



**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2019**

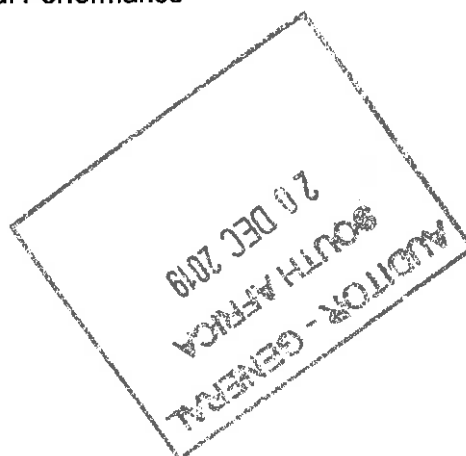
INTSIKA YETHU MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2019

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The reports and statements set out below comprise the Annual Financial Statements presented to the council:

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INTSIKA YETHU MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of Entity Intsika Yethu Municipality is a South African Category B Municipality (Local municipality) as defined by the Municipal Structures Act, 1998 (Act No. 117 of 1998).

The municipality's operations are governed by the:

- Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- Municipal Systems Act of 2000; and
- Various other Acts and Regulations.

Executive Committee

Honorable Mayor Jongumzi Cengani

Councillors

Khanyiswa Florence Mdleleni - Speaker of the Council
Myolisi Toni - Chief Whip
Saziso Myataza - Portfolio Head {LED}
Wonga Dunjwa - Portfolio Head (Budget & Treasury)
Noloyiso Dube - Portfolio Head (Planning & Dev. Services)
Azipheli Tshangana Nkota - Portfolio Head (Community Services)
Noloyiso Ntsaluba - Portfolio Head (Corporate Services)
Zukiswa Qayiya - Portfolio Head (Infrastructure)
Bongani Divilias Mpengesi - Portfolio Head (Governance & Admin)
Zweloxolo Mxi - MPAC Chairperson
Zonwabele S. Matshikiza
Kholiswa Kolanisi - Womens Caucus Committee Chairperson
Zoliswa Pomolo
Pumelele Magazi
Culama Mvo
Nobom Bani
Monwabisi Zulu
Sizwe Tame
Sheilla Nomapha. Lupuzi
Wanda Elliot Vani
Neliswa Portia Gadeni
Melekile Skotana - Public Participation Committee Chairperson
Manyewu Shasha - Rules & Ethics Committee Chairperson
Andile Yamile
Horatius Khayaletu Mnqojana
Nophelo Magaga
Nozuko Sygnoria Mafanya
Monde Armon Mbotshana
Mwezi Innocent Bikitsha
Nkosinathi General Mnqanqeni
Vuyokazi Gladys Matomela
Siphiwo Mkunyana
Malibongwe Gulubela
Albertinah Nokwetu Rotyi
Noloyiso Mto
Hegail Nollinset Ntonintshi
Noxolile Mavis Hexana (Deceased)
Mayenzeke Yamile
Nokaya Monica Ludaka
Ncedeka Terezabeth Mgqamqho
Lusanda Makade (Replaced NM Hexana)
Zoleka Qotoyi

INTSIKA YETHU MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2019

General Information (Continued)

Grading of Local Authority	Grade 3
Accounting Officer	Mr S. Koyo
Chief Finance Officer (CFO)	Ms B. Bavu
Main Office	ERF. 201 Main Street Cofimvaba 5380
Satellite Office	ERF. 72 Main Street Tsomo 5400
Postal Address	Private Bag X 1251 Cofimvaba 5380
Telephone Number	(047) 874 8700
Facsimile Number	(047) 874 0010
Auditors	Auditor-General of South Africa (Registered Auditors)

INTSIKA YETHU MUNICIPALITY

Approval of 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 auditor is engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020, in the light of this review and the current financial position, he is satisfied that the municipality 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 set out on pages 4 to 75, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed by him:

S Koyo
Municipal Manager

31-Aug-19
Date

INTSIKA YETHU MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2019

Report of the Auditor General

These Financial Statements have not been audited

INTSIKA YETHU MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

	Note	Actual	
		2019 R	2018 Restated R
ASSETS			
Current Assets		83,073,632	87,854,185
Inventories	2	50,336,929	50,196,293
Receivables from Exchange Transactions	3	4,381,927	3,390,961
Receivables from Non-exchange Transactions	4	5,007,738	4,159,296
VAT Receivable	5	4,018,743	3,942,531
Cash and Cash Equivalents	6	19,317,979	26,149,365
Operating Lease Receivables	7	10,316	15,738
Non-Current Assets		594,264,301	576,862,862
Property, Plant and Equipment	8	526,752,664	508,732,646
Investment Property	9	67,511,638	68,130,217
Total Assets		677,337,934	664,717,047
LIABILITIES			
Current Liabilities		28,112,945	35,296,300
Consumer Deposits	10	5,254,749	4,910,255
Provisions	11	1,809,212	1,729,068
Payables from Exchange Transactions	12	20,999,889	19,781,043
Payables from Non-exchange Transactions	13	49,095	197,293
Unspent Conditional Grants and Receipts	14	-	8,678,640
Non-Current Liabilities		7,755,748	6,044,812
Employee Benefit Liabilities	15	5,640,274	4,034,159
Non-current Provisions	16	2,115,474	2,010,653
Total Liabilities		35,868,693	41,341,113
Total Assets and Liabilities		641,469,240	623,375,934
NET ASSETS		641,469,240	623,375,934
Accumulated Surplus / (Deficit)	17	641,469,240	623,375,934
Total Net Assets		641,469,240	623,375,934

INTSIKA YETHU MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

	Note	Actual	
		2019 R	2018 Restated R
REVENUE			
Revenue from Non-exchange Transactions		226,127,486	224,580,234
Property Rates	18	5,563,062	7,209,888
Fines, Penalties and Forfeits	19	623,953	78,506
Licences and Permits	20	12,145	-
Transfers and Subsidies	21	218,202,890	216,579,359
Interest, Dividends and Rent on Land Earned	26	1,725,436	712,481
		9,644,065	11,879,235
Revenue from Exchange Transactions			
Licences and Permits	20	2,299,826	2,006,147
Service Charges	22	906,873	837,729
Sales of Goods and Rendering of Services	23	254,451	65,486
Income from Agency Services	24	976,211	1,954,740
Rental from Fixed Assets	25	1,566,128	1,214,306
Interest, Dividends and Rent on Land Earned	26	3,619,252	3,220,720
Operational Revenue	27	21,324	36,406
Gains on Disposal of Property, Plant and Equipment	38	-	2,543,700
Total Revenue		235,771,550	236,459,469
		217,678,244	201,682,294
EXPENDITURE			
Employee Related Costs	28	112,042,420	103,921,663
Remuneration of Councillors	29	16,564,479	15,994,167
Depreciation and Amortisation	30	27,517,440	26,645,571
Impairment Losses	31	1,699,148	3,812,347
Interest, Dividends and Rent on Land	32	-	65
Contracted Services	33	7,081,130	14,390,005
Inventory Consumed	34	3,918,291	5,104,581
Transfers and Subsidies Paid	35	4,183,877	2,720,866
Operating Leases	36	-	116,219
Operational Costs	37	42,827,699	28,976,811
Loss on Disposal of Property, Plant and Equipment	38	1,843,760	-
Total Expenditure		217,678,244	201,682,294
SURPLUS / (DEFICIT) FOR THE YEAR		18,093,306	34,777,175

Refer to Budget Statement for explanation of budget variances

INTSIKA YETHU MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

	Total Funds & Reserves	Accumulated Surplus/ (Deficit)	Total Net Assets
	R	R	R
2018			
Balance at 30 June 2017	-	546,407,245	546,407,245
Correction of Error (Note 39)	-	42,297,950	42,297,950
Restated Balance	-	588,705,195	588,705,195
Imbalance on prior Financial Position		(106,435)	(106,435)
Surplus / (Deficit) for the year	-	34,777,175	34,777,175
<i>Surplus / (Deficit) as per prior 2017/18 AFS</i>		40,368,861	40,368,861
<i>Revenue & Expenditure Correction of Error (Note 39)</i>		(5,591,688)	(5,591,688)
Balance at 30 June 2018	-	623,375,935	623,375,935
2019			
Correction of Error (Note 39)	-	-	-
Restated Balance	-	623,375,935	623,375,935
Surplus / (Deficit) for the year	-	18,093,306	18,093,306
Other Transfers to/from Accumulated Surplus		-	-
Balance at 30 June 2019	-	641,469,241	641,469,241

Details on the movement of the Funds and Reserves are set out in Note N/A and Note 17.

INTSIKA YETHU MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	Actual	
	2019	2018
	R	Restated R
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Property Rates	3,804,920	4,683,682
Transfers and Subsidies	209,524,250	225,257,999
External Interest and Dividends Received	3,619,252	2,864,480
Other Receipts	6,955,848	4,751,985
VAT Receivable / Payable	-	634,175
Payments		
Employee Related Costs	(109,805,846)	(101,514,630)
Remuneration of Councillors	(16,564,479)	(15,994,167)
External Interest and Dividends Paid	-	(65)
Suppliers Paid	(28,520,380)	(23,777,788)
Other Payments	(47,139,041)	(31,511,782)
VAT Receivable / Payable	(76,212)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>21,798,311</u>	<u>65,393,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property, Plant and Equipment	(29,678,405)	(49,934,544)
Proceeds on Disposal of Property, Plant and Equipment	1,048,708	2,543,700
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(28,629,697)</u>	<u>(47,390,844)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Borrowings	-	-
Repayment of Borrowings	-	1,551,354
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>-</u>	<u>1,551,354</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(6,831,386)</u>	<u>19,554,400</u>
Cash and Cash Equivalents at Beginning of Period	26,149,365	6,594,965
Cash and Cash Equivalents at End of Period	19,317,979	26,149,365

INTSIKA YETHU MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019

30 June 2019

Description	Original Budget		Budget Adjustments		Adjustment Budget		Virement		Final Budget		Actual Outcome		Unauthorised Expenditure		Variance		Actual Outcome as % of Final Budget		Actual Outcome as % of Original Budget		
	R		R		R		R		R		R		R		R		R		R		
FINANCIAL POSITION																					
Current Assets																					
Inventories	-		50,606,000		50,606,000		-		50,606,000		50,336,929		-		(269,071)		99.47		0.00		0.00
Receivables from Exchange Transactions	-		1,634,000		1,634,000		-		1,634,000		4,361,927		-		2,747,927		268.17		0.00		0.00
Receivables from Non-exchange Transactions	-		7,892,000		7,892,000		-		7,892,000		5,007,738		-		(2,884,262)		63.45		0.00		0.00
VAT Receivable	-		-		-		-		-		4,018,743		-		4,018,743		0.00		0.00		0.00
Cash and Cash Equivalents	-		26,358,000		26,358,000		-		26,358,000		19,317,979		-		(7,040,021)		73.29		0.00		0.00
Operating Lease Receivables	-		-		-		-		-		10,316		-		10,316		0.00		0.00		0.00
Non-Current Assets																					
Property, Plant and Equipment	51,154,000		881,000		52,035,000		-		52,035,000		526,752,664		-		474,717,664		1,012.30		1,028.74		0.00
Intangible Assets	-		-		-		-		-		67,511,638		-		(67,511,638)		0.00		0.00		0.00
Investment Property	-		68,365,000		68,365,000		-		68,365,000		-		-		-		98.75		0.00		0.00
Heritage Assets	-		-		-		-		-		-		-		-		0.00		0.00		0.00
Total Assets	51,154,000		155,736,000		206,890,000		-		206,890,000		677,337,934		-		470,447,934		327.39		1,324.12		0.00
Current Liabilities																					
Consumer Deposits	-		-		-		-		-		5,254,749		-		5,254,749		0.00		0.00		0.00
Provisions	-		12,114,000		12,114,000		-		12,114,000		1,809,212		-		(10,304,788)		14.93		0.00		0.00
Payables from Exchange Transactions	-		23,508,000		23,508,000		-		23,508,000		20,999,889		-		(2,508,111)		89.33		0.00		0.00
Payables from Non-exchange Transactions	-		-		-		-		-		49,095		-		49,095		0.00		0.00		0.00
Unspent Conditional Grants and Receipts	-		-		-		-		-		-		-		-		0.00		0.00		0.00
Current Portion of Long-term Liabilities	-		-		-		-		-		-		-		-		0.00		0.00		0.00
Non-Current Liabilities																					
Employee Benefit Liabilities	-		-		-		-		-		5,640,274		-		5,640,274		0.00		0.00		0.00
Non-current Provisions	-		4,639,000		4,639,000		-		4,639,000		2,115,474		-		(2,523,526)		45.60		0.00		0.00
Total Liabilities	-		40,261,000		40,261,000		-		40,261,000		35,868,693		-		(4,392,307)		89.09		0.00		0.00
Total Assets and Liabilities	51,154,000		115,475,000		166,629,000		-		166,629,000		641,469,240		-		474,640,240		384.97		1,254.00		0.00
Net Assets (Equity)																					
Reserves	-		(6,008,000)		(6,008,000)		-		(6,008,000)		-		-		6,008,000		0.00		0.00		0.00
Accumulated Surplus / (Deficit)	51,154,000		121,489,000		172,653,000		-		172,653,000		641,469,240		-		468,816,240		371.54		1,254.00		0.00
Total Net Assets	51,154,000		115,491,000		166,645,000		-		166,645,000		641,469,240		-		474,824,240		384.93		1,254.00		0.00

Financial Position: Explanation of Variances between Approved Budget and Actual

Proper procedures to budget for Financial Position have not been developed and implemented. Furthermore, the staff is not yet familiar in utilizing the system for balance sheet budgeting. The municipality will address this during the 2019/20 financial year and is planning to table a credible and complete Financial Position Budget.

Description	Original Budget	Budget Adjustments	Adjustment Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
FINANCIAL PERFORMANCE										
Revenue from Non-exchange Transactions										
Property Rates	7,500,000	-	7,500,000	-	7,500,000	5,563,062	-	1,936,938	74.17	74.17
Fines, Penalties and Forfeits	1,004,562	830,817	1,835,379	-	1,835,379	623,953	-	1,211,426	34.00	62.11
Licences and Permits	690,210	-	690,210	-	690,210	12,145	-	678,065	1.76	1.76
Transfers and Subsidies	210,861,000	583,500	211,444,500	-	211,444,500	218,202,890	-	6,758,390	103.20	103.48
Interest, Dividends and Rent on Land Earned	-	-	-	-	-	1,725,436	-	1,725,436	0.00	0.00
Revenue from Exchange Transactions										
Licences and Permits	2,000,000	-	2,000,000	-	2,000,000	2,299,826	-	299,826	114.99	114.99
Service Charges	13,694,476	2,499,469	11,195,007	-	11,195,007	906,873	-	906,873	0.00	0.00
Sales of Goods and Rendering of Services	700,000	-	700,000	-	700,000	244,470	-	10,950,537	2.18	1.79
Income from Agency Services	1,669,005	13,689	1,682,694	-	1,682,694	1,566,128	-	116,566	93.07	93.84
Rental from Fixed Assets	1,000,000	-	1,000,000	-	1,000,000	3,619,252	-	2,619,252	361.93	361.93
Interest, Dividends and Rent on Land Earned	1,630,000	700,000	930,000	-	930,000	21,324	-	908,676	2.29	1.31
Operational Revenue	-	-	-	-	-	-	-	-	-	-
Gains on Other Operations	-	-	-	-	-	-	-	-	-	-
Total Revenue	240,749,253	1,771,463	238,977,790	-	238,277,790	235,761,570	-	2,516,220	98.94	97.93
Expenditure										
Employee Related Costs	116,361,071	220,000	116,581,071	-	116,581,071	111,568,022	-	5,013,049	95.70	95.88
Remuneration of Councillors	16,738,237	-	16,738,237	-	16,738,237	16,564,479	-	173,758	98.96	98.96
Depreciation and Amortisation	23,646,182	-	23,646,182	4,000,000	23,646,182	27,514,196	3,868,014	3,868,014	116.36	116.36
Impairment Losses	641,132	1,282,264	641,132	1,100,000	641,132	1,699,148	1,058,016	1,058,016	265.02	0.00
Contracted Services	12,652,386	14,590	12,637,796	2,982,635	12,637,796	7,081,130	-	5,556,666	56.03	55.97
Inventory Consumed	7,436,117	3,095,028	10,531,145	2,900,000	10,531,145	3,918,291	-	6,612,854	37.21	52.59
Transfers and Subsidies Paid	3,964,400	-	3,964,400	257,635	-	4,183,877	4,183,877	4,183,877	0.00	105.54
Operating Leases	35,666,553	6,480,913	42,147,466	525,000	42,147,466	42,465,516	338,050	338,050	100.80	119.12
Operational Costs	-	-	-	-	-	1,843,760	1,843,760	1,843,760	0.00	0.00
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	-	-	-
Total Expenditure	215,823,814	11,063,615	226,887,429	0	222,923,029	216,858,418	11,291,715	6,064,611	97.28	100.48
Surplus/(Deficit) for the Year	24,925,439	(12,835,078)	12,090,361	(0)	15,354,761	18,903,152	(11,291,715)	3,548,391	123.11	75.84
						809,946				

Financial Performance: Explanation of Variances between Approved Budget and Actual

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Property Rates:

The municipality based the budget on 2017 /2018 financial year which included rural school in which the billing included more than 1 year Fines, Penalties and Forfeits:

The municipality over budget on the vote because of prio year collection.

Licences and Permits:

The exchange and non-exchange licences and permits were budgeted under the same vote

Transfers and Subsidies:

The municipality received transfer and subsodie from Chris Hani District Municipality which was not budget for.

Interest, Dividends and Rent on Land Earned:

Municipality did not budget for interest charged on property

Licences and Permits:

The municipality under budgeted for licences and permits

Sales of Goods and Rendering of Services:

The municipality over estimated on land sales (inventory)

Income for Agency Services:

The municipality collected more than what it budgeted for in the agency fees

Rental from Fixed Assets:

Trading facilities failed to pay as per agreement

Interest, Dividends and Rent on Land Earned:

The income from external investments was more than anticipated as more money was invested in call accounts during the financial year.

Gains on Other Operations:

The municipality did not budget for gains and other operations

Gains on Disposal of Property, Plant and Equipment:

The municipality did not budget for gains of property, plant and equipment

Profit on Sale of Land:

The municipality sold land to Shoprite (Tsomo)

Depreciation and Amortisation:

The depreciation & amortisation on assets was higher than expected due to acquisition of new assets and change of useful lifes. The municipality did a virement to address that.

Impairment Losses:

The municipality under budgeted for impairment. The municipality did a virement to address that.

Contracted Services:

The municipality did a savings by implementing controls

Inventory Consumed:

The municipality did a savings by implementing controls

Transfers and Subsidies Paid:

The municipality under budgeted and the virement was don to correct that.

Operational Costs:

The municipality under budgeted and the virement was don to correct that.

Loss on Disposal of Property, Plant and Equipment:

The municipality did not budget for gains and other operations

Surplus / (Deficit) from Discontinued Operations:

Description	Original Budget	Budget Adjustments	Adjustment Budget	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R	R
CASH FLOW										
Cash Flows from/(used in) Operating Activities										
Property Rates	7,500,000	-	7,500,000	-	7,500,000	3,804,920		(3,695,080)	50.73	50.73
Transfers and Subsidies	210,861,000	3,384,000	214,245,000	-	214,245,000	208,524,250		(4,720,750)	97.80	99.37
External Interest and Dividends Received	1,000,000	-	1,000,000	-	1,000,000	3,619,252		2,619,252	361.93	361.93
Other Receipts	20,688,000	(4,002,000)	16,686,000	-	16,686,000	6,955,848		(9,730,152)	41.69	33.62
Employee Related Costs	-	-	-	-	-	(109,805,846)		(109,805,846)	0.00	0.00
Remuneration of Councillors	-	-	-	-	-	(16,564,479)		(16,564,479)	0.00	0.00
Suppliers Paid	(188,213,000)	(24,179,000)	(212,392,000)	-	(212,392,000)	(28,520,380)		183,871,620	0.00	0.00
Other Payments	-	-	-	-	-	(47,139,041)		(47,139,041)	0.00	0.00
VAT Receivable / Payable	-	-	-	-	-	(76,212)		(76,212)	0.00	0.00
Cash Flows from/(used in) Investing Activities										
Purchase of Property, Plant and Equipment	(51,154,000)	515,000	(50,639,000)	-	(50,639,000)	(28,678,405)		20,960,595	0.00	0.00
Purchase of Intangible Assets	-	-	-	-	-	-		-	0.00	0.00
Proceeds on Disposal of Property, Plant and Equipment	-	-	-	-	-	1,048,708		1,048,708	0.00	0.00
Cash Flows from/(used in) Financing Activities										
Proceeds from Borrowings	-	-	-	-	-	-		-	0.00	0.00
Repayment of Borrowings	-	-	-	-	-	-		-	0.00	0.00
Increase / (Decrease) in Short-term Loans	-	-	-	-	-	-		-	0.00	0.00
Cash and Cash Equivalents at End of the Year	682,000	(24,282,000)	(23,600,000)	-	(23,600,000)	(6,831,385)	-	16,768,615	0.00	0.00

Cash Flow Statement: Explanation of Variances between Approved Budget and Actual

Proper procedures to budget for Financial Position have not been developed and implemented. Furthermore, the staff is not yet familiar in utilizing the system for balance sheet budgeting. The municipality will address this during the 2019/20 financial year and is planning to table a credible and complete Financial Position Budget.

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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.

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

GRAP 1 -Presentation of Financial Statement
GRAP 2 - Cash Flow Statement
GRAP 3 -Accounting Policies, Change in Accounting Estimates and Errors
GRAP 4 - The Effect of Changes in Foreign Exchange Rates
GRAP 5 - Borrowing Cost
GRAP 6 - Consolidated and Separate Financial Statements
GRAP 7 - Investment in Associates
GRAP 8 - Investment in Joint Ventures
GRAP 9 - Revenue from Exchange Transaction
GRAP 10 - Financial Reporting in Hyper inflationary Economies
GRAP 11 - Construction Contracts
GRAP12 - Inventories
GRAP 13 - Leases
GRAP 14 - Events after the Reporting Date
GRAP 16 - Investment Property
GRAP 17 - Property, Plant and Equipment
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets
GRAP 21 - Impairment of Non-cash-generating Assets
GRAP 23 -Revenue from Non-exchange Transaction
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 25 - Employee Benefits
GRAP 26 - Impairment of Cash-generating Assets
GRAP 27 - Agriculture
GRAP 31 -Intangible Assets
GRAP 100 -Discontinued Operations
GRAP 104 -Financial Instrument
GRAP 105 -Transfer of Function between Entities under Common Control
GRAP 106 -Transfer of Function between Entities Not Under Common Control

Interpretations:

IGRAP 1 - Applying the probability test in initial recognition of exchange revenue
IGRAP 2 - Change in existing decommissioning, restoration and similar liabilities
IGRAP 3 - Determining whether an arrangement contains a lease
IGRAP 4 - Rights to interest arising from decommissioning, restoration and environmental rehabilitation funds
IGRAP 5 - Apply the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyper inflationary Economies
IGRAP 6 - Loyalty Programmes
IGRAP 7 - The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction
IGRAP 8 - Agreement for the construction of assets from exchange transactions
IGRAP 9 -Distributions of Non-cash Assets to Owners
IGRAP 10 - Assets received from customers
IGRAP 11 - Consolidations- Special Purpose Entities
IGRAP 12 - Jointly Controlled Entities - Non-monetary Contributions by Ventures
IGRAP 13 - Operating leases - incentive
IGRAP 14 - Evaluating the substance of transactions involving the legal form of a lease
IGRAP 15 - Revenue- Barter Transactions Involving Advertising Services
IGRAP 16 - Intangible assets - Website costs (effective 1 April 2013)

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

1.1 Standards, Amendments to Standards and Interpretations issued but not yet Effective

The following GRAP Standards and Interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting (effective 1 April 2020)
GRAP 20 Related Party Disclosures (effective 1 April 2019)
GRAP 32 Service Concession Arrangement Grantor (effective 1 April 2019)
GRAP 34 Separate Financial Statements (effective 1 April 2020)
GRAP 35 Consolidated Financial Statements (effective 1 April 2020)
GRAP 36 Investments in Associates and Joint Ventures (effective 1 April 2020)
GRAP 37 Joint Arrangements (effective 1 April 2020)
GRAP 38 Disclosure of Interests in Other Entities (effective 1 April 2020)
GRAP 108 Statutory Receivables (effective 1 April 2019)
GRAP 109 Accounting by Principals and Agents (effective 1 April 2019)
GRAP 110 Living and Non-living Resources (effective 1 April 2020)
IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset (effective 1 April 2020)
IGRAP 18 Recognition and Derecognition of Land (effective 1 April 2019)
IGRAP 19 Liabilities to Pay Levies (effective 1 April 2019)

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate disclosure:

GRAP 20: Related parties

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

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

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

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

A person or a close member of that person's family is related to the reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity;
- is a member of the management of the entity or its controlling entity.

An entity is related to the reporting entity if any of the following conditions apply:

- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
- the entity is controlled or jointly controlled by a person identified in (a); and
- a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

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

The standard elaborates on the definitions and identification of:

- Close member of the family of a person; Management;
- Related parties; Remuneration; and Significant influence

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

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

GRAP 108 : Statutory Receivables:-

It is expected that the Standard will affect the valuation of Receivables from Non-Exchange Transactions, but the extent cannot be determined at this stage.

GRAP 109 : Accounting by Principals and Agents:-

The effect of this Standard on accounting for transactions between the municipality, another function of government or private sector and third parties, can only be determined once it becomes effective.

1.2 Presentation Currency

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

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.

3. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In application municipality's Accounting Policies and the 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, historical experience 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. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies while preparing the annual financial statements and that have the most significant effect on the amounts recognised in Annual Financial Statements:

Trade and other receivables

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

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

The impairment for trade and other 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.

Fair value estimation

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

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of the assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

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 14 - Provisions.

Effective Interest rate

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

4. INVESTMENT PROPERTY

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

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

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

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

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

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

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

Cost model

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

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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

Item	Useful life
Property - land	Indefinite
Property - buildings	30 - 50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

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

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

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

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

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 items of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

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.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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.

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

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

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

Item		Average useful life
Landfill sites	Straight line	26 years
Buildings	Straight line	
- Mobile offices		10 - 20 years
- Other		30 - 50 years
Computer equipment	Straight line	5 - 15 years
Plant and machinery	Straight line	5 - 25 years
Furniture and office equipment	Straight line	7 - 20 years
Motor vehicles	Straight line	10 - 15 years
Infrastructure assets	Straight line	
- Roads and paving		5 - 135 years
Community assets	Straight line	
- Halls		15 - 50 years
- Libraries		15 - 30 years
Parks and recreation	Straight line	15 - 70 years
Wastewater network	Straight line	10 - 30 years
Electricity	Straight line	20 - 30 years
Land	Straight line	Indefinite

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

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

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

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

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

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.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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

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

6. SITE RESTORATION AND DISMANTLING COST

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

7. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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.

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

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

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

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

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

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

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

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

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

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non - exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	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
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

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.

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.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

Fair value measurement considerations

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

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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 assess 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. 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. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

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Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
 - 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.

Financial liabilities

The municipality 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 municipality 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.

8. 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.

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.

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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.

9. IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 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:

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

Identification

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

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

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

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Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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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.

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.

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

10. IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

11. EMPLOYEE BENEFITS

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

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.

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 measure 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.

Termination benefits

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

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

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

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

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

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

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

12. 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.

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

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

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

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

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

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

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Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

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

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

13. 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.

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.

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.

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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.

Finance income

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

Tariff charges, licences and permits

Revenue arising from the application of approved tariffs is recognised when the service is rendered by applying the relevant authorised tariff. This includes licences and permits.

Rentals

Revenue from rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one year a straight line basis is used.

14. 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.

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.

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.

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.

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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.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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

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

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

Government grants

Income received from conditional grants, donations and funding recognised as revenue in the statement of financial performance to the extent that the municipality has complied with all the criterias or conditions attached to the funding. Where the conditions or criterias are not fully met, a liability is recognised in the statement of financial position.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related conditions to be fulfilled are recognised in the statement of financial performance in the year in which they have been received.

Interest earned from investment of grant money is treated in accordance with the grant conditions. If it is payable to the funder it is recognised as a liability in the statement of financial position. If the interest is not payable to the funder it will be recognised as interest income or other income in the statement of financial performance of the period to which it was earned.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of revenue can be measured reliably; and
- to the extent that the conditions have been discharged and there has been compliance with any restrictions associated with the grant.

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive any goods or services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from an investment.

15. INVESTMENT INCOME

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

16. BORROWING COSTS

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

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

17. DISCONTINUED OPERATIONS

Discontinued operations is a component with separate operations and cash flows that can be clearly distinguishable, operationally and for financial reporting purposes, that has been disposed of and represents a distinguishable activity, group of activities or geographical area of operations, or is a controlled entity acquired exclusively with the view to resale.

Discontinued operations are shown separately from continued operations on the face of the statement of financial performance.

Comparative figures are also reflected accordingly.

18. COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

19. 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.
- expenditure not in accordance with the purpose of the conditional grant.

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.

20. 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.

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

21. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the MFMA, the Municipal Systems Act, 2000 (Act No.32 of 2000), and the Public Office Bearers Act, 1998 (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.

22. EVENTS AFTER REPORTING PERIOD

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Non-adjusting events have been disclosed in the notes to the financial statements.

23. OFFSETTING

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

24. COMMITMENTS

Items are classified as commitments when the Municipality has committed itself to future transactions that will normally result in an outflow of resources, embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial reporting period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note to the financial statements.

25. BUDGET INFORMATION

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

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

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

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

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.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

Comparative information is not required.

INTSIKA YETHU MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 June 2019

26. RELATED PARTIES

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

27. VALUE ADDED TAX (VAT)

Revenue, expenses and assets are recognised net of VAT. The net amount of VAT recoverable from, or payable to SARS is included as part of receivables or payables in the statement of financial position. The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

28. CHANGES IN ACCOUNTING POLICY, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimates and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulated effect of the change in policy. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which a retrospective restatement is practicable. Details of the change in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of change in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of the assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior errors are disclosed in the notes to the financial statements where applicable.

With the adoption of mSCOA the municipality reclassified certain balances in order to comply with the instruction notes issued. The result of the reclassification is set out below and in the relevant Notes to the Annual Financial Statements.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2019
R **2018**
R

1. GENERAL INFORMATION

Intsika Yethu Local Municipality is a local government institution in Cofimvaba, Eastern Cape Province, and is one of the local municipalities under the jurisdiction of the Chris Hani District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the Introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORIES

Land	50,175,625	50,175,625
Materials and Supplies	161,304	20,668
Total Inventories	50,336,929	50,196,293

Land Inventory relates to properties for sale.

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2019			
Service Debtors:	5,411,257	3,018,459	2,392,798
Refuse	5,411,257	3,018,459	2,392,798
Other Receivables	2,228,205	1,143,269	1,084,935
Employee Overpayments	178,641	-	178,641
Property Rental Debtors	2,049,564	1,143,269	906,294
Auction Sales	510,036	-	510,036
Receivables with Credit Balances	380,538	-	380,538
Exchange Payables with Debit Balances	13,621	-	13,621
Total Receivables from Exchange Transactions	8,543,655	4,161,728	4,381,927

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2018			
Service Debtors:	4,631,230	2,591,827	2,039,404
Refuse	4,631,230	2,591,827	2,039,404
Other Receivables	2,311,001	1,126,907	1,184,095
Property Rental Debtors	2,311,001	1,126,907	1,184,095
Control, Clearing and Interface Accounts	7,309	-	7,309
Receivables with Credit Balances	160,154	-	160,154
Exchange Payables with Debit Balances	-	-	-
Total Receivables from Exchange Transactions	7,109,694	3,718,733	3,390,961

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2019

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Refuse:					
Gross Balances	122,938	104,733	125,127	5,058,459	5,411,257
Less: Provision for Impairment	55,832	55,676	71,048	2,835,903	3,018,459
Net Balances	67,105	49,057	54,080	2,222,556	2,392,798
Other Receivables:					
Gross Balances	256,111	73,497	82,331	1,816,265	2,228,205
Less: Provision for Impairment	21,147	21,088	26,910	1,074,125	1,143,269
Net Balances	234,964	52,409	55,421	742,141	1,084,935

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Auction Sales:

Gross Balances	510,036				510,036
Less: Provision for Impairment	-	-	-	-	-
Net Balances	510,036	-	-	-	510,036

As at 30 June Receivables of R3,175,664 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	889,084	178,230	207,459	6,874,725	8,149,497
Less: Provision for Impairment	76,979	76,764	97,958	3,910,028	4,161,728
Net Balances	812,105	101,466	109,501	2,964,697	3,987,769

As at 30 June 2018

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Refuse:					
Gross Balances	(499,098)	103,856	100,717	4,925,755	4,631,230
Less: Provision for Impairment	-	-	-	2,591,827	2,591,827
Net Balances	(499,098)	103,856	100,717	2,333,928	2,039,404

Other Receivables:

Gross Balances	815,815	29,935	25,364	1,439,887	2,311,001
Less: Provision for Impairment	-	-	-	1,126,907	1,126,907
Net Balances	815,815	29,935	25,364	312,980	1,184,095

Control, Clearing and Interface Accounts:

Gross Balances	7,309				7,309
Less: Provision for Impairment	-	-	-	-	-
Net Balances	7,309	-	-	-	7,309

As at 30 June Receivables of R2,906,781 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	324,026	133,791	126,081	6,365,642	6,949,540
Less: Provision for Impairment	-	-	-	3,718,733	3,718,733
Net Balances	324,026	133,791	126,081	2,646,909	3,230,807

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2019			
Property Rates	9,546,694	5,325,252	4,221,442
Fines	1,474,400	737,200	737,200
Accrued Income	1,812,524	1,812,524	-
Receivables with Credit Balances	49,095	-	49,095
Total Receivables from Non-exchange Transactions	12,882,713	7,874,976	5,007,738
As at 30 June 2018			
Property Rates	7,791,115	4,581,091	3,210,024
Fines	979,750	227,771	751,979
Accrued Income	1,812,524	1,812,524	-
Receivables with Credit Balances	197,293	-	197,293
Total Receivables from Non-exchange Transactions	10,780,682	6,621,386	4,159,296

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2019

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Property Rates:					
Gross Balances	325,925	277,264	252,702	8,690,803	9,546,694
Less: Provision for Impairment	98,501	98,225	125,344	5,003,181	5,325,252
Net Balances	227,424	179,039	127,357	3,687,622	4,221,442
Fines:					
Gross Balances	1,474,400	-	-	-	1,474,400
Less: Provision for Impairment	737,200	-	-	-	737,200
Net Balances	737,200	-	-	-	737,200
Accrued Income:					
Gross Balances	1,812,524	-	-	-	1,812,524
Less: Provision for Impairment	1,812,524	-	-	-	1,812,524
Net Balances	-	-	-	-	-

As at 30 June Receivables of R3,994,018 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	3,612,850	277,264	252,702	8,690,803	12,833,618
Less: Provision for Impairment	2,648,225	98,225	125,344	5,003,181	7,874,976
Net Balances	964,625	179,039	127,357	3,687,622	4,958,643

As at 30 June 2018

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
Property Rates:					
Gross Balances	7,791,115	-	-	-	7,791,115
Less: Provision for Impairment	4,581,091	-	-	-	4,581,091
Net Balances	3,210,024	-	-	-	3,210,024
Fines:					
Gross Balances	979,750	-	-	-	979,750
Less: Provision for Impairment	227,771	-	-	-	227,771
Net Balances	751,979	-	-	-	751,979
Accrued Income:					
Gross Balances	1,812,524	-	-	-	1,812,524
Less: Provision for Impairment	1,812,524	-	-	-	1,812,524
Net Balances	-	-	-	-	-

As at 30 June Receivables of R0 were past due but not impaired. The age analysis of these Receivables are as follows:

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
All Receivables:					
Gross Balances	10,583,389	-	-	-	10,583,389
Less: Provision for Impairment	6,621,386	-	-	-	6,621,386
Net Balances	3,962,003	-	-	-	3,962,003

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

5. VAT RECEIVABLE

Vat Receivable	4,018,743	3,942,531
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Vat is payable on the receipts basis. The municipality however uses accrual accounting, and only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

6. CASH AND CASH EQUIVALENTS

Cash on hand		
Bank Accounts	19,317,979	26,149,365
Total Bank, Cash and Cash Equivalents	19,317,979	26,149,365

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

6.1 Bank Accounts

Cash in Bank	19,317,979	26,149,365
Total Bank Accounts	19,317,979	26,149,365

The Municipality has the following operational bank accounts:

	Bank Statement Balances		Cash Book Balances	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018
FNB - Primary Bank- 62022331003 (Primary)	5,144,078	6,188,878	5,144,078	6,188,878
FNB - 62101651398 (MIG)	2,093,392	9,588,973	2,093,392	9,588,973
FNB - Money Market - 62022332316 (INEP)	1,000	506,742	1,000	506,742
FNB -Money Market- 62090678320 (Salaries)	2,000,522	252,663	2,000,522	252,663
ABSA - 32 Day Call Account -961149096 (32 Days)	809,835	777,293	809,835	777,293
FNB - Money Market - 62027101245 (Cheque)	193,549	4,714,280	193,549	4,714,280
FNB - Money Market - 62160167500 Salaries)	45,145	192,734	45,145	192,734
FNB - Money Market - 62026740549 (Own Revenue)	9,030,457	3,927,802	9,030,457	3,927,802
	19,317,979	26,149,365	19,317,979	26,149,365

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

6.2 Cash and Cash Equivalents

Cash Floats and Advances	-	-
Total Cash on hand In Cash Floats, Advances and Equivalents	-	-

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

7. OPERATING LEASE RECEIVABLES

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	9,731	9,731
Operating Lease - Straight lining	-	-
Operating Lease Revenue effected	585	6,007
Total Operating Lease Receivables	10,316	15,738

7.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of 1 to 3 years (2018/19: 1 to 3 years), with an option to extend.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The average escalation % of leases is between 5% to 10%, on a yearly basis.

7.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	212,509	380,276
2 to 5 years	50,367	184,495
More than 5 years	-	-
Total Operating Lease Arrangements	262,876	564,771

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been a decrease of R-585 (2018: Increase of R6,007) in current year income.

The following restrictions have been imposed by the municipality in terms of the lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

8 PROPERTY, PLANT AND EQUIPMENT

30 June 2019

Reconciliation of Carrying Value

Description	Buildings	Infra-structure	Community	Other	Transport Assets	Total
	R	R	R	R	R	R
Carrying values at 01 July 2018	68,299,760	358,873,283	51,206,684	22,818,108	7,534,811	508,732,646
Cost	78,910,939	532,373,865	58,788,058	50,326,384	11,941,447	732,340,692
- Completed Assets	78,910,939	453,202,965	40,253,330	50,326,384	11,941,447	634,635,065
- Under Construction	-	79,170,900	18,534,728	-	-	97,705,627
Revaluation	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation	(10,611,180)	(173,500,582)	(7,581,374)	(27,508,275)	(4,406,635)	(223,608,046)
Acquisition of Assets						
- Cost	143,854	-	167,024	1,725,776	167,126	2,203,780
- Capital Under Construction	-	25,035,806	5,189,314	-	-	30,204,920
Increases/Decreases in Revaluation	-	-	-	-	-	-
Depreciation	(1,705,970)	(21,898,382)	(939,433)	(4,039,635)	(1,045,736)	(29,629,157)
Carrying value of Disposals:	(35,353)	(220,125)	(720,952)	(1,399,735)	(516,304)	(2,892,468)
- Cost	(35,353)	(1,096,111)	(974,328)	(7,141,838)	(1,262,282)	(10,509,912)
- Accumulated Depreciation	-	875,986	253,376	5,742,104	745,978	7,617,444
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	-	(55,735,641)	(20,801,799)	-	-	(76,537,439)
Construction started and completed within 12 Months	-	(19,976,625)	-	-	-	(19,976,625)
Other Movements	-	75,712,266	18,958,116	-	-	94,670,382
- Cost	-	75,712,266	18,958,116	-	-	94,670,382
- Transfers Received	-	75,712,266	18,958,116	-	-	94,670,382
- Transfers Made	-	-	-	-	-	-
Carrying values at 30 June 2019	66,702,291	381,767,007	53,038,955	19,104,514	6,139,897	526,752,664
Cost	79,019,441	576,289,984	61,306,386	44,910,321	10,846,291	772,372,422
- Completed Assets	79,019,441	527,819,120	58,404,142	44,910,321	10,846,291	720,999,314
- Under Construction	-	48,470,865	2,902,243	-	-	51,373,108
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation	(12,317,150)	(194,522,977)	(8,267,431)	(25,805,807)	(4,706,393)	(245,619,759)

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2018

Reconciliation of Carrying Value

Description	Buildings	Infra-structure	Community	Other	Transport Assets	Total
	R	R	R	R	R	R
Carrying values at 01 July 2017	72,337,855	335,732,579	45,531,353	23,384,168	8,578,964	456,512,900
Cost	81,244,211	489,125,121	52,192,193	49,939,909	11,941,447	655,390,863
- Completed Assets	78,910,939	438,869,390	34,079,034	49,939,909	11,941,447	613,740,719
- Under Construction	2,333,272	50,255,732	18,113,159	-	-	70,702,162
Correction of error (Note 39)	-	-	-	-	-	-
Change in Accounting Policy	-	-	-	-	-	-
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation	(8,906,356)	(153,392,543)	(6,660,840)	(26,555,741)	(3,362,483)	(198,877,963)
Acquisition of Assets						
- Cost	-	14,896,756	3,067,416	386,475	-	18,350,647
- Capital Under Construction	218,397	28,915,168	1,088,014	-	-	30,221,578
Depreciation	(1,704,824)	(20,108,039)	(920,534)	(952,535)	(1,044,152)	(24,730,084)
Carrying value of Disposals:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	(2,551,668)	0	(666,445)	-	-	(3,218,113)
Other Movements	-	(563,181)	3,106,880	-	-	2,543,699
- Cost	-	(563,181)	3,106,880	-	-	2,543,699
- Transfers Received	-	4,705,653	3,558,768	-	-	8,264,421
- Transfers Made	-	(5,268,834)	(451,888)	-	-	(5,720,722)
Carrying values at 30 June 2018	68,299,760	358,873,283	51,206,684	22,818,108	7,534,811	508,732,646
Cost	78,910,939	532,373,885	58,786,058	50,326,384	11,941,447	732,340,692
- Completed Assets	78,910,939	453,202,965	40,253,330	50,326,384	11,941,447	634,635,065
- Under Construction	-	79,170,900	18,534,728	-	-	97,705,627
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation	(10,611,180)	(173,500,582)	(7,581,374)	(27,508,275)	(4,406,635)	(223,608,046)

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

8 PROPERTY, PLANT AND EQUIPMENT (Continued)

8.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

8.2 Carrying Amount of Property, Plant and Equipment retired from active use and not classified as a Discontinued Operation

No Property, Plant and Equipment were retired from active use and not classified as a Discontinued Operation during the financial year.

8.3 Assets pledged as security

The municipality did not pledge any of its assets as security.

8.4 Property, Plant and Equipment being rented out

Some potential Investment Properties are recognized as PPE due to the insignificant portion being leased out.

8.5 Impairment of Property, Plant and Equipment

No impairment losses have been recognised on Property, Plant and Equipment of the municipality at the reporting date.

8.6 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

There was no change (2017/18: R0) in the estimated useful life of various assets of the municipality for the financial year.

8.7 Land and Buildings carried at Fair Value

The municipality's Land and Buildings are accounted for according to the fair value model. Revaluation is done every four years, and therefore no fair value was determined for the year under review.

8.8 Expenditure incurred to repair and maintain

	2019 R	2018 R	2019 R	2018 R
The following specific costs included in the amount of repairs and maintenance were incurred by municipality during the reporting period:				
Roads Infrastructure			747,993	-
- Inventory Consumed	747,993	-		
Other Assets - Buildings			25,288	3,929
- Inventory Consumed	25,288	3,929		
Transport Assets			440,117	1,105,678
- Contracted Services	440,117	124,551		
- Inventory Consumed	(0)	981,128		
Total Expenditure related to Repairs and Maintenance Projects			1,213,398	1,109,608

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

9 INVESTMENT PROPERTY

At Cost less Accumulated Depreciation	67,511,638	68,130,217
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The movement in Investment Property is reconciled as follows:

Carrying values at 1 July	68,130,217	68,748,796
Cost	73,719,981	73,719,981
Accumulated Depreciation	(5,589,764)	(4,971,185)
Acquisitions during the Year		
Cost	-	-
Depreciation during the Year	(618,579)	(618,579)
Carrying values at 30 June	67,511,638	68,130,217
Cost	73,719,981	73,719,981
Fair Value	-	-
Accumulated Depreciation	(6,208,343)	(5,589,764)
Accumulated Impairment	-	-

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	1,504,406	1,170,333
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All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

9.1 Investment Property carried at Fair Value

The municipality's Investment Properties are accounted for according to the cost model and therefore no fair value has been determined.

9.2 Impairment of Investment Property

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

9.3 Work-in-Progress

The municipality had no capital projects for Investment Property which were not completed at year-end.

9.4 Delayed Projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
10 CONSUMER DEPOSITS		
Other Deposits:-	5,254,749	4,910,255
Land Sales	5,254,749	4,910,255
Total Consumer Deposits	5,254,749	4,910,255

CONSUMER DEPOSITS - LAND SALES

Deposits for Land Sales comprise deposits for properties sold, but not yet transferred. Transfer of these properties will be done on receipt of total payments.

No interest is paid on Consumer Deposits held.

11 PROVISIONS

Performance Bonus	1,233,656	1,173,791
Current Portion of Employee Benefit Liabilities (See Note 15):	659,645	555,277
Long-term Service Liability	659,645	555,277
Current Portion of Non-Current Provisions (See Note N/A):	(84,089)	-
Decommissioning, Restoration and Similar Liabilities: Landfill Sites	(84,089)	-
Total Provisions	1,809,212	1,729,068

The movement in provisions is reconciled as follows:

Performance Bonus:

Opening Balance	1,173,791	541,482
Increases	59,864	632,309
Balance at end of year	1,233,656	1,173,791

Performance Bonuses accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

Current Portion of Non-Current Provisions:

Staff Benefit Provisions:

		Long-term Service R
30 June 2019		
Opening Balance		555,277
Increases		659,645
Payments Made		(555,277)
Balance at end of year		659,645
30 June 2018		
Opening Balance		1,509,397
Increases		(325,689)
Payments Made		(628,431)
Balance at end of year		555,277

Long Service Award Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised.

12 PAYABLES FROM EXCHANGE TRANSACTIONS

Bonus	2,237,225	2,030,475
Leave Accrual	8,529,401	8,269,924
Other Payables	2,591,675	4,846,183
Retentions	2,902,438	4,087,497
Trade Creditors	4,344,992	386,811
Exchange Receivables with Credit Balances	380,538	160,154
Exchange Payables with Debit Balances	13,621	-
Total Payables	20,999,889	19,781,043

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

13 PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Non-Exchange Receivables with Credit Balances	49,095	197,293
Total Payables	49,095	197,293

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

14 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

14.1 Conditional Grants from Government	-	8,678,640
National Government	-	8,678,640
Total Conditional Grants and Receipts	-	8,678,640

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 21 for the reconciliation of Grants from Government and other sources. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

15 EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities	6,299,919	4,589,436
Long Service Awards Liability	6,299,919	4,589,436
Less: Current Portion of Employee Benefit Liabilities	(659,645)	(555,277)
Long Service Awards Liability	(659,645)	(555,277)
Long Service Awards Liability	5,640,274	4,034,159
Non-Current Portion of Employee Benefit Liabilities	5,640,274	4,034,159

15.1 Long Service Awards Liability

Opening Balance	4,589,436	4,073,241
Increases	994,239	891,289
Payments Made	(555,277)	(628,431)
Reversals	-	-
Increases (Passage of Time/Discounted Rate)	1,271,521	253,337
Balance at end of Year	6,299,919	4,589,436
Transfer to Current Provisions	659,645	555,277
Total Long Service Awards Liability	6,299,919	4,034,159

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter to 45 years, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end 307 (2018: 260) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2019 is estimated to be R614 370, whereas the cost for the ensuing year is estimated to be R896 756 (30 June 2018: R569 892 and R814 370 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	8.17%	8.81%
Net Effective Discount Rate	2.47%	2.28%
Expected Rate of Salary Increase	5.56%	6.38%
Expected Retirement Age - Females	62	63
Expected Retirement Age - Males	62	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Opening Balance	4,589,436	4,073,241
Increases	994,239	891,289
Payments Made	(555,277)	(628,431)
Reversals	-	-
Increases (Passage of Time/Discounted Rate)	1,271,521	253,337
Total Recognised Benefit Liability	6,299,919	4,589,436

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	6,299,919	4,589,436
	6,299,919	4,589,436
Present value of unfunded obligations		
	6,299,919	4,589,436
Unfunded Accrued Liability		
	6,299,919	4,589,436

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	614,370	569,892
Interest cost	379,869	321,397
Actuarial losses / (gains)	1,271,521	253,337
	2,265,760	1,144,626

Total Post-retirement Benefit Included in Employee Related Costs (Note 28)

The history of experienced adjustments is as follows:

	2019 R	2018 R	2017 R	2016 R
Present Value of Defined Benefit Obligation	6,299,919	4,589,436	4,073,241	3,925,105
Deficit	6,299,919	4,589,436	4,073,241	3,925,105
Experienced adjustments on Plan Liabilities	1,244,856	295,598	-	-

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

	R	R
Increase:		
Effect on the aggregate of the current service cost and the interest cost	71,724	658,030
Effect on the defined benefit obligation	425,081	4,908,997
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	64,409	575,239
Effect on the defined benefit obligation	383,919	4,301,490

The municipality expects to make a contribution of R1 385 042 (2018: R994,239) to the defined benefit plans during the next financial year.

16 NON-CURRENT PROVISIONS

Decommissioning, Restoration and Similar Liabilities: Landfill Sites	2,115,474	2,010,653
Total Non-current Provisions	2,115,474	2,010,653
Decommissioning of Landfill Sites:		
Opening Balance	2,010,653	1,905,833
Increases	104,821	104,821
Payments Made	-	-
	2,115,474	2,010,653

16.1 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs of R4,996,076 (2018: R9,932,000) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

The municipality will incur rehabilitation cost on its dumping/landfill site in the period 2034/35. Provision has been made for the net present value of this cost.

	Proposed Rehabilitation	
Cofimvaba Landfill	2034/35	4,996,076
		9,932,000
		4,996,076
		9,932,000

17 ACCUMULATED SURPLUS

Accumulated Surplus / (Deficit) due to the results of Operations	641,469,239	623,375,933
Total Accumulated Surplus	641,469,239	623,375,933

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

18 PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2019 R000's	July 2018 R000's (Restated)	July 2019 R000's	July 2018 R000's
Property Rates:				
Agricultural Property	17,876,801	17,876,801	-	-
Business and Commercial Properties	144,148,900	144,148,900	1,401,259	(1,758,070)
Municipal Properties	228,290,800	229,290,800	-	-
Other Categories	16,452,800	16,452,800	-	-
Public Benefit Organisations	13,376,300	13,376,300	-	-
Public Service Infrastructure Properties	105,800	105,800	701	701
Residential Properties	72,504,400	72,504,400	182,252	182,274
State-owned Properties	156,424,800	156,424,800	3,978,850	8,784,983
Total Property Rates	650,180,401	650,180,401	5,563,062	7,209,888

18.1 Calculation of Cash Flow:

Property Rates Income	5,563,062	7,209,888
Opening Balance of Debtors: Assessment Rates	7,791,115	8,308,887
Closing Balance of Debtors: Assessment Rates	(9,549,256)	(7,791,115)
Correction of Error Incorrect Historic Integration	-	(65,014)
Amounts written-off as uncollectable	-	(2,978,964)
Total Receipts for Property Rates	3,804,920	4,683,682

19 FINES, PENALTIES AND FORFEITS

Traffic Fines:	494,650	-
Municipal	494,650	-
Other Fines:	129,303	78,506
Law Enforcement	65,800	78,506
Pound Fees	63,503	-
Total Fines, Penalties and Forfeits	623,953	78,506

20 LICENCES AND PERMITS

	Exchange Transactions 2019	Exchange Transactions 2018	Non-Exchange Transactions 2019	Non-Exchange Transactions 2018
	R	R	R	R
Road and Transport:	2,299,826	2,006,147	-	-
Drivers Licence Application/Duplicate Drivers Licences	10,240	-	-	-
Learners Certificate	2,289,586	2,006,147	-	-
Trading	-	-	12,145	-
Total Licences and Permits	2,299,826	2,006,147	12,145	-

21 TRANSFERS AND SUBSIDIES RECEIVED

Capital Grants	54,352,084	54,671,834
Allocations In-kind	-	-
Monetary Allocations	54,352,084	54,671,834
Operational Grants	163,850,806	161,907,525
Allocations In-kind	-	-
Monetary Allocations	163,850,806	161,907,525
Total Government Grants and Subsidies	218,202,890	216,579,359

21.1 Capital Grants

	Monetary Allocations	
	2019	2018
District Municipalities	-	-
Households	(2,663,797)	3,073,540
National Governments	57,015,881	51,598,294
Total Capital Grants Received	54,352,084	54,671,834

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

21.2 Operational Grants

	Monetary Allocations	
	2019	2018
District Municipalities	7,202,537	300,000
National Governments	8,869,270	14,274,525
National Revenue Fund	147,779,000	147,333,000
Total Operational Grants Received	<u>163,850,806</u>	<u>161,907,525</u>

21.3 Calculation of Cash Flow:

Government Grants and Subsidies Income	218,202,890	216,579,359
Opening Balance of Unspent Government Grants	(8,678,640)	-
Closing Balance of Unspent Government Grants (reconcile with note 16)	-	8,678,640
Total Receipts for Government Grants and Subsidies	<u>209,524,250</u>	<u>225,257,999</u>

21.4 Reconciliation per Grant Source

21.4.1 National Governments

Balance unspent at beginning of year	-	541,475
Current year receipts	-	8,137,165
Conditions met - transferred to Revenue	-	-
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Current Liabilities (see Note 14)	-	8,678,640
	<u>-</u>	<u>8,678,640</u>

21.4.2 Equitable Share

Current year receipts	147,779,000	147,333,000
Transferred to Revenue	(147,779,000)	(147,333,000)

21.5 Detailed Summaries

Equitable Share	147,779,000	147,332,999
Municipal Infrastructure Grant (MIG)	50,327,165	44,617,832
LG SETA	229,665	180,078
Integrated National Electrification Programme	8,133,000	6,658,525
Financial Management Grant	2,215,000	2,145,000
Extended Public Works Program - Greenest	1,653,000	2,951,000
Extended Public Works Program - Grant Transfer	2,898,000	2,520,000
Department of Sports, Recreation, Arts and Culture	450,000	300,000
OTP Electrification	658,985	6,980,463
CHDM Grant	3,859,075	2,893,462
Total Receipts for Government Grants and Subsidies	<u>218,202,890</u>	<u>216,579,359</u>

Included in the above are the following Grants and Subsidies received:

Conditional Grants Received	64,232,150	62,921,820
Unconditional Grants Received	153,970,740	153,657,539
Total Receipts for Government Grants and Subsidies	<u>218,202,890</u>	<u>216,579,359</u>

21.5.1 Equitable Share

Current Year Receipts	147,779,000	147,333,000
Transferred to Revenue	(147,779,000)	(147,332,999)

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

21.5.2 Municipal Infrastructure Grant

Unspent Balance at the Beginning of the Year	8,137,168	-
Current Year Receipts	42,190,000	52,755,000
Conditions Met - Transferred to Revenue	(50,327,165)	(44,617,832)
Unspent Balance at the End of the Year	<u>3</u>	<u>8,137,168</u>

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of fund access roads and related infrastructure.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

21.5.3 LG SETA

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	229,665	180,078
Transferred to Revenue	<u>(229,665)</u>	<u>(180,078)</u>
Unspent Balance at the End of the Year	-	-

This is an unconditional grant.

21.5.4 Integrated National Electrification Programme

Unspent Balance at the Beginning of the Year	541,475	-
Current Year Receipts	7,592,000	7,200,000
Conditions Met - Transferred to Revenue	<u>(8,133,000)</u>	<u>(6,658,525)</u>
Unspent Balance at the End of the Year	475	541,475

The Integrated Electrification Programme is a conditional grant. The purpose of the grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

21.5.5 Financial Management Grant

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	2,215,000	2,145,000
Conditions Met - Transferred to Revenue	<u>(2,215,000)</u>	<u>(2,145,000)</u>
Unspent Balance at the End of the Year	-	-

The Financial Management Grant is a conditional grant. The purpose of the grant is to promote and support municipal financial management reforms and assist municipalities with the implementation of MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA Reforms including budgeting, reporting and financial processes.

21.5.6 Expanded Public Works Program - Greenest

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	1,653,000	2,951,000
Transferred to Revenue	<u>(1,653,000)</u>	<u>(2,951,000)</u>
Unspent Balance at the End of the Year	-	-

This is an unconditional grant.

21.5.7 Expanded Public Works Program - Grant Transfer

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	2,898,000	2,520,000
Conditions Met - Transferred to Revenue	<u>(2,898,000)</u>	<u>(2,520,000)</u>
Unspent Balance at the End of the Year	-	-

The Expanded Public Works Programme (EPWP) is a conditional grant and it was received from Department of Public Works for the purpose of the Extended Public Works Programme.

21.5.8 Department of Sports, Recreation, Arts and Culture

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	450,000	300,000
Transferred to Revenue	<u>(450,000)</u>	<u>(300,000)</u>
Unspent Balance at the End of the Year	-	-

This is an unconditional grant.

21.5.9 OTP Electrification

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	658,985	6,980,463
Conditions Met - Transferred to Revenue	<u>(658,985)</u>	<u>(6,980,463)</u>
Unspent Balance at the End of the Year	-	-

The grant was received from Department of Local Government for the Electrification of Cofimvaba Village (Ward 11).

21.5.10 Chris Hani District Municipality Grant

Unspent Balance at the Beginning of the Year	-	-
Current Year Receipts	3,859,075	2,893,462
Transferred to Revenue	<u>(3,859,075)</u>	<u>(2,893,462)</u>
Unspent Balance at the End of the Year	-	-

This is an unconditional grant and was received from Chris Hani District Municipality.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

22 SERVICE CHARGES

Refuse Removal	906,873	837,729
Total Service Charges	906,873	837,729

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

23 SALES OF GOODS AND RENDERING OF SERVICES

Building Plan Approval	44,253	10,872
Cemetery and Burial	4,369	-
Clearance Certificates	370	-
Library Fees	7,500	-
Sale of Goods	182,485	54,614
Town Planning and Servitudes	15,473	-
Total Sales of Goods and Rendering of Services	254,451	65,486

24 INCOME FROM AGENCY SERVICES

Commission on Vehicle Registration	976,211	1,954,740
Total Income from Agency Services	976,211	1,954,740

The municipality has a service level agreement with the Department of Transport to act as an agent for it in collection the revenue.

25 RENTAL FROM FIXED ASSETS

Straight-lined Operating Lease Revenue		
Investment Property	1,504,406	1,170,333
Other Fixed Assets:	2,514	0
Property Plant and Equipment	2,514	0
Other Rental Income		
Ad-hoc Rental Income from Other Fixed Assets:	59,208	43,973
Property Plant and Equipment	59,208	43,973
Total Rental of Facilities and Equipment	1,566,128	1,214,306

Rental income generated are at market related premiums. All rental income recognised is therefore market related.

26 INTEREST, DIVIDENDS AND RENT ON LAND EARNED

Non-exchange Receivables:		
Outstanding Billing Debtors	1,725,436	712,481
Total Non-exchange Interest Earned	1,725,436	712,481
External Investments:		
Bank Account	3,619,252	2,864,480
	3,619,252	2,864,480
Outstanding Exchange Receivables:		
Outstanding Billing Debtors	-	356,240
	-	356,240
Total Exchange Interest Earned	3,619,252	3,220,720
Total Interest, Dividends and Rent on Land Earned	5,344,687.15	3,933,201.83

26.1 Calculation of Cash Flow:

External Interest Income	3,619,252	2,864,480
Total Receipts for Interest Received	3,619,252	2,864,480

27 OPERATIONAL REVENUE

Collection Charges	21,324	-
Insurance Refund	-	-
Registration Fees	-	-
Request for Information	-	36,406
Total Operational Revenue	21,324	36,406

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

27.1 Calculation of Cash Flow:

Income from Operational Revenue	Note 27	21,324	36,406
Income from Interest on Outstanding Exchange Receivables	Note 26	-	356,240
Income from Interest on Outstanding Non-exchange Receivables	Note 26	1,725,436	712,481
Income from Rental from Fixed Assets	Note 25	1,566,128	1,214,306
Income from Agency Services	Note 24	976,211	1,954,740
Income from Sales of Goods and Rendering of Services	Note 23	254,451	65,486
Service Charges Income	Note 22	906,873	837,729
Income from Licences and Permits	Note 20	2,311,971	2,006,147
Income from Fines, Penalties and Forfeits	Note 19	623,953	78,506
Opening Balance of Debtors: Exchange Transactions	Note 3	7,109,694	(6,544,732)
Closing Balance of Debtors: Exchange Transactions	Note 3	(8,543,655)	4,970,196
Opening Balance of Debtors: Non-exchange Transactions	Note 4	10,780,682	11,487,943
Opening Balance of Debtors: Assessment Rates	Note 4	(7,791,115)	(8,308,887)
Closing Balance of Debtors: Non-exchange Transactions	Note 4	(12,882,713)	(12,062,785)
Closing Balance of Debtors: Assessment Rates	Note 4	9,546,694	9,270,511
Amounts written-off as uncollectable	Note 4	-	(2,978,964)
Opening Balance of Operating Lease Receivables	Note 7	15,738	-
Closing Balance of Operating Lease Receivables	Note 7	(10,316)	(15,738)
Opening Balance of Consumer Deposits	Note 11	(4,910,255)	(4,906,255)
Closing Balance of Consumer Deposits	Note 11	5,254,749	4,910,255
Other Non-Cash Movements		-	1,668,398
Total Receipts for Other Revenue		6,955,848	4,751,985

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 18 to 25, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

28 EMPLOYEE RELATED COSTS

Salaries and Wages:			
Basic		69,858,217	73,212,169
Long Service Awards		320,415	266,548
Bonuses		5,413,301	6,384,863
Leave Payments		319,702	48,324
Overtime		2,993,120	1,209,209
Allowances:			
Accommodation, Travel and Incidental		-	109,921
Acting and Post Related Allowances		518,077	520,830
Cellular and Telephone		1,013,772	1,038,754
Housing Benefits		865,566	258,903
Non-pensionable		294,700	226,450
Standby Allowance		311,493	123,770
Travel or Motor Vehicle		9,884,834	3,487,053
Social Contributions:			
Bargaining Council		39,472	27,852
Group Life Insurance		488,822	426,714
Medical		6,683,890	4,893,203
Pension		11,336,386	8,685,979
Unemployment Insurance		607,010	518,838
Skills Development Fund Levy		1,113,645	930,929
Post-retirement Benefits:			
Leave Gratuity		-	1,551,354
Total Employee Related Costs		112,042,420	103,921,663

28.1 Calculation of Cash Flow:

Employee Related Costs Expenditure		112,042,420	103,921,663
Opening Balance of Current Employee Benefit Liabilities	Note 11	555,277	1,509,397
Closing Balance of Current Employee Benefit Liabilities	Note 11	(659,645)	(555,277)
Opening Balance of Current Staff Benefit Provisions	Note 11	1,173,791	541,482
Closing Balance of Current Staff Benefit Provisions	Note 11	(1,233,656)	(1,173,791)
Opening Balance of Non-current Employee Benefit Liabilities	Note 15	4,034,159	2,563,844
Closing Balance of Non-current Employee Benefit Liabilities	Note 15	(5,640,274)	(4,034,159)
Opening Balance Payables Staff Bonus and Staff Leave	Note 12	10,300,399	9,041,870
Closing Balance Payables Staff Bonus and Staff Leave	Note 12	(10,766,626)	(10,300,399)
Total Payments for Employee Related Costs		109,805,846	101,514,630

No advances were made to employees. Loans to employees are set out in Note 10.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager - S.Koyo		
Annual Remuneration	1,052,480	909,088
Bonus	77,301	137,361
Car and Other Allowances	485,169	397,740
Company Contributions to UIF, Medical and Pension Funds	55,882	-
Total	1,670,831	1,444,189

Remuneration of the Chief Financial Officer - B.Bavu		
Annual Remuneration	216,549	-
Car and Other Allowances	144,366	-
Total	360,915	-

Remuneration of the Chief Financial Officer - T.L.Madikizela		
Annual Remuneration	80,397	915,769
Bonus	52,652	11,332
Car and Other Allowances	39,908	257,501
Company Contributions to UIF, Medical and Pension Funds	46,109	-
Total	219,066	1,184,602

Resigned on the in July 2018

Remuneration of the Manager Community Services - A.Ntengenyana		
Annual Remuneration	866,491	909,088
Bonus	69,810	96,152
Car and Other Allowances	467,284	428,903
Company Contributions to UIF, Medical and Pension Funds	109,884	-
Total	1,513,469	1,434,143

Remuneration of the Manager Corporate Services - N.K.Fololo		
Annual Remuneration	866,491	220,479
Bonus	-	-
Car and Other Allowances	467,284	177,169
Company Contributions to UIF, Medical and Pension Funds	109,884	-
Total	1,443,659	397,648

Remuneration of the Manager Corporate Services - N.Nkuhlu		
Annual Remuneration	-	175,105
Car and Other Allowances	-	142,914
Total	-	318,019

Remuneration of the Manager Local Economic Development - K.Maceba		
Annual Remuneration	866,491	909,088
Bonus	69,810	137,361
Car and Other Allowances	467,284	397,740
Company Contributions to UIF, Medical and Pension Funds	109,884	-
Total	1,513,469	1,444,189

Remuneration of the Manager Infrastructure and Planning - K.Clock		
Annual Remuneration	866,491	131,461
Car and Other Allowances	467,282	67,946
Company Contributions to UIF, Medical and Pension Funds	109,884	-
Total	1,443,657	199,407

Summary of Remuneration of Section 57 Employees:		
All Managers	8,165,065	6,422,197
Total Remuneration of Section 57 Employees	8,165,065	6,422,197

29 REMUNERATION OF COUNCILLORS

Executive Mayor	862,566	899,846
Speaker	704,478	741,647
Chief Whip	663,223	690,912
Mayoral committee members	2,520,978	2,437,888
Total for All Other Councillors	11,813,234	11,223,874
Total Councillors' Remuneration	16,564,479	15,994,167

Remuneration of Councillors:

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.

Refer to Appendix G for more detail.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

30 DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	27,517,440	26,645,571
Depreciation: Investment Property	-	-
Total Depreciation and Amortisation	27,517,440	26,645,571

30.1 Depreciation: Property, Plant and Equipment

Community Assets	939,433	920,534
Computer Equipment	463,233	516,030
Electrical Infrastructure	752,184	752,234
Furniture and Office Equipment	433,266	435,130
Investment Property	618,579	618,579
Machinery and Equipment	502,696	505,574
Other Assets	1,705,970	1,704,824
Roads Infrastructure	21,057,810	20,084,272
Sanitation Infrastructure	24,145	-
Solid Waste Infrastructure	(25,611)	64,243
Transport Assets	1,045,736	1,044,151
Total Depreciation and Amortisation	27,517,440	26,645,571

31 IMPAIRMENT LOSSES

Impairment Losses on Fixed Assets	-	-
Impairment Losses on Financial Assets	1,699,148	3,812,347
Total Impairment Losses	1,699,148	3,812,347

31.1 Impairment Losses on Financial Assets

Impairment Losses	1,699,148	(0)
Other Receivables from Non-exchange Revenue	1,699,148	(0)
Trade and Other Receivables from Exchange Transactions	-	-
Bad Debts Written Off	-	3,812,347
	1,699,148	3,812,347

32 INTEREST, DIVIDENDS AND RENT ON LAND PAID

Interest Paid:	-	65
Bank Overdraft	-	65
Total Interest, Dividends and Rent on Land	-	65

32.1 Calculation of Cash Flow:

Finance Cost Expenditure	-	65
Total Payments for Finance Costs	-	65

33 CONTRACTED SERVICES

Outsourced Services	2,117,817	1,531,372
Consultants and Professional Services	4,160,173	6,401,848
Contractors	803,140	6,456,785
Total Contracted Services	7,081,130	14,390,005

33.1 Outsourced Services

Administrative and Support Staff	430,527	422,879
Business and Advisory	877,357	518,414
Catering Services	77,520	209,406
Researcher	145,449	128,870
Security Services	146,847	127,253
Transport Services	440,117	124,551
	2,117,817	1,531,372

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

33.2 Consultants and Professional Services			
Business and Advisory		3,521,201	3,886,597
Infrastructure and Planning		224,419	1,580,365
Legal Cost		414,553	934,886
		<u>4,160,173</u>	<u>6,401,848</u>
33.3 Contractors			
Electrical		-	6,406,647
Fire Protection		1,806	29,989
Maintenance of Buildings and Facilities		801,334	20,150
		<u>803,140</u>	<u>6,456,785</u>
33.4 Calculation of Cash Flow:			
Expenditure for Inventory Consumed	Note 34	3,918,291	5,104,581
Expenditure for Contracted Services	Note 33	7,081,130	14,390,005
Opening Balance of Payables: Exchange Transactions	Note 12	9,480,644	14,892,650
Closing Balance of Payables: Exchange Transactions	Note 12	(10,233,264)	(9,480,644)
Opening Balance of Inventories	Note 2	(50,196,293)	(50,650,683)
Closing Balance of Inventories	Note 2	50,336,929	50,196,293
Other Transfers of Assets	Note 8	18,132,942	(674,414)
		<u>28,520,380</u>	<u>23,777,788</u>
34 INVENTORY CONSUMED			
Agricultural		-	-
Consumables		4,172,750	3,874,060
Finished Goods		(279,747)	-
Materials and Supplies		25,288	1,230,520
		<u>3,918,291</u>	<u>5,104,581</u>
35 TRANSFERS AND SUBSIDIES PAID			
Operational Grants		4,183,877	2,720,866
Allocations In-kind		4,183,877	2,720,866
Monetary Allocations		-	-
		<u>4,183,877</u>	<u>2,720,866</u>
36 OPERATING LEASES			
Machinery and Equipment		-	116,219
		<u>-</u>	<u>116,219</u>
37 OPERATIONAL COSTS			
Included in General Expenses are the following:			
Advertising, Publicity and Marketing		512,991	247,721
Bank Charges, Facility and Card Fees		98,330	34,333
Communication		1,470,817	-
Contribution to Provisions		126,579	104,821
Drivers Licences and Permits		235,709	322,643
Entertainment		431,278	37,491
Eskom Connection Fees		9,142,873	5,792,056
External Audit Fees		5,230,497	4,316,794
External Computer Service		2,219,720	2,712,747
Hire Charges		1,137,980	1,285,552
Honoraria (Voluntarily Workers)		3,722,675	3,042,680
Indigent Relief		397,597	331,168
Insurance Underwriting		611,096	554,547
Land Alienation Costs		-	(16,361)
Licences		394,419	321,690
Municipal Services		11,777,741	6,897,136
Printing, Publications and Books		87,945	116,276
Professional Bodies, Membership and Subscription		1,490,620	1,128,861
Supplier Development Programme		1,241,451	165,223
Travel and Subsistence		2,016,001	1,204,395
Uniform and Protective Clothing		81,738	328,545
Vehicle Tracking		8,788	43,508
Wet Fuel		-	4,964
Workmen's Compensation Fund		390,855	-
		<u>42,827,698</u>	<u>28,976,811</u>

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

37.1 Calculation of Cash Flow:

Expenditure for Operational Costs	Note 37	(42,827,699)	(28,976,811)
Expenditure for Operating Leases	Note 36	-	(116,219)
Expenditure for Transfers and Subsidies Paid	Note 35	(4,183,877)	(2,720,866)
Opening Balance of Non-current Other Operating Provisions	Note 16	(2,010,653)	(1,905,833)
Closing Balance of Non-current Other Operating Provisions	Note 16	2,115,474	2,010,653
Opening Balance of Payables: Non-exchange Transactions	Note 14	(197,293)	-
Closing Balance of Payables: Non-exchange Transactions	Note 14	49,095	197,293
Total for Other Payments		(47,138,041)	(31,511,782)

37.2 Travel and Subsistence

Domestic	2,016,001	1,204,395
Accommodation	1,684,698	1,128,557
Daily Allowance	36,366	19,059
Transport without Operator	54,228	6,072
Transport with Operator	240,710	50,707
	2,016,001	1,204,395

No other extra-ordinary expenses were incurred.

38 GAINS / LOSSES ON DISPOSAL OF CAPITAL ASSETS

Investment Property	(683,424)	-
Property, Plant and Equipment	(1,180,336)	2,543,700
Total Gains on Disposal of Capital Assets	-	2,543,700
Total Losses on Disposal of Capital Assets	1,843,760	-

39 CORRECTION OF ERROR

The municipality implemented the Municipal Standard Chart of Accounts (MSCOA) during the year ended 30 June 2018 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

The implementation of MSCOA as stated above resulted in certain reclassification of descriptions and figures. Other corrections were also made during the previous financial years. Details of the corrections are described below:

39.1 Reclassification of Accumulated Surplus

The prior year figures of Accumulated Surplus has been restated to correctly disclose the monies held by the municipality in terms of the disclosure notes indicated below.

The effect of the changes are as follows:

	Accumulated Surplus
Balances previously published per AFS as at 30 June 2018	586,669,672
Correction of Error-	
Correction of Imbalance of prior period Financial Position	
Adjustment of Receivables with credit balances	714,895
Adjustment of Inventory Transferred	(409,510)
Reclassification of Receivables in terms of Straight Lining of Leases	15,738
Review of Fully Depreciated Assets	41,368,520
Landfill Site adjustment	1,057,373
Investment Property Transferred	(234,712)
Landfill Site Liability adjustment	(1,322,068)
Depreciation Effect of WIP Projects capitalised in prior period	(4,983,919)
Adjustment of Exchange Receivables for incorrect historic integration	564,962
Adjustment of Non-Exchange Receivables for incorrect historic integration	(65,014)
Adjustment for Rounding Errors	(3)
	36,706,262
Restated Balances as at 30 June 2018	623,375,934

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

39.2 Reclassification of Revenue

The prior year figures of Revenue Classes have been restated to correctly classify the nature of Revenue of the municipality.

The effect of the Correction of Error is as follows:

	Prior Year 2017/178 Audited	MSCOA Reclassification	MSCOA Restated Amount	Correction of Error	Restated Amount 2017/18
Property Rates	7,204,177	5,710	7,209,887		7,209,888
Fines, Penalties and Forfeits	78,506		78,506		78,506
Transfers and Subsidies	216,579,359		216,579,359		216,579,359
Interest, Dividends & Rent on Land Non-Exchange	712,481		712,481		712,481
Licences and Permits - Exchange	2,059,175	(53,028)	2,006,147		2,006,147
Service Charges	837,729		837,729		837,729
Sales of Goods and Rendering of Services		65,486	65,486		65,486
Income from Agency Services		1,954,740	1,954,740		1,954,740
Rental from Fixed Assets	1,164,326		1,164,326	49,980	1,214,306
Interest, Dividends & Rent on Land Exchange	3,226,012		3,226,012	(5,292)	3,220,720
Operational Revenue	2,009,314	(1,972,908)	36,406		36,406
Gains on Disposal of PPE	2,543,700		2,543,700		2,543,700
	236,414,779	-	236,414,779	44,888	236,459,489

Prior year amounts of items in Revenue included in the Statement of Financial Performance have been restated as indicated below:

	Property Rates	Fines, Penalties and Forfeits	Transfers and Subsidies
Balance previously reported	7,204,177	78,506	216,579,359
Reclassification of amounts in terms of mSCOA	5,710		
Restated Balance now reported	7,209,888	78,506	216,579,359
	Interest, Dividends & Rent on Land Non-Exchange	Licences and Permits - Exchange	Service Charges
Balance previously reported	712,481	2,059,175	837,729
Reclassification of amounts in terms of mSCOA		(53,028)	
Restated Balance now reported	712,481	2,006,147	837,729
	Sales of Goods and Rendering of Services	Income from Agency Services	Rental from Fixed Assets
Balance previously reported			1,164,326
Reclassification of amounts in terms of mSCOA	65,486	1,954,740	
Reclassification of Rental in terms of Straight Lining of Leases			6,007
Correction of Hall Hire charges			43,973
Restated Balance now reported	65,486	1,954,740	1,214,306
	Interest, Dividends & Rent on Land Exchange	Operational Revenue	Gains on Disposal of PPE
Balance previously reported	3,226,012	2,009,314	2,543,700
Reclassification of amounts in terms of mSCOA		(1,972,908)	
Restatement of Interest	(5,292)		
Restated Balance now reported	3,220,720	36,406	2,543,700

Reclassification of Amounts in terms of mSCOA:

The prior year amounts for *Property Rates, Licences & Permits from Exchange Transactions, Sales of Goods & Rendering of Services, Income from Agency Services, Operational Revenue* and Expenditure have been restated to correctly disclose the amounts for the various categories in terms of mSCOA Classifications, previously incorrectly allocated.

Rental of Facilities and Equipment:

The prior year amounts for *Rental from Fixed Assets* have been restated to correctly disclose the revenue for Rentals of Halls.

Interest, Dividends & Rent on Land:

The prior year amounts for *Interest, Dividends and Rent of Land* have been restated to correctly disclose finance charges identified during a bank reconciliation.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

39.3 Reclassification of Expenditure

The prior year figures of Expenditure Classes have been restated to correctly classify the nature of Expenditure of the municipality.

The effect of the Correction of Error is as follows:

	Prior Year 2017/18 Audited	MSCOA Reclassification	MSCOA Restated Amount	Correction of Error	Restated Amount 2017/18
Employee Related Costs	103,921,663	-	103,921,663	-	103,921,663
Remuneration of Councillors	15,994,167	-	15,994,167	-	15,994,167
Depreciation and Amortisation	20,986,046	-	20,986,046	5,659,525	26,645,571
Impairment Losses	3,812,347	-	3,812,347	-	3,812,347
Interest, Dividends and Rent on Land	65	-	65	-	65
Contracted Services	-	14,390,005	14,390,005	-	14,390,005
Inventory Consumed	-	5,130,256	5,130,256	(25,675)	5,104,581
Transfers and Subsidies Paid	-	2,720,866	2,720,866	-	2,720,866
Operating Leases	-	116,219	116,219	-	116,219
Repairs and Maintenance	1,355,071	(1,355,071)	-	-	-
Operational Costs	49,976,561	(21,002,276)	28,974,285	2,526	28,976,811
Loss on Disposal of PPE	-	-	-	-	-
	196,045,920	-	196,045,919	5,636,376	201,682,294

Prior year amounts of items in Expenditure included in the Statement of Financial Performance have been restated as indicated below:

	Employee Related Costs	Remuneration of Councillors	Depreciation and Amortisation
Balance previously reported	103,921,663	15,994,167	20,986,046
Reclassification of amounts in terms of mSCOA	-	-	-
Adjustment of Depreciation on fully-depreciated assets	-	-	4,756,902
Depreciation on WIP Projects capitalised	-	-	902,623
Restated Balance now reported	103,921,663	15,994,167	26,645,571
	Impairment Losses	Interest, Dividends and Rent on Land	Contracted Services
Balance previously reported	3,812,347	65	-
Reclassification of amounts in terms of mSCOA	-	-	14,390,005
Restated Balance now reported	3,812,347	65	14,390,005
	Inventory Consumed	Transfers and Subsidies Paid	Operating Leases
Balance previously reported	-	-	-
Reclassification of amounts in terms of mSCOA	5,130,256	2,720,866	116,219
Correction of Inventory Consumed	(25,675)	-	-
Restated Balance now reported	5,104,581	2,720,866	116,219
	Repairs and Maintenance	Operational Costs	Loss on Disposal of PPE
Balance previously reported	1,355,071	49,976,561	-
Reclassification of amounts in terms of mSCOA	(1,355,071)	(21,002,276)	-
Rehabilitation of Landfill Site adjustment	-	(22,640)	-
Restatement of Operational Cost	-	25,166	-
Restated Balance now reported	0	28,976,811	-

Reclassification of Amounts in terms of mSCOA:

The prior year amounts for Contracted Services, Inventory Consumed, Transfers & Subsidies Paid, Operating Leases, Repairs & Maintenance, Operational Costs and Income have been restated to correctly disclose the amounts for the various categories in terms of mSCOA Classifications, previously incorrectly allocated.

Depreciation and Amortisation:

The prior year amounts for Depreciation & Amortisation and Property, Plant & Equipment have been restated to correctly disclose depreciation for assets that were fully depreciated at year end, but still in use. Furthermore, Various Work in Progress Project were retrospectively capitalised from the date of completion.

Inventory Consumed and Operational Cost:

The prior year amounts for inventory Consumed and Operational Costs have been restated to correctly disclose the nature of various incorrect transactions identified.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

39.4 Reclassification of Statement of Financial Position

The prior year figures of Classes in the Statement of Financial Position have been restated to correctly classify the nature of Assets, Liabilities and Net Assets of the municipality.

The effect of the Correction of Error is as follows:

	Prior Year 2017/178 Audited	MSCOA Reclassification	MSCOA Restated Amount	Correction of Error	Restated Amount 2017/18
Current Assets					
Inventories	50,605,803	-	50,605,803	(409,510)	50,196,293
Receivables from Exchange Transactions	1,633,785	477,319	2,111,104	1,279,857	3,390,961
Receivables from Non-exchange Transaction	4,701,630	(477,319)	4,224,311	(65,015)	4,159,296
VAT Receivable	3,942,531	-	3,942,531	-	3,942,531
Cash and Cash Equivalents	26,357,521	-	26,357,521	(208,156)	26,149,365
Operating Lease Receivables	-	-	-	15,738	15,738
Non-Current Assets					
Property, Plant and Equipment	471,323,975	-	471,323,975	37,408,670	508,732,646
Investment Property	68,364,929	-	68,364,929	(234,712)	68,130,217
Current Liabilities					
Consumer Deposits	-	4,910,255	4,910,255	-	4,910,255
Provisions	3,843,632	(2,030,475)	1,813,157	(84,089)	1,729,068
Payables from Exchange Transactions	23,099,574	(3,077,073)	20,022,501	(241,458)	19,781,043
Payables from Non-exchange Transactions	-	197,293	197,293	-	197,293
Unspent Conditional Grants and Receipts	8,678,640	-	8,678,640	-	8,678,640
Non-Current Liabilities					
Retirement Benefit Liabilities	4,638,656	(604,497)	4,034,159	-	4,034,159
Non-current Provisions	-	604,497	604,497	1,406,156	2,010,653
Net Assets					
Accumulated Surplus / (Deficit)	586,669,672	-	586,669,672	36,706,262	623,375,934
				1	

Opening balances and prior year amounts of Items in the Statement of Financial Position have been restated as indicated below:

	Inventories	Receivables from Exchange Transactions	Receivables from Non-exchange Transactions
Balances previously published per AFS as at 30 June 2018	50,605,803	1,633,785	4,701,630
Reclassification of amounts in terms of mSCOA	-	477,319	(477,319)
Adjustment of Receivables with credit balances	-	714,895	-
Adjustment for incorrect historic integration with billing system	-	584,962	(65,014)
Adjustment of Inventory Transferred	(409,510)	-	-
Balances now published per AFS as at 30 June 2018	50,196,293	3,390,961	4,159,296
	VAT Receivable	Cash and Cash Equivalents	Operating Lease Receivables
Balances previously published per AFS as at 30 June 2018	3,942,531	26,357,521	-
Reclassification of amounts in terms of mSCOA	-	-	-
Reclassification of Receivables in terms of Straight Lining of Leases	-	-	15,738
Cashbook restated - misallocation of closed account	-	(208,156)	-
Balances now published per AFS as at 30 June 2018	3,942,531	26,149,365	15,738
	Property, Plant and Equipment	Intangible Assets	Investment Property
Balances previously published per AFS as at 30 June 2018	471,323,975	-	68,364,929
Reclassification of amounts in terms of mSCOA	-	-	-
Review of Fully Depreciated Assets	41,368,520	-	-
Landfill Site adjustment	1,057,373	-	-
Investment Property Transferred	-	-	(234,712)
Acc. Depreciation of WIP capitalised in correct period	(5,017,222)	-	-
Balances now published per AFS as at 30 June 2018	508,732,646	-	68,130,217

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	Consumer Deposits	Provisions	Payables from Exchange Transactions
Balances previously published per AFS as at 30 June 2018	-	3,843,632	23,089,574
Reclassification of amounts in terms of mSCOA	4,910,255	(2,030,475)	(3,077,073)
Landfill Site Liability adjustment	-	(84,089)	-
Correction of Payables from Exchange	-	-	(241,458)
Balances now published per AFS as at 30 June 2018	4,910,255	1,729,068	19,781,043
	Payables from Non-exchange Transactions	Current Employee Benefits	Unspent Conditional Grants and Receipts
Balances previously published per AFS as at 30 June 2018	-	-	8,678,640
Reclassification of amounts in terms of mSCOA	197,293	-	-
Balances now published per AFS as at 30 June 2018	197,293	-	8,678,640
	Retirement Benefit Liabilities	Non-current Provisions	Reserves
Balances previously published per AFS as at 30 June 2018	4,638,656	-	-
Reclassification of amounts in terms of mSCOA	(604,497)	604,497	-
Landfill Site Liability adjustment	-	1,406,158	-
Balances now published per AFS as at 30 June 2018	4,034,159	2,010,653	-

Reclassification of Amounts in terms of mSCOA:

The prior year amounts for *Current Assets, Current Liabilities and Non-current Liabilities* have been restated as indicated in table above to correctly disclose the amounts for the various categories in terms of mSCOA Classifications, previously incorrectly allocated.

Receivables from Exchange Transactions:

The prior year amounts of *Receivables from Exchange Transactions* have been restated to correctly disclose the Receivables with credit balances. In the prior period AFS this was incorrectly subtracted from Receivables, and indicated as a credit. Furthermore, *Receivables from Exchange and Non-Exchange Transactions* has been restated to correctly disclose historic Receivables amounts that had previously not integrated from the Billing System.

Other Receivables has been grouped and classified as Receivables from Non-Exchange Transactions, whereas it was disclosed separately on the Financial

Cash and Cash Equivalents:

The prior year amounts for *Cash and Cash Equivalents* have been restated due to a previous misallocation of a closed account.

Inventory:

The prior year amounts of Inventory have been restated to correctly disclose the property Inventory that was transferred in the prior period, and for which the risks and rewards do not lie with municipality.

Operating Lease Receivable:

The prior year amounts of Operating Lease Receivables have been restated to correctly disclose the receivables at year end, as this was not previously included in the AFS.

Property, Plant and Equipment:

The prior year amounts of Property, Plant and Equipment have been restated to correct prior period amounts of Accumulated Depreciation for assets that have been fully depreciated at year end, but are still in use.

The prior year amounts of Property, Plant and Equipment have been restated to correctly disclose the revised cost for the Landfill Site (Solid Waste) asset as per revised estimate reports.

The prior year amounts of Property, Plant and Equipment have been restated due to Work in Process projects that we completed during the prior year.

Payables from Exchange Transactions:

The prior year amounts for *Payables from Exchange transactions* have been restated to disclose the write-off of an account related to the rental of communication infrastructure. Furthermore, Accrued Leave has been grouped and classified as Payables from Exchange Transactions, whereas it was disclosed separately on the Financial Position in the prior period.

Investment Property:

The prior year amounts of Investment Property have been restated to correctly disclose the amount of the assets held, properties transferred to other institutions not previously recognised.

Provisions:

The prior year amounts of Provisions have been restated to correctly disclose the revised Liability for the Landfill Site Rehabilitation, as per revised estimate reports.

Non-current Provisions:

The prior year amounts of Non-Current Provisions have been restated to correctly disclose the revised Liability for the Landfill Site Rehabilitation, as per revised estimate reports.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

40 CASH GENERATED BY OPERATIONS

Surplus / (Deficit) for the Year	18,093,306	34,777,175
Adjustment for:		
Depreciation and Amortisation	27,517,440	26,645,571
Impairment Losses on Property, Plant and Equipment	-	-
Losses / (Gains) on Disposal of Property, Plant and Equipment	1,843,760	(2,543,700)
Other Movement on Property, Plant and Equipment	(18,132,942)	674,414
Contribution to Long Service Awards Liability	1,806,115	262,858
Contribution to Provisions - Current	80,143	632,309
Contribution to Provisions - Non-current	104,821	-
Contribution to Impairment Provision	1,699,148	-
Bad Debts Written-off	-	(2,978,984)
Operating surplus before working capital changes	<u>32,811,791</u>	<u>57,469,663</u>
Decrease/(Increase) in Inventories	(140,636)	454,390
Decrease/(Increase) in Receivables from Exchange Transactions	(1,433,961)	(1,574,536)
Decrease/(Increase) in Receivables from Non-exchange Transactions	(2,104,594)	(574,842)
Decrease/(Increase) in VAT Receivable	(76,212)	634,175
Decrease/(Increase) in Operating Lease Receivables	5,422	-
Increase/(Decrease) in Consumer Deposits	344,493	4,000
Increase/(Decrease) in Payables from Exchange Transactions	1,218,846	(5,412,006)
Increase/(Decrease) in Payables from Non-exchange Transactions	(148,198)	197,293
Increase/(Decrease) in Conditional Grants and Receipts	(8,678,640)	8,678,640
Other Non-Cash Movements	-	2,923,302
Cash generated by / (utilised in) Operations	<u>21,798,311</u>	<u>62,800,079</u>

41 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

41.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening Balance:	167,296,116	142,497,723
Unauthorised Expenditure Current Year:	-	24,798,393
Unauthorised Expenditure awaiting authorisation	<u>167,296,116</u>	<u>167,296,116</u>

The current year over-expenditure incurred by municipal departments during the year is attributable to the following categories:

- Non-cash	-	24,798,393
- Cash	-	-
	<u>-</u>	<u>24,798,393</u>

Analysed as follows:

Non-cash:-

Depreciation and Amortisation	-	20,986,046
Impairment Losses	-	3,812,347
	<u>-</u>	<u>24,798,393</u>

Cash:-

Operational Costs	-	-
	<u>-</u>	<u>-</u>

The Unauthorised Expenditure incurred during 2017/18 was as a result of non-cash items (Depreciation and Impairment of Debtors) and has been tabled to Council. Subsequently the Council referred it to MPAC and the Disciplinary Board for further investigation. Both the MPAC and Disciplinary Committee have commenced with the investigation, which investigation is still in progress. A draft Consequence Management Policy has also been submitted to Council for notification.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

41.2 Fruitless and Wasteful Expenditure

Reconciliation of Fruitless and Wasteful Expenditure:

Opening Balance	281,444	242,077
Fruitless and Wasteful Expenditure Current Year	39,369	39,367
Expenditure investigated and approved by Council	-	-
To be Recovered	-	-
Fruitless and Wasteful Expenditure awaiting condonement	320,813	281,444

The fruitless and wasteful expenditure is as a result of interest paid to suppliers as a result of late payments and has been submitted to Council and it has since noted and referred to MPAC and Disciplinary Committee for further investigation. Both the MPAC and Disciplinary Committee have commenced with the investigation, which investigation is still in progress. A draft Consequence Management Policy has also been submitted to Council for notification.

41.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

		Restated
Opening Balance:	6,784,912	2,876,935
- As previously stated	6,784,912	2,876,935
- Correction of error	-	-
Irregular Expenditure Current Year:	19,439,823	6,784,912
- Current Year	19,439,823	584,541
- Prior Year	-	6,200,371
Condoned/Written-off by Council:	-	(2,876,935)
- Current Year	-	-
- Prior Year	-	(2,876,935)
To be Recovered – Contingent Asset (see Note 48)	-	-
Transfer to Receivables for Recovery (see Note 4)	-	-
Irregular Expenditure awaiting condonation	26,224,736	6,784,912

The entire Irregular Expenditure detailed above has been submitted to Council and it has since noted and referred to MPAC and Disciplinary Committee for further investigation. Both the MPAC and Disciplinary Committee have commenced with the investigation, which investigation is still in progress. A draft Consequence Management Policy has also been submitted to Council for notification.

Current Year:

Incident	Deviation
Aloe Office Equipment - R1,167,577 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
Graylor Workwear - R0 (2018: R175,680)	Non-compliance with Preferential Procurement on Local Content.
Ilitha Lesizwe Consulting - R2,116,644 (2018: R0)	Procured in terms of SCM Regulation 32; cannot be extended after expiry.
Indwe Risk Services - R129,613 (2018: R0)	Contract
Jeffares & Green (Pty) Ltd - R0 (2018: R0)	Non-compliance
KCS Consultants - R1,054,158 (2018: R0)	Procured in
Lakhaza Construction - R7,619,641 (2018: R0)	Not able to submit Tender Document for audit.
Red Guard - R162,285 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
Sparks & Ellis - R0 (2018: R116,789)	Non-compliance with Preferential Procurement on Local Content.
Tiso Black Star - R0 (2018: R66,995)	3 Quotes were not obtained in terms of SCM Regulations.
Umphongolo Petroleum - R2,481,500 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
IYM SCMU 17 - R2,800,000 (2018: R0)	BAC Committee not quorating
Data Catrix - R1,908,406 (2018: R0)	Advertisement less than 14 days.

Prior Year:

Incident	Deviation
Aloe Office Equipment - R1,067 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
Ilitha Lesizwe Consulting - R2,058,228 (2018: R0)	Procured in terms of SCM Regulation 32; cannot be extended after expiry.
Indwe Risk Services - R538,529 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
KCS Consultants - R2,148,693 (2018: R0)	Procured in terms of SCM Regulation 32; no demonstrable discounts or benefits.
Lakhaza Construction - R546,686 (2018: R0)	Not able to submit Tender Document for audit.
Red Guard - R226,774 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.
Umphongolo Petroleum - R680,495 (2018: R0)	Contract extensions exceed 15% allowed of the original value of the contract.

42 ADDITIONAL DISCLOSURES IN TERMS OF APPLICABLE LEGISLATION

42.1 MUNICIPAL FINANCE MANAGEMENT ACT

42.1.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	1,338,837	1,098,117
Amount Paid - current year	(1,338,837)	(1,098,117)
Amount Paid - previous years	-	-
Balance Unpaid (Included in Creditors)	-	-

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

42.1.2 Medical aid contributions

Opening Balance	-	534,682
Current Year Contributions	8,676,286	10,760,225
Amount Paid - current year	(8,676,286)	(11,294,907)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

42.1.3 Pension fund contributions

Opening Balance	-	762,160
Current Year Contributions	17,824,598	15,418,249
Amount Paid - current year	(17,824,598)	(16,180,409)
Amount Paid - previous years	-	-
Balance Unpaid (Included in Creditors)	-	-

42.1.4 Audit fees

Opening Balance	-	739,984
Current year Audit Fees	6,741,507	5,125,017
Amount Paid - current year	(6,741,507)	(5,865,001)
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

42.1.5 PAYE, Skills Development Levy and UIF

Opening Balance	-	-
Current year Payroll Deductions	19,389,962	-
Amount Paid - current year	(19,389,962)	-
Amount Paid - previous years	-	-
Balance Unpaid (included in Creditors)	-	-

42.1.6 VAT

The net of VAT input receivables and VAT output payables are shown in Note 5. All VAT returns have been submitted by the due date throughout the year.	4,018,743	3,942,531
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42.1.7 Councillor's arrear Consumer Accounts

During the financial year under review no Councillor (present or past) was in arrear with the settlement of their municipal accounts.

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2019:

30 June 2019	Total	Outstanding up to 90 days	Outstanding more than 90 days
Councillor Mwezi Bikitsha	13,103	871	12,232
Councillor Lulama Mvo	80,759	5,309	79,449
Total Councillor Arrear Consumer Accounts	93,862	6,180	91,682
30 June 2018	Total	Outstanding up to 90 days	Outstanding more than 90 days
Councillor Mwezi Bikitsha	10,769	821	9,948
Councillor Lulama Mvo	160,253	12,657	147,596
Total Councillor Arrear Consumer Accounts	171,022	13,478	157,544

Councillor Mvo has signed an arrangement to pay his long outstanding debt.

42.1.8 Non-Compliance with the Municipal Finance Management Act

Interest charged on outstanding debtors - [MFMA 64 (2)(g)]

In terms of section 64 (2)(g) of the MFMA the municipality must charge interest on arrears, except where the council has granted exemptions in accordance with its budget related policies and within a prescribed framework. The municipality charges interest on long outstanding debtors.

42.1.9 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

1,231,222

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Supplier name and Reason for Deviation	
Avitech system : Payment in respect of projects for Council chamber	14,950
This was for repairs of the projectors which were procured from Avitech System . Procurement processes were followed but three quotations could not be obtained because the projectors are the products of Avitech systems and getting another service provider to do the repairs would break the warranty of these products. This therefore meant that it is impractical to follow SCM processes.	
Avitech system : Payment in respect of projects for Council chamber	11,282
This was for repairs of the projectors which were procured from Avitech System . Procurement processes were followed but three quotations could not be obtained because the projectors are the products of Avitech systems and getting another service provider to do the repairs would break the warranty of these products. This therefore meant that it is impractical to follow SCM processes.	
Port Elizabeth traffic college : Payment inspect of registration for 2 delegates Mr N. Sokujika& Mr W. Mtendeshe who will be attending training for examiner of vehicle course	23,657
Procurement processes were followed but three quotations could not be obtained because Port elizabeth Traffic college is the only institution that can provide service in close proximity (Eastern Cape)	
National arts festival - Payment for a stand at Grahamstown National Arts Festival	5,750
Procurement processes were followed but three quotations could not be obtained because this is a special service done by National Arts festival. It is therefore impractical to follow SCM processes.	
Chris Hani Discript municipality - Registration fee for 6 delegates attending advanced operatinal fleet of transport management.	14,706
Procurement prosses were followed but three quotations could not be obtained because it is a direct invitation to the Fleet Management office. It is therefore impractical to follow SCM processes.	
Zibula management & Projects - Registration fee for 6 delegates attending advanced operatinal fleet of transport management.	84,994
Procurement prosses were followed but three quotations could not be obtained because It is a direct invitation to the Fleet Management office. It is therefore impractical to follow SCM processes.	
North West University -Intergrate waste management workshop) attended by Ms P. Magida for work shop held on 31 July 2018	9,860
Procurement processes were followed but three quotations could not be obtained because this is the only institution that invited them to attend the workshop.It is therefore impractical to follow SCM processes.	
Global prospectus - Registration fee for three officials	23,970
Procurement prosses were followed but three quotations could not be obtained because it is an invitation directed to the Roads office.It is therefore impractical to follow SCM processes.	
Scalesmass - Payment inrespect of replace lighting protection unit on weighbridge	8,970
Procurement prosses were followed but three quotation could not be obtained because it's a sole provider.	
Engineering council of south africa- Membership fees for Mr Koyo for the professional engineering of South africa	3,867
Procurement prosses were followed but three quotation could not be obtained because it's a sole provider.	
SACP CMP- Payment of annual fee for N. Rols	3,097
procurement prosses were followed but three quotation could not be obtained because is the sole Supplier for construction management profession.	
MIE managed Integrity evaluation- Verification of qualifications of fingerprint	758
Procurement prosses were followed but three quotations could not be obtained because Manage Integrity (MIE) is the only service provider In Southern Africa that provides background checks and employment screening services.	
L COM (PTY) LTD- Payment for telecentre wifi(Internet)	23,400
Procurement prosses were followed but three quotations could not be obtained because L COM already has equipment installed at telecenter and also have a satelite dish and network pole in Cofimvaba which will assist with coverage and Internet access to telecentre . It is therefore impractical to follow SCM processes.	
Maccauvlei- Payment inrespect of registration for N. Machasa for attending Bteh at Maccauvlei learning academy.	28,922
Procurement prosses were followed but three quotations could not be obtained because tuition fees are paid upon acceptance to the educational institution.	
Allied Business Solutions- Payment inrespect of HP tonner and paper	27,347
Procurement prosses were followed but three quotation could not be obtained because it's a special product and only Allied Business Solution has a licence for HP tonner and paper of this kind of machine.	

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

ESRI South Africa Solutions- Procurement for completing LG SETA capacity program	30,590
Procurement processes were followed but three quotations could not be obtained because it's a sole provider.	
High End Properties - Installation of Airconditioners.	49,292
The air conditioners in the service room suddenly stopped working on a Friday and the proper SCM processes of advertising for 7 days could not be followed as the server could crash if left with no air conditioner for a longer period hence it was impractical to follow SCM processes and one service provider was engaged to immediately install.	
Mtyuda Investment Trading - Supply and delivery of shuttering for Tencza Bridge	458,155
The size of the bridge constructed also increased in height due to soil erosion and other natural factors. Based on the approved drawing designs, the scope was changed due to the nature of the ground by the time the project managers box cut. It forced us to dig deeper in order to get to the hard surface level and the material was all-ready delivered on site. All the technical processes prior to the construction/implementation of the bridge like Geotechnical survey were taken.	
Umphongolo Petroleum - Refurbishment of diesel tank.	163,506
During the delivery of diesel, the diesel tank was leaking and the municipality requested a company which specializes in petroleum products to conduct urgent assessment and rectify the problem as it can cause major damage in the environment	
Continuous Professional Development - Registration fee	16,980
Registration fee for Mr S Mazula and Mr K Clock attending Estimating Costing and Pricing for construction services training in East London. Procurement processes were followed but three quotations could not be obtained because it is direct invitation to Infrastructure officials.	
CIGFARO - Registration for Internal Auditors and Risk management unit registration fee.	37,590
Procurement processes were followed but three quotations could not be obtained because it in an Invitation directed to the Internal Audit and Risk Management.	
Umphongolo Petroleum- Site establishment & disconnect pipes work from tank to pump.	175,005
During the delivery of diesel, the diesel tank was leaking and the Municipality requested a company which specializes in petroleum products to conduct urgent assessment and rectify the problem as it can cause major damage in the environment.	
Works Dynamics	14,575
Procurement processes were followed but three quotations were not obtained.	

42.2 BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT

Information on compliance with the B-BBEE Act is included in the Annual Report under the section titled B-BBEE Compliance Performance Information.

43 COMMITMENTS FOR EXPENDITURE

43.1 Capital Commitments

- Approved and Contracted for:-

Land and Buildings
Infrastructure
Community
Other
Investment Properties

21,399,486	42,212,545
-	-
19,901,933	40,478,726
1,252,746	1,476,721
244,808	257,098
-	-

Total Capital Commitments

21,399,486	42,212,545
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This expenditure will be financed from:

Government Grants

21,399,486	42,212,545
21,399,486	42,212,545

43.2 Operational Commitments

- Approved and Contracted for:-

Land Surveying and Planning
Supply, Delivery, Installation and Mechanisation
LED Strategy Review
Spatial Development Framework
Municipal Performance Evaluation
Fuel and Oil
Financial Management

3,755,694	1,362,604
-	333,578
3,340,445	-
185,572	-
50,361	-
179,317	618,621
-	5
-	410,400

Total Operational Commitments

3,755,694	1,362,604
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This expenditure will be financed from:

Government Grants
Own Resources

229,678	618,626
3,526,016	743,978
3,755,694	1,362,604

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

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

44 FINANCIAL INSTRUMENTS

44.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
Receivables from Exchange Transactions			
Refuse	Amortised cost	2,392,798	2,039,404
Property Rental Debtors	Amortised cost	906,294	1,184,095
Control, Clearing and Interface Accounts	Amortised cost	510,036	7,309
Receivables with Credit Balances	Amortised cost	380,538	160,154
Receivables from Non-exchange Transactions			
Property Rates	Amortised cost	4,221,442	3,210,024
Fines	Amortised cost	737,200	751,979
Cash and Cash Equivalents			
Bank Balances	Fair value	19,317,979	26,149,365
Cash Floats and Advances	Fair value	-	-
SUMMARY OF FINANCIAL ASSETS			
Financial Assets at Amortised Cost:			
Receivables from Exchange Transactions	Refuse	2,392,798	2,039,404
Receivables from Exchange Transactions	Property Rental Debtors	906,294	1,184,095
Receivables from Exchange Transactions	Control, Clearing and Interface Accounts	510,036	7,309
Receivables from Exchange Transactions	Receivables with Credit Balances	380,538	160,154
Receivables from Non-exchange Transactions	Property Rates	4,221,442	3,210,024
Receivables from Non-exchange Transactions	Fines	737,200	751,979
Cash and Cash Equivalents	Bank Balances	19,317,979	26,149,365
		<u>28,644,928</u>	<u>33,502,329</u>
Financial Assets at Fair Value:			
Cash and Cash Equivalents	Cash Floats and Advances	-	-
		<u>-</u>	<u>-</u>
Total Financial Assets		<u>28,644,928</u>	<u>33,502,329</u>

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

<u>Financial Liabilities</u>	<u>Classification</u>		
Payables from Exchange Transactions			
Bonus	Amortised cost	2,237,225	2,030,475
Leave Accrual	Amortised cost	8,529,401	8,269,924
Other Payables	Amortised cost	2,591,675	4,846,183
Retentions	Amortised cost	2,902,438	4,087,497
Trade Creditors	Amortised cost	4,344,992	386,811
Advance Payments	Amortised cost	0	0
Exchange Receivables with Credit Balances	Amortised cost	380,538	160,154
Payables from Non-exchange Transactions			
Non-Exchange Receivables with Credit Balances	Amortised cost	49,095	197,293
SUMMARY OF FINANCIAL LIABILITIES			
Financial Liabilities at Amortised Cost:			
Payables from Exchange Transactions	Bonus	2,237,225	2,030,475
Payables from Exchange Transactions	Leave Accrual	8,529,401	8,269,924
Payables from Exchange Transactions	Other Payables	2,591,675	4,846,183
Payables from Exchange Transactions	Retentions	2,902,438	4,087,497
Payables from Exchange Transactions	Trade Creditors	4,344,992	386,811
Payables from Exchange Transactions	Advance Payments	0	0
Payables from Exchange Transactions	Exchange Receivables with Credit Balances	380,538	160,154
Payables from Non-exchange Transactions	Non-Exchange Receivables with Credit Balanc	49,095	197,293
		<u>21,035,364</u>	<u>19,978,336</u>
Total Financial Liabilities		<u>21,035,364</u>	<u>19,978,336</u>

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

44.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2019, as a result of the short-term maturity of these assets and liabilities.

No Financial Instruments of the municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

30 June 2019

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Cash and Cash Equivalents	-	-	-	-
Total Financial Assets	-	-	-	-
Total Financial Instruments	-	-	-	-

30 June 2018

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value:				
Cash and Cash Equivalents	-	-	-	-
Total Financial Assets	-	-	-	-
Total Financial Instruments	-	-	-	-

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

44.3 Capital Risk Management

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 17 and the Statement of Changes in Net Assets.

Gearing Ratio

	2019	2018
	R	R
The gearing ratio at the year-end was as follows:		
Debt	0	(0)
Cash and Cash Equivalents	-	-
Net Debt	0	(0)
Equity	641,469,240	623,375,934
Net debt to equity ratio	0.00%	0.00%

Debt is defined as Long-term Liabilities, together with its Short-term Portion.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

44.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

44.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Note 44.8 to the Annual Financial Statements.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

44.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 44.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

44.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

44.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 44.8 below:

Cash and Cash Equivalents:

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2019 would have increased / decreased by R227,337 (30 June 2018: R130,747). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

44.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists based on the payment history of the parties, except for Northern Province Academy of Sport and Department of Water and Forestry Affairs for which there is uncertainty about the collectivity. They have been included in the Provision for Impairment of Consumer Debtors.

Counterparty and Location	30 June 2019		30 June 2018	
	Credit Limit R	Carrying Amount R	Credit Limit R	Carrying Amount R
South African Bantu Trust	-	834,971	-	560,612
Vokuhle	-	554,832	-	455,777
Prison Department	-	552,410	-	485,566
Government of Transkei	-	547,698	-	444,497
Sakaulis Prop (Pty) Ltd	-	508,319	-	438,192

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	R	R
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Receivables from Exchange Transactions	8,543,655	7,109,694
Receivables from Non-exchange Transactions	12,882,713	10,780,682
Bank, Cash and Cash Equivalents	19,317,979	26,149,365
Maximum Credit and Interest Risk Exposure	40,744,348	44,038,741
The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:		
	%	%
Consumer Debtors:		
- Household	23.24%	25.52%
- Industrial / Commercial	32.67%	29.90%
- National and Provincial Government	16.75%	14.10%
- Other Classes	6.77%	10.08%
Other Debtors:		
- Other not Classified	15.34%	15.61%
Total Credit Risk	94.77%	95.21%
Bank and Cash Balances		
ARSA Bank Ltd	809,835	777,293
First National Bank	18,401,160	25,579,921
Cash Equivalents		
Total Bank and Cash Balances	19,210,996	26,357,214
Credit quality of Financial Assets:		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
Counterparties without external credit rating:-		
Group 1	646,760	258,055
Group 2	165,345	65,972
Total Receivables from Exchange Transactions	812,105	324,026
Receivables from Non-exchange Transactions		
Group 1	768,227	3,155,340
Group 2	196,398	806,664
Total Receivables from Non-exchange Transactions	964,625	3,962,003

Credit quality Groupings:

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2019 **2018**
R **R**

45 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. All councillors belong to the Pension Fund for Municipal Councillors, whilst employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R11,336,386 (2018: R8,685,979) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED BENEFIT SCHEMES

LA Retirement Fund (previously Cape Joint Pension Fund):

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2018.

The contribution rate payable under the defined benefit section is 27%, 9% by the members and 18% by their councils. The actuarial valuation report at 30 June 2018 disclosed an actuarial valuation amounting to R1 778 (2017: R1 859) million, with a surplus of R63 (2017: R47) million, with a funding level of 103.7% (2017: 102.6%).

National Fund for Municipal Workers - Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2013.

The statutory valuation performed as at 30 June 2018 revealed that the net assets of the fund were R10 050 (30 June 2014: R9 032) million, with a funding level of 100,42% (30 June 2014: 100,10%).

The actuary certified that the assets of the fund are sufficient to cover 100,42% of the members' liabilities, also that it can be expected that the funding level of a fund of this nature will fluctuate around 100%.

DEFINED CONTRIBUTION SCHEMES

Consolidated Retirement Fund for Local Government (previously Cape Joint Retirement Fund):

The scheme is subject to a tri-annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2018.

The statutory valuation performed as at 30 June 2018 revealed that the assets of the fund amounted to R24 108 (30 June 2017: R21 359) million, with funding levels of 100,4% and 128,0% (2017: 100,0% and 127,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,5% or 9,0%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

Discovery Retirement Plan:

No information could be obtained.

Eastern Cape Group Municipal Gratuity Fund:

The scheme is subject to a tri-annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 31 March 2018.

The contribution rate payable is 5% by the members' councils, and no contributions are made by members. The actuarial valuation report at 31 March 2018 disclosed assets amounting to R34 (2015: R35) million, with a surplus of R2 (2015: surplus of R157) million, with a funding level of 100,0% (2015: 100,5%).

As at 31 March 2018 the assets of the fund were sufficient to cover members' fund credits and the data reserve in full. The fund was in a sound financial condition as at the valuation date in terms of section 16 of the Pension Funds Act, as amended.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

2019	2018
R	R

Eastern Cape Group Municipal Pension Fund:

The scheme is subject to a tri-annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 31 March 2018.

The contribution rate payable is 9% by the members and 13% by their councils. The actuarial valuation report at 31 March 2018 disclosed assets amounting to R122 217 (2016: R119 461) million, with a deficit of R140 (2015: surplus of R750) million, with a funding level of 99,9% (2015: 100,6%).

As at 31 March 2018 the assets of the fund were insufficient to cover the liabilities and the contingency reserves in full. However, the fund is not in an unsound financial condition as at the valuation date in terms of section 16 of the Pension Funds Act, as amended.

LA Retirement Fund (previously Cape Joint Pension Fund):

The scheme is subject to an annual actuarial valuation which is not the responsibility of the Municipality. The last statutory valuation was performed as at 30 June 2018.

The actuarial valuation report at 30 June 2018 indicated that the defined contribution scheme of the fund is in a sound financial position, with assets amounting to R2 018 (2017: R1 912) million, net investment reserve of R0 (2017: R0) million and a funding level of 100,0% (2017: 100,0%).

Metropolitan Retirement Fund:

No information could be obtained.

Municipal Councillors Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2015.

The statutory valuation performed as at 30 June 2015 revealed that the net assets of the fund were R2 552 (30 June 2012: R1 184) million, with a funding level of 101,8% (30 June 2012: 99,5%). The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

At 30 June the fund showed an excess of R27,7 (2012: deficit R6,4) million before allowing for reserves and was certified to be in a sound financial condition by the actuaries, Moruba Consultants and Actuaries.

As reported by the Actuaries, the Fund was following an appropriate investment strategy during the valuation period.

The appointment of a Curator in terms of section 5(1) of the Financial Institutions (protection of funds) Act 2001 for the whole of the business of the Municipal Councillors Pension Fund was done in December 2017. Due to the provisional curatorship, a short moratorium has been placed on the payment of benefits to members/beneficiaries. In terms of the curatorship order, the Court ordered as follows: 1. The provisional Curatorship order of the 19th December 2017 is made a final; 2. The Curator shall furnish the Registrar of the Pension Fund with progress report; 3. The Curator must deliver a further progress report to the Court by no later than 31st October 2018 which report deals with the status of curatorship as at the 30th September 2018; on the curatorship once every two months.

No further information could be obtained.

Municipal Workers Retirement Fund (previously South African Municipal Workers' Union Provident Fund):

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2017.

The contribution rate payable is not less than 7,5% by the members and 18% by their councils. As from 1 July 2017, members and employers that fall under other bargaining councils or forums are not bound by the above minimum contribution rates.

The actuarial valuation report at 30 June 2017 disclosed assets amounting to R7 721 (2014: R6 575) million, with a funding level of 102,0% (2014: 111,7%). The Fund's assets are sufficient to cover the members' Fund Credits. The Fund is therefore in a sound financial position.

None of the above mentioned plans are State Plans.

46 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

To the best knowledge of management, no transactions were incurred to the related parties and no disclosure submitted to declare related party interest.

46.1 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 28 and 29, and Appendix G, to the Annual Financial Statements.

INTSIKA YETHU MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 R	2018 R
47 CONTINGENT LIABILITIES		
47.1 Court Proceedings:	<u>14,607,024</u>	<u>9,866,713</u>
Edward Sebenzani Matanzima vs IYM Mr Matanzima is suing the municipality for defamation. The municipality is defending the case, and the outcome thereof is still uncertain.	1,500,000	1,500,000
Minister of Water and Sanitation Department vs IYM The Department is suing the municipality for the payment of alleged outstanding payment. The municipality is defending the case, and the outcome thereof is still uncertain.	8,366,713	8,366,713
Singisa Mayila & Other vs IYM Mr Mayila & Others are suing the municipality for unlawful demolition of their homes. The municipality is defending the case, and the outcome thereof is still uncertain.	900,000	-
Singisa Mayila & Others vs IYM Mr Mayila & Others are suing the municipality for unlawful demolition of their homes. The municipality is defending the case, and the outcome thereof is still uncertain.	3,840,311	-

48 CONTINGENT ASSETS

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

49 IN-KIND DONATIONS AND ASSISTANCE

No In-kind Donations or Assistance were received during the year under review.

50 PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the year under review.

51 EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2019.

52 COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 39).

53 GOING CONCERN ASSESSMENT

(i) The municipality's cash flow forecast for the year to 30 June 2019 has been reviewed and management is satisfied that the municipality can continue in operational existence for the foreseeable future. The accumulated surplus and cash & cash equivalents as at 30 June 2018 was taken into consideration during the review.

(ii) The municipality is wholly dependent on the Department of Local Government and Traditional Affairs for continued funding of operations. The Annual Financial Statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government and Traditional Affairs has neither the intention, nor the need to materially liquidate the scale of the municipality.

Taking the aforementioned into account, Management has prepared the Annual Financial Statements on the Going Concern Basis.

APPENDIX B
INTSIKA YETHU MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2019

Description	Cost / Revaluation				Under Construction				Accumulated Depreciation				Impairment		Carrying
	Opening	Additions	Transfers	Disposals	Closing	Closing	Opening	Additions	Disposals	Transfers	Closing	Closing	Closing	R	
Land and Buildings															
<i>Land</i>															
Distribution Plant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General Plant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings	78,910,939	143,854	-	(35,353)	79,019,441	(0)	10,611,180	1,705,970	-	-	12,317,150	-	-	-	66,702,291
	78,910,939	143,854	-	(35,353)	79,019,441	(0)	10,611,180	1,705,970	-	-	12,317,150	-	-	-	66,702,291
Infrastructure															
<i>Electrical Infrastructure</i>															
LV Networks	16,107,339	-	-	-	16,107,339	-	1,476,524	752,184	-	-	2,228,708	-	-	-	13,878,630
<i>Information and Communication Infrastr</i>															
Roads Infrastructure	434,586,166	-	75,712,266	(1,096,111)	509,172,340	48,470,865	171,527,239	21,057,809	(875,986)	-	191,709,062	(0)	-	-	365,934,143
Solid Waste Infrastructure	1,806,476	-	-	-	1,806,476	-	13,577	64,243	-	-	77,820	-	-	-	1,728,657
<i>Storm water Infrastructure</i>															
Water Supply Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Boreholes</i>															
Bulk Mains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Spares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dams and Weirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PRV Stations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pump Stations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Water Treatment Works (WTW)</i>															
	453,202,965	-	75,712,266	(1,096,111)	527,819,120	48,470,865	173,500,582	21,858,382	(875,986)	-	194,522,977	-	-	-	381,767,007
Community Assets															
<i>Libraries</i>															
Zoo, Marine and Non-Biological Animal	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Community Assets	40,253,330	167,024	18,958,116	(974,328)	56,404,142	2,902,243	7,581,374	939,433	(253,376)	-	8,267,431	-	-	-	53,038,955
	40,253,330	167,024	18,958,116	(974,328)	56,404,142	2,902,243	7,581,374	939,433	(253,376)	-	8,267,431	-	-	-	53,038,955
Other Assets															
<i>Computer Equipment</i>															
Furniture and Office Equipment	3,309,681	1,704,371	-	(1,230,884)	3,783,368	-	2,106,766	463,233	(1,152,118)	-	1,417,881	-	-	-	2,365,467
Machinery and Equipment	4,745,909	21,405	-	(609,074)	4,158,240	-	2,705,534	433,266	(452,679)	-	2,686,120	-	-	-	1,472,119
	42,268,296	-	-	(5,301,881)	36,967,415	-	22,694,677	3,143,137	(4,137,307)	-	21,700,507	-	-	-	15,266,908
	50,325,066	1,725,776	-	(7,141,836)	44,909,023	-	27,698,977	4,039,838	(5,742,104)	-	25,904,609	-	-	-	18,104,514
Transport Assets															
<i>Transport Assets</i>															
	11,941,447	167,126	-	(1,262,282)	10,846,291	-	4,406,635	1,045,736	(745,976)	-	4,706,393	-	-	-	6,139,897
	11,941,447	167,126	-	(1,262,282)	10,846,291	-	4,406,635	1,045,736	(745,976)	-	4,706,393	-	-	-	6,139,897
Total	634,633,766	2,203,760	94,670,382	(10,509,912)	720,998,016	51,373,108	223,606,748	29,629,157	(7,817,444)	-	245,616,460	-	-	-	526,752,664

APPENDIX B
INTSIKA YETHU MUNICIPALITY
ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2019

Description	Cost / Fair Value				Accumulated Depreciation				Impairment	Carrying		
	Opening	Additions	Transfers	Disposals	Closing	Under Construction	Opening	Additions			Disposals	Transfers
Investment Properties	R	R	R	R	R	R	R	R	R	R	R	R
Investment Properties	73,719,981	-	-	-	73,719,981	-	5,889,764	-	6,208,343	-	6,208,343	67,511,638
Investment Properties	73,719,981	-	-	-	73,719,981	-	5,889,764	-	6,208,343	-	6,208,343	67,511,638

INTSIKA YETHU MUNICIPALITY
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2019

Description	Cost / Revaluation				Accumulated Amortisation				Impairment	Carrying		
	Opening	Additions	Transfers	Disposals	Closing	Under Construction	Opening	Additions			Disposals	Transfers
Intangible Assets	R	R	R	R	R	R	R	R	R	R	R	R
Computer Software	-	-	-	-	-	-	-	-	-	-	-	-
Patents, Licences, Copyrights, Brand Names	-	-	-	-	-	-	-	-	-	-	-	-

INTSIKA YETHU MUNICIPALITY
ANALYSIS OF HERITAGE ASSETS AS AT 30 JUNE 2019

Description	Cost / Revaluation				Accumulated Amortisation				Impairment	Carrying		
	Opening	Additions	Transfers	Disposals	Closing	Under Construction	Opening	Additions			Disposals	Transfers
Heritage Assets	R	R	R	R	R	R	R	R	R	R	R	R
Culturally Significant Buildings	-	-	-	-	-	-	-	-	-	-	-	-
Sculptures	-	-	-	-	-	-	-	-	-	-	-	-
Total Asset Register	708,353,747	2,203,780	94,670,392	(10,509,912)	794,717,996	51,373,108	229,196,512	30,247,736	(7,617,444)	-	261,826,803	594,264,301

APPENDIX I
INTSIKA YETHU MUNICIPALITY
SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE

Year Ended 30 June 2019

Description	Executive and Council	Finance and Administration	Community and Social Services	Public Safety	Sport and Recreation	Health	Planning and Development	Road Transport	Energy Sources	Waste Management	Other	Total for Municipality
	R	R	R	R	R	R	R	R	R	R	R	R
REVENUE												
Revenue from Non-exchange Transactions												
Property Rates	-	5,583,062	-	-	-	-	-	-	-	-	-	5,583,062
Fines, Penalties and Forfeits	-	561,253	-	62,700	-	-	-	-	-	-	-	623,953
Licences and Permits	-	-	-	-	-	-	12,145	-	-	-	-	12,145
Transfers and Subsidies	-	202,706,617	450,000	-	-	-	6,752,537	-	5,395,737	2,898,000	-	218,202,890
Surcharges and Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Interest, Dividends and Rent on Land Earned	-	1,725,436	-	-	-	-	-	-	-	-	-	1,725,436
Revenue from Exchange Transactions												
Licences and Permits	-	2,299,826	-	-	-	-	-	-	-	-	-	2,299,826
Service Charges	-	-	-	-	-	-	-	-	-	906,873	-	906,873
Sales of Goods and Rendering of Services	-	254,451	-	-	-	-	-	-	-	-	-	254,451
Income from Agency Services	-	976,211	-	-	-	-	-	-	-	-	-	976,211
Rental from Fixed Assets	-	1,566,128	-	-	-	-	-	-	-	-	-	1,566,128
Interest, Dividends and Rent on Land Earned	-	3,619,252	-	-	-	-	-	-	-	-	-	3,619,252
Operational Revenue	-	21,324	-	-	-	-	-	-	-	-	-	21,324
- Total Gains, Including PPE	-	(683,424)	-	-	-	-	-	-	-	-	-	(683,424)
Gains on Disposal of Property, Plant and Equipment	-	(683,424)	-	-	-	-	-	-	-	-	-	(683,424)
Total Revenue		218,610,134	450,000	62,700			6,764,662		5,395,737	3,804,873		235,088,126
EXPENDITURE												
Employee Related Costs	13,425,407	40,719,943	15,071,652	-	-	-	16,347,662	25,364,092	-	-	-	110,928,776
Remuneration of Councillors	16,564,479	27,517,440	-	-	-	-	-	-	-	-	-	16,564,479
Depreciation and Amortisation	-	1,689,148	-	-	-	-	-	-	-	-	-	27,517,440
Impairment Losses	-	3,722,677	801,334	1,806	-	-	1,316,696	440,818	-	-	-	1,699,148
Interest, Dividends and Rent on Land	797,599	1,562,157	4,183,877	-	-	-	-	2,396,134	-	-	-	7,081,130
Contracted Services	-	-	-	-	-	-	-	-	-	-	-	3,918,291
Inventory Consumed	-	-	-	-	-	-	-	-	-	-	-	4,183,877
Transfers and Subsidies Paid	-	14,615,131	366,400	-	146,093	17,300	5,831,203	1,069,965	9,142,873	5,626,615	235,709	43,941,343
Operating Leases	6,890,054	1,160,336	-	-	-	-	-	-	-	-	-	1,160,336
Operational Costs	-	-	-	-	-	-	-	-	-	-	-	-
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure	37,677,640	90,996,832	20,423,263	1,806	146,093	17,300	23,495,761	29,231,009	9,142,873	5,626,615	235,709	218,964,820
Surplus/(Deficit) for the Year	(37,677,640)	127,613,301	(19,973,263)	60,894	(146,093)	(17,300)	(16,731,099)	(29,231,009)	(3,747,135)	(1,821,742)	(235,705,68)	18,053,306

APPENDIX 1
INTSIKA YETHU MUNICIPALITY
SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE (Continued)

Year Ended 30 June 2018

Description	Executive and Council	Finance and Administration	Community and Social Services	Public Safety	Sport and Recreation	Health	Planning and Development	Road Transport	Energy Sources	Waste Management	Other	Total for Municipality
	R	R	R	R	R	R	R	R	R	R	R	R
REVENUE												
Revenue from Non-exchange Transactions												
Property Rates	-	7,209,888	-	-	-	-	-	-	-	-	-	7,209,888
Fines, Penalties and Forfeits	-	-	-	78,506	-	-	-	-	-	-	-	78,506
Licences and Permits	-	-	-	-	-	-	-	-	-	-	-	-
Transfers and Subsidies	-	206,347,896	300,000	-	-	-	-	-	6,980,463	2,951,000	-	216,579,359
Interest, Dividends and Rent on Land Earned	-	712,481	-	-	-	-	-	-	-	-	-	712,481
Revenue from Exchange Transactions												
Licences and Permits	-	2,006,147	-	-	-	-	-	-	-	-	-	2,006,147
Service Charges	-	-	-	-	-	-	-	-	-	837,729	-	837,729
Sales of Goods and Rendering of Services	-	65,486	-	-	-	-	-	-	-	-	-	65,486
Income from Agency Services	-	1,954,740	-	-	-	-	-	-	-	-	-	1,954,740
Rental from Fixed Assets	-	1,214,306	-	-	-	-	-	-	-	-	-	1,214,306
Interest, Dividends and Rent on Land Earned	-	3,220,720	-	-	-	-	-	-	-	-	-	3,220,720
Operational Revenue	-	36,406	-	-	-	-	-	-	-	-	-	36,406
Total Revenue												
	-	222,766,071	300,000	78,506	-	-	-	-	6,980,463	3,786,729	-	233,916,769
EXPENDITURE												
Employee Related Costs	14,890,543	40,395,626	2,820,667	-	-	-	7,585,293	37,298,605	-	-	-	102,990,734
Remuneration of Councilors	15,994,167	-	-	-	-	-	-	-	-	-	-	15,994,167
Depreciation and Amortisation	-	26,645,571	-	-	-	-	-	-	-	-	-	26,645,571
Impairment Losses	-	3,812,347	-	-	-	-	-	-	-	-	-	3,812,347
Interest, Dividends and Rent on Land	-	65	-	-	-	-	-	-	-	-	-	65
Contracted Services	1,481,717	4,608,873	20,150	29,989	-	-	208,345	1,634,286	6,406,647	-	-	14,390,005
Inventory Consumed	-	1,170,010	245,464	-	-	-	-	3,699,107	-	-	-	5,104,581
Transfers and Subsidies Paid	-	-	2,720,866	-	-	-	-	-	-	-	-	2,720,866
Operating Leases	-	116,219	339,344	-	46,471	1,045	1,272,320	221,923	5,792,056	5,756,130	322,643	29,907,739
Operational Costs	5,398,023	10,757,786	-	-	-	-	-	-	-	-	-	116,219
Loss on Disposal of Property, Plant and Equipment	-	(2,543,700)	-	-	-	-	-	-	-	-	-	(2,543,700)
Total Expenditure												
	37,764,450	84,962,797	6,146,480	29,989	46,471	1,045	9,065,957	42,843,921	12,198,703	5,756,130	322,643	199,138,595
Surplus/(Deficit) for the Year												
	(37,764,450)	137,805,274	(5,846,480)	48,517	(46,471)	(1,045)	(9,065,957)	(42,843,921)	(6,218,240)	(1,967,400)	(322,642,73)	34,777,175