454,414	11,204,414
Nosizwe Madlingozi o.b.o Sesona Manyathi | NLM being sued for negligence resulting in injury of Manyathi (Soccer match organized by independent association) | Joinder application stage. Punitive cost order pending application	4,700,000	5,050,000
Gwavu (EFF) | Composition of EXCO in that it excludes the opposition parties | Matter set down for hearing of the application on 14/08/2018	350,000	550,000
Aubrey May | Civil matter : Illegal structures. Completion expected about 30 November 2017 | Case is still being investigated	-	50,000
Mr Allie | Title Deeds to be obtained and registration of transfer to be effected in King William's Town Deeds Offices | Pending application to demolish illegally erected structures	-	50,000
Hamburg Caravan Park | Civil matter : eviction of illegal occupiers as Hamburg Caravan Park is the property of Ngqushwa Local Municipality | Pending application for eviction.	-	100,000
Ntombentsa Doloni | Dismissal or Reinstatement of employee Hearing was held on 2 August 2018 | Pending decision by management re: settlement proposals between the parties	-	88,162
Dlelanga Trading CC | A claim by Dlelanga Trading CC based on a dispute for services rendered | Case still pending	595,872	595,872
Zukisa Jowela|Plaitiff cliam retrospective payment prior being sworn in as councillor	828,774	-
	16,955,440	**18,494,828**

CONTINGENT ASSETS

In 2014, the Municipality made payments to Senior Managers that were not in line with the Upper limits that were set out in the Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers. During the financial statements preparation period, the Council resolved that the Senior Managers who were offered packages that were outside the referred Regulations repay the excess amounts paid. The packages not in line with regulations limits per the Resolutions amounted to R 2,698,397. According to legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain and is dependent on the acknowledgement of debt by the affected Senior Managers.

47. RELATED PARTIES

GRAP 20 requires a disclosure of related party transactions during the financial period of the financial statements as well as the nature of the related party relationship, the nature of the transactions and outstanding balances including commitments. However, those disclosures are not required for transactions which occured in the normal course of business. The municipality did not have any transactions with its related parties that were not in the ordinary course of business. The municipality discloses the transactions of water provision by the ADM to the municipality in the ordinary course of business of both the municipality and ADM. Refer to Note 13 for the outstanding balances owed. .

Further, the municipality is also required to disclose the remuneration of its management having the authority to direct the business of the municipality. Key management include the Mayor, Speaker, Mayoral Committee members, Councillors, Municipal Manager, Chief Financial Officer and the Directors. For the remuneration of the key management and Councillors refer to Note 27 and 28 respectively.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

48. CHANGE IN ESTIMATE

PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2019 management conducted an assessment, as a result of that reassessment the useful lives of the assets classified as infrastructure road asset that were fully depreciated but still in use from 7 years as previously reported to 10 years from the date of acquisition. This had the effect of increase of depreciation expense for the year ended 30 June 2019 by R1 156694.16 (previously R19 298 246 per year now R20 454 940.78). Depreciation for each of the next 2 years is expected to be similarly affacted by these changes in accouting estimates. -

Prospective application	**2018/19 Current period**	**2019/20 Future period**
Current depreciation expense	(20,454,941)	(20,454,941)
Previous depreciation expense	19,298,247	19,298,247
	(1,156,694)	**(1,156,694)**

Restrospective application
The effect of this change was applied restrospectively to the prior years and effect in the 2018/19 period year error as follows]

	2017/18
Accumulated depreciation before change in estimate	20,938,591
Accummulated depreciation after change in estimate	(15,791,725)
	5,146,866

49. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

CONTRIBUTIONS TO SALGA

Current year subscription / fee	661,032	782,167
Amount paid - current year	(661,032)	(782,167)
	-	-

AUDIT FEES

Opening balance	-	722,280
Current year subscription / fee	5,097,287	2,859,818
Amount paid - current year	(5,097,287)	(2,859,818)
Amount paid - previous years	-	(722,280)
	-	-

PAYE, SDL AND UIF

Opening balance	831,334	691,192
Current year subscription / fee	11,041,116	9,331,758
Amount paid - current year	(11,041,116)	(9,191,616)
	831,334	**831,334**

PENSION AND MEDICAL AID DEDUCTIONS

Opening balance	1,344,409	-
Current year subscription / fee	15,381,486	19,313,496
Amount paid - current year	(15,652,549)	(17,969,087)
	1,073,346	**1,344,409**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	30 June 2019	30 June 2018 Restated

49. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003 (continued)

COUNCILLOR'S ARREAR CONSUMER ACCOUNTS

No councillors had arrear accounts outstanding for more than 90 days at 30 June 2019: