# Port St Johns Local Municipality
# Consolidated Annual Financial Statements
# for the year ended 30 June 2019

Published 30 November 2019

# General Information

| | |
|---|---|
| **Legal form of entity** | Municipality |
| **Nature of business and principal activities** | The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, Refuse and Waste Management Services - The collection and disposal of refuse. |
| **Executive committee** | |
| Mayor | Cllr. NM Cingo (appointed 14 February 2018) |
| Speaker | Cllr. B Nokhanda (From 14 February 2018 to 20 March 2019)<br>Cllr. A.A Gantsho (appointed 20 March 2019) |
| Chief Whip | Cllr. C.S. Mazuza |
| Councillors | Cllr. N. F. Bokwe<br>Cllr. Cube Z. H<br>Cllr. Dyosoba M<br>Cllr. Fono K. M<br>Cllr. Jama F<br>Cllr. Fono N. C<br>Cllr. Hobo M<br>Cllr. Madini D.V<br>Cllr. Mafaka F<br>Cllr. Majali N. P<br>Cllr. Majeke K<br>Cllr. Maqina Z<br>Cllr. Mavimbela S. V<br>Cllr. Rolobile L<br>Cllr. Mhlabeni Z<br>Cllr. Mfiki N<br>Cllr. Mnceba D. Z<br>Cllr. Mjakuja B<br>Cllr. Moni X<br>Cllr. Mtiki Z<br>Cllr. Mtuku N.B<br>Cllr. Mzungule A<br>Cllr. Ndamase L<br>Cllr. Msongelwa T. M<br>Cllr. Ntlatywa S. L<br>Cllr. Ntsham T<br>Cllr. Sicoto S. E<br>Cllr. Soga. N. P<br>Cllr. Tani N<br>Cllr. Tshitshiliza N<br>Cllr. Tshotho G<br>Cllr. Totwana Z<br>Cllr. Vava N<br>Cllr. Veni M<br>Cllr. Vimba G. X<br>Cllr. Zweni R. M |

## General Information

| | |
|---|---|
| **Chief Finance Officer (CFO)** | Mrs P Gwana (Appointed 1 July 2015 - 31 July 2018) |
| **Acting Chief Finance Officer (CFO)** | Ms N Hlangu (Appointed 10 August 2018) |
| **Accounting Officer** | Mr H T Hlazo (Appointed 20 August 2018) |
| | Mr B Mase (Appointed 14 February 2018 - 17 August 2018) |
| **Registered office** | 257 Main street<br>Port St Johns<br>5120 |
| **Business address** | 257 Main street<br>Port St Johns<br>5120 |
| **Postal address** | P O Box 2<br>Port St Johns<br>5120 |
| **District Municipality** | OR Tambo District Municipality |
| **Bankers** | Standard Bank |
| **Auditors** | Auditor-General South Africa |
| **Published** | 30 November 2019 |
| **Municipal demarcation code** | EC154 |
| **Grading of Local Authority** | Grade 3 |
| **Capacity of local authority** | Low |

# Index

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



| | |
|---|---|
| GRAP | Generally Recognised Accounting Practice |
| CIGFARO | Chartered Institute of Government Finance Audit and Risk Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act No. 56 of 2003 |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| Cllr | Councillor |
| EPWP | The Expanded Public Works Programme |

# Accounting Officer's Responsibilities and Approval

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

The consolidated 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 consolidated 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 economic entity 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 economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity 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 consolidated 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 economic entity's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The consolidated annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2019 and were signed him:

**Mr H T Hlazo**
**Accounting Officer**

# Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

## 1. Review of activities

**Main business and operations**

Port St Johns Local Municipality is a local government institution established in terms of the Municipal Systems Act 32 of 2000 and The Constitution of the Republic of South Africa. The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates, refuse, general services and includes the rental of units owned by the municipality.

The operating results and state of affairs of the municipality are fully set out in the attached consolidated annual financial statements and do not in our opinion require any further comment.

## 2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of 512 365 217 and that the municipality's total liabilities exceed its assets by 512 365 217.

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

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

## 3. Subsequent events

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

## 4. Accounting Officer

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

| Name | Nationality | Changes |
|---|---|---|
| Mr H T Hlazo | South African | Appointed 20 August 2018 |
| Mr B Mase | South African | Secondment withdrawn on 17 August 2018 |

## 5. Interest in controlled entities

| Name of controlled entity | Country of incorporation | Percentage |
|---|---|---|
| Port St Johns Development Agency | South African | 100 |

## 6. Bankers

The municipality banks with Standard Bank.

## 7. Auditors

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

# Statement of Financial Position as at 30 June 2019

| | | Economic entity | | Controlling entity | |
|---|---|---|---|---|---|
| | Notes | 2019 | 2018 Restated* | 2019 | 2018 Restated* |
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Inventories | 3 | 733 097 | 1 587 716 | 733 097 | 1 587 716 |
| Receivables from exchange transactions | 4 | 6 457 265 | 733 400 | 6 434 195 | 733 400 |
| Receivables from non-exchange transactions | 5&8 | 4 962 808 | 6 281 010 | 4 962 808 | 6 281 010 |
| VAT receivable | 6 | 16 497 672 | 4 264 590 | 16 497 672 | 4 264 590 |
| Consumer debtors | 7 | 1 274 183 | 819 721 | 1 274 183 | 819 721 |
| Cash and cash equivalents | 9 | 57 308 528 | 57 908 801 | 57 055 088 | 57 804 801 |
| | | **87 233 553** | **71 595 238** | **86 957 043** | **71 491 238** |
| **Non-Current Assets** | | | | | |
| Investment property | 10 | 11 461 003 | 11 461 003 | 11 461 003 | 11 461 003 |
| Property, plant and equipment | 11 | 464 846 419 | 411 573 361 | 464 402 328 | 411 101 889 |
| | | **476 307 422** | **423 034 364** | **475 863 331** | **422 562 892** |
| **Total Assets** | | **563 540 975** | **494 629 602** | **562 820 374** | **494 054 130** |
| **Liabilities** | | | | | |
| **Current Liabilities** | | | | | |
| Finance lease obligation | 12 | 377 500 | 319 155 | 343 906 | 226 102 |
| Payables from exchange transactions | 13 | 31 390 447 | 21 862 724 | 29 597 523 | 20 036 983 |
| VAT payable | 14 | 4 510 006 | 4 673 978 | - | - |
| Consumer deposits | 15 | 61 000 | 61 000 | 61 000 | 61 000 |
| Employee benefit obligation | 16 | 403 759 | 244 793 | 403 759 | 244 793 |
| Unspent conditional grants and receipts | 17 | 4 203 304 | 11 272 001 | 1 951 670 | 9 020 367 |
| Provisions | 19 | 6 152 935 | 5 583 430 | - | - |
| | | **47 098 951** | **44 017 081** | **32 357 858** | **29 589 245** |
| **Non-Current Liabilities** | | | | | |
| Finance lease obligation | 12 | 31 757 | 262 732 | 31 757 | 228 001 |
| Operating lease liability | 18 | 2 349 705 | 1 917 574 | 2 349 705 | 1 917 574 |
| Employee benefit obligation | 16 | 3 624 453 | 2 631 390 | 3 624 453 | 2 631 390 |
| Provisions | 19 | 12 091 384 | 11 644 361 | 12 091 384 | 11 644 361 |
| | | **18 097 299** | **16 456 057** | **18 097 299** | **16 421 326** |
| **Total Liabilities** | | **65 196 250** | **60 473 138** | **50 455 157** | **46 010 571** |
| **Net Assets** | | **498 344 725** | **434 156 464** | **512 365 217** | **448 043 559** |
| Accumulated surplus | | 498 344 725 | 434 156 464 | 512 365 217 | 448 043 559 |

* See Note 52

## Statement of Financial Performance

| | Notes | Economic entity 2019 | Economic entity 2018 Restated* | Controlling entity 2019 | Controlling entity 2018 Restated* |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| **Revenue from exchange transactions** | | | | | |
| Service charges | 20 | 1 021 941 | 862 744 | 1 021 941 | 862 744 |
| Rental of facilities and equipment | 21 | 12 635 | 20 821 | 12 635 | 20 821 |
| Investment revenue (trading) | | 3 654 008 | 2 023 702 | 3 654 008 | 2 023 702 |
| Licences and permits | 22 | 30 966 | 46 537 | 30 966 | 46 537 |
| Other income | 23 | 2 623 942 | 733 973 | 2 502 836 | 733 973 |
| Investment revenue - investment | 24 | 5 619 535 | 3 691 816 | 5 619 535 | 3 691 816 |
| Gain on disposal of assets and liabilities | | - | 57 796 | - | 57 796 |
| Fair value adjustments | | 101 486 | 105 886 | - | - |
| **Total revenue from exchange transactions** | | **13 064 513** | **7 543 275** | **12 841 921** | **7 437 389** |
| **Revenue from non-exchange transactions** | | | | | |
| **Taxation revenue** | | | | | |
| Property rates | 25 | 9 092 763 | 8 754 396 | 9 092 763 | 8 754 396 |
| **Transfer revenue** | | | | | |
| Government grants & subsidies | 26 | 236 140 082 | 179 796 653 | 236 140 082 | 179 796 653 |
| Fines, Penalties and Forfeits | 27 | 252 423 | 355 650 | 252 423 | 355 650 |
| **Total revenue from non-exchange transactions** | | **245 485 268** | **188 906 699** | **245 485 268** | **188 906 699** |
| **Total revenue** | | **258 549 781** | **196 449 974** | **258 327 189** | **196 344 088** |
| **Expenditure** | | | | | |
| Employee related costs | 28 | (71 155 764) | (71 013 504) | (65 887 364) | (66 192 268) |
| Remuneration of councillors | 29 | (13 436 340) | (14 266 170) | (13 120 696) | (14 020 264) |
| Depreciation and amortisation | 30 | (34 333 771) | (31 301 661) | (34 142 139) | (31 116 335) |
| Finance costs | 31 | (2 097 632) | (1 688 690) | (1 448 544) | (1 157 789) |
| Lease rentals on operating lease | 32 | (2 359 414) | (1 125 929) | (2 273 814) | (1 049 821) |
| Debt Impairment | 33 | (4 396 859) | (7 205 329) | (4 396 859) | (7 205 329) |
| Contracted services | 34 | (5 752 250) | (5 548 483) | (5 752 250) | (5 548 483) |
| Transfers and Subsidies | 35 | - | - | (10 363 478) | (7 322 273) |
| Loss on disposal of assets and liabilities | | (383 214) | - | (383 207) | - |
| Actuarial losses | | (662 002) | (286 105) | (662 002) | (286 105) |
| Inventories losses/write-downs | | (1 042 305) | (24 796) | (1 042 305) | (24 796) |
| General Expenses | 36 | (56 940 604) | (44 756 571) | (52 731 505) | (42 813 542) |
| **Total expenditure** | | **(192 560 155)** | **(177 217 238)** | **(192 204 163)** | **(176 737 005)** |
| **Surplus for the year** | | **65 989 626** | **19 232 736** | **66 123 026** | **19 607 083** |

* See Note 52

# Statement of Changes in Net Assets

| | Accumulated surplus | Total net assets |
|---|---|---|
| **Economic entity** | | |
| Opening balance as previously reported | 420 894 152 | 420 894 152 |
| Adjustments | | |
| Prior year adjustments | (5 970 424) | (5 970 424) |
| **Balance at 01 July 2017 as restated*** | **414 923 728** | **414 923 728** |
| Changes in net assets | | |
| Surplus for the year | 19 232 736 | 19 232 736 |
| Total changes | 19 232 736 | 19 232 736 |
| Opening balance as previously reported | 434 156 467 | 434 156 467 |
| Adjustments | | |
| Prior year adjustments | (1 801 368) | (1 801 368) |
| **Restated* Balance at 01 July 2018 as restated*** | **432 355 099** | **432 355 099** |
| Changes in net assets | | |
| Surplus for the year | 65 989 626 | 65 989 626 |
| Total changes | 65 989 626 | 65 989 626 |
| **Balance at 30 June 2019** | **498 344 725** | **498 344 725** |
| | | |
| **Controlling entity** | | |
| Opening balance as previously reported | 434 295 774 | 434 295 774 |
| Adjustments | | |
| Prior year adjustments | (5 859 298) | (5 859 298) |
| **Balance at 01 July 2017 as restated*** | **428 436 476** | **428 436 476** |
| Changes in net assets | | |
| Surplus for the year | 19 607 083 | 19 607 083 |
| Total changes | 19 607 083 | 19 607 083 |
| Opening balance as previously reported | 448 043 559 | 448 043 559 |
| Adjustments | | |
| Prior year adjustments | (1 801 368) | (1 801 368) |
| **Restated* Balance at 01 July 2018 as restated*** | **446 242 191** | **446 242 191** |
| Changes in net assets | | |
| Surplus for the year | 66 123 026 | 66 123 026 |
| Total changes | 66 123 026 | 66 123 026 |
| **Balance at 30 June 2019** | **512 365 217** | **512 365 217** |

* See Note 52

## Cash Flow Statement

| | Notes | Economic entity 2019 | Economic entity 2018 Restated* | Controlling entity 2019 | Controlling entity 2018 Restated* |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| **Receipts** | | | | | |
| License and permits | | 30 966 | 46 537 | 30 966 | 46 537 |
| Grants | | 229 071 385 | 188 699 895 | 229 071 385 | 188 699 895 |
| Interest income | | 5 251 460 | 3 691 816 | 5 251 460 | 3 691 816 |
| Trafic fines | | 37 900 | 77 200 | 37 900 | 77 200 |
| VAT refunds | | 5 636 482 | 10 154 511 | 5 636 482 | 10 154 511 |
| Receipts from consumers (rates and refuse) | | 4 602 701 | 3 267 356 | 4 602 701 | 3 267 356 |
| Other receipts | | 2 170 950 | 944 452 | 2 049 844 | 944 452 |
| | | 246 801 844 | 206 881 767 | 246 680 738 | 206 881 767 |
| **Payments** | | | | | |
| Employee costs | | (70 490 707) | (69 947 331) | (65 176 771) | (65 136 609) |
| Remuneration of councillors and directors | | (13 436 339) | (14 266 169) | (13 120 696) | (14 020 264) |
| Suppliers | | (74 840 417) | (66 803 179) | (70 383 741) | (64 385 816) |
| Finance costs | | (568 063) | (428 090) | (484 941) | (240 722) |
| Grants and subsides paid | | - | - | (10 363 478) | (7 322 273) |
| | | (159 335 526) | (151 444 769) | (159 529 627) | (151 105 684) |
| **Net cash flows from operating activities** | 39 | **87 466 318** | **55 436 998** | **87 151 111** | **55 776 083** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 11 | (87 633 028) | (47 612 606) | (87 570 256) | (47 471 001) |
| Proceeds from sale of property, plant and equipment | 11 | - | 620 251 | - | 620 251 |
| **Net cash flows from investing activities** | | **(87 633 028)** | **(46 992 355)** | **(87 570 256)** | **(46 850 750)** |
| **Cash flows from financing activities** | | | | | |
| Finance lease payments | | (433 563) | (138 134) | (330 568) | (34 163) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(600 273)** | **8 306 509** | **(749 713)** | **8 891 170** |
| Cash and cash equivalents at the beginning of the year | | 57 908 801 | 49 602 292 | 57 804 801 | 48 913 631 |
| **Cash and cash equivalents at the end of the year** | 9 | **57 308 528** | **57 908 801** | **57 055 088** | **57 804 801** |

* See Note 52

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Economic entity** | | | | | | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 1 000 000 | - | **1 000 000** | 1 021 941 | **21 941** | |
| Rental of facilities and equipment | 550 000 | (500 000) | **50 000** | 12 635 | **(37 365)** | |
| Interest received (trading) | 1 051 998 | (575 665) | **476 333** | 3 654 008 | **3 177 675** | **[A1]** |
| Licences and permits | 100 000 | (30 000) | **70 000** | 30 966 | **(39 034)** | |
| Other income | 19 785 838 | 7 434 | **19 793 272** | 2 623 942 | **(17 169 330)** | **[A2]** |
| Interest received - investment | 2 000 000 | 2 000 000 | **4 000 000** | 5 619 535 | **1 619 535** | **[A3]** |
| **Total revenue from exchange transactions** | **24 487 836** | **901 769** | **25 389 605** | **12 963 027** | **(12 426 578)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | **6 416 000** | 9 092 763 | **2 676 763** | **[A4]** |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 226 394 000 | 3 000 000 | **229 394 000** | 236 140 082 | **6 746 082** | **[A5]** |
| Fines, Penalties and Forfeits | 210 400 | - | **210 400** | 252 423 | **42 023** | |
| **Total revenue from non-exchange transactions** | **235 020 400** | **1 000 000** | **236 020 400** | **245 485 268** | **9 464 868** | |
| **Total revenue** | **259 508 236** | **1 901 769** | **261 410 005** | **258 448 295** | **(2 961 710)** | |
| **Expenditure** | | | | | | |
| Personnel | (76 655 175) | (453 528) | **(77 108 703)** | (71 155 764) | **5 952 939** | **[A6]** |
| Remuneration of councillors | (13 647 433) | (831 236) | **(14 478 669)** | (13 436 340) | **1 042 329** | **[A7]** |
| Depreciation and amortisation | (41 887 800) | (1 198 222) | **(43 086 022)** | (34 333 771) | **8 752 251** | **[A8]** |
| Finance costs | (380 300) | - | **(380 300)** | (2 097 632) | **(1 717 332)** | |
| Lease rentals on operating lease | (80 000) | - | **(80 000)** | (2 359 414) | **(2 279 414)** | **[A10]** |
| Debt Impairment | (12 624 000) | - | **(12 624 000)** | (4 396 859) | **8 227 141** | **[A9]** |
| Contracted Services | (12 790 440) | 2 689 700 | **(10 100 740)** | (5 752 250) | **4 348 490** | **[A10]** |
| General Expenses | (63 741 117) | (1 980 237) | **(65 721 354)** | (56 940 604) | **8 780 750** | **[A10]** |
| **Total expenditure** | **(221 806 265)** | **(1 773 523)** | **(223 579 788)** | **(190 472 634)** | **33 107 154** | |
| **Operating surplus** | **37 701 971** | **128 246** | **37 830 217** | **67 975 661** | **30 145 444** | |
| Loss on disposal of assets and liabilities | (64) | 70 000 | **69 936** | (383 214) | **(453 150)** | |
| Fair value adjustments | - | - | **-** | 101 486 | **101 486** | |
| Actuarial gains/losses | - | - | **-** | (662 002) | **(662 002)** | |
| Inventories losses/write-downs | - | - | **-** | (1 042 305) | **(1 042 305)** | |
| | **(64)** | **70 000** | **69 936** | **(1 986 035)** | **(2 055 971)** | |
| **Surplus before taxation** | **37 701 907** | **198 246** | **37 900 153** | **65 989 626** | **28 089 473** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **37 701 907** | **198 246** | **37 900 153** | **65 989 626** | **28 089 473** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 1 625 449 | - | **1 625 449** | 733 097 | **(892 352)** | |
| Receivables from exchange transactions | - | - | **-** | 6 434 195 | **6 434 195** | **[B1]** |
| Receivables from non-exchange transactions | 15 006 297 | - | **15 006 297** | 4 962 808 | **(10 043 489)** | **[B2]** |
| VAT receivable | - | - | **-** | 16 497 672 | **16 497 672** | **[B3]** |
| Consumer debtors | 1 319 107 | - | **1 319 107** | 1 274 183 | **(44 924)** | |
| Cash and cash equivalents | 122 095 086 | - | **122 095 086** | 57 055 088 | **(65 039 998)** | **[B4]** |
| | **140 045 939** | **-** | **140 045 939** | **86 957 043** | **(53 088 896)** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 12 780 393 | - | **12 780 393** | 11 461 003 | **(1 319 390)** | **[B5]** |
| Property, plant and equipment | 397 129 783 | - | **397 129 783** | 464 402 328 | **67 272 545** | **[B5]** |
| | **409 910 176** | **-** | **409 910 176** | **475 863 331** | **65 953 155** | |
| **Total Assets** | **549 956 115** | **-** | **549 956 115** | **562 820 374** | **12 864 259** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | 11 572 000 | - | **11 572 000** | 343 906 | **(11 228 094)** | **[B6]** |
| Payables from exchange transactions | 26 300 000 | - | **26 300 000** | 29 597 520 | **3 297 520** | **[B6]** |
| Consumer deposits | 157 800 | - | **157 800** | 61 000 | **(96 800)** | |
| Employee benefit obligation | - | - | **-** | 403 759 | **403 759** | |
| Unspent conditional grants and receipts | - | - | **-** | 1 951 670 | **1 951 670** | **[B7]** |
| Provisions | 4 734 000 | - | **4 734 000** | - | **(4 734 000)** | **[B10]** |
| | **42 763 800** | **-** | **42 763 800** | **32 357 855** | **(10 405 945)** | |
| **Non-Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 31 757 | **31 757** | |
| Operating lease liability | 2 104 000 | - | **2 104 000** | 2 349 705 | **245 705** | **[B8]** |
| Employee benefit obligation | - | - | **-** | 3 624 453 | **3 624 453** | **[B9]** |
| Provisions | 7 364 000 | - | **7 364 000** | 12 091 384 | **4 727 384** | **[B10]** |
| | **9 468 000** | **-** | **9 468 000** | **18 097 299** | **8 629 299** | |
| **Total Liabilities** | **52 231 800** | **-** | **52 231 800** | **50 455 154** | **(1 776 646)** | |
| **Net Assets** | **497 724 315** | **-** | **497 724 315** | **512 365 220** | **14 640 905** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 497 724 315 | - | **497 724 315** | 512 365 220 | **14 640 905** | |

# Port St Johns Local Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | **6 416 000** | 4 602 701 | **(1 813 299)** | |
| Service charges | 1 000 000 | - | **1 000 000** | - | **(1 000 000)** | |
| Grants | 226 394 000 | 3 000 000 | **229 394 000** | 229 071 385 | **(322 615)** | |
| Interest income | 3 051 998 | 1 424 335 | **4 476 333** | 5 251 460 | **775 127** | |
| Other revenue | 20 646 238 | (452 566) | **20 193 672** | 7 876 298 | **(12 317 374)** | |
| | **259 508 236** | **1 971 769** | **261 480 005** | **246 801 844** | **(14 678 161)** | |
| **Payments** | | | | | | |
| Suppliers and employees | (166 914 165) | (673 579) | **(167 587 744)** | (158 767 463) | **8 820 281** | |
| Finance costs | (380 300) | - | **(380 300)** | (568 063) | **(187 763)** | |
| | **(167 294 465)** | **(673 579)** | **(167 968 044)** | **(159 335 526)** | **8 632 518** | |
| **Net cash flows from operating activities** | **92 213 771** | **1 298 190** | **93 511 961** | **87 466 318** | **(6 045 643)** | **[C1]** |
| Purchase of property, plant and equipment | (83 516 800) | - | **(83 516 800)** | (87 633 028) | **(4 116 228)** | **[C2]** |
| **Cash flows from financing activities** | | | | | | |
| Finance lease payments | - | - | **-** | (433 563) | **(433 563)** | |
| Net increase/(decrease) in cash and cash equivalents | 8 696 971 | 1 298 190 | **9 995 161** | (600 273) | **(10 595 434)** | |
| Cash and cash equivalents at the beginning of the year | 50 000 000 | - | **50 000 000** | 57 908 801 | **7 908 801** | |
| **Cash and cash equivalents at the end of the year** | **58 696 971** | **1 298 190** | **59 995 161** | **57 308 528** | **(2 686 633)** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Controlling entity** | | | | | | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 1 000 000 | - | **1 000 000** | 1 021 941 | **21 941** | |
| Rental of facilities and equipment | 550 000 | (500 000) | **50 000** | 12 635 | **(37 365)** | |
| Interest received (trading) | 1 051 998 | (575 665) | **476 333** | 3 654 008 | **3 177 675** | **[A1]** |
| Licences and permits | 100 000 | (30 000) | **70 000** | 30 966 | **(39 034)** | |
| Other income | 19 630 838 | 7 434 | **19 638 272** | 2 502 836 | **(17 135 436)** | **[A2]** |
| Interest received - investment | 2 000 000 | 2 000 000 | **4 000 000** | 5 619 535 | **1 619 535** | **[A3]** |
| **Total revenue from exchange transactions** | **24 332 836** | **901 769** | **25 234 605** | **12 841 921** | **(12 392 684)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | **6 416 000** | 9 092 763 | **2 676 763** | **[A4]** |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 226 394 000 | 3 000 000 | **229 394 000** | 236 140 082 | **6 746 082** | **[A5]** |
| Fines, Penalties and Forfeits | 210 400 | - | **210 400** | 252 423 | **42 023** | |
| **Total revenue from non-exchange transactions** | **235 020 400** | **1 000 000** | **236 020 400** | **245 485 268** | **9 464 868** | |
| **Total revenue** | **259 353 236** | **1 901 769** | **261 255 005** | **258 327 189** | **(2 927 816)** | |
| **Expenditure** | | | | | | |
| Personnel | (71 166 456) | - | **(71 166 456)** | (65 887 364) | **5 279 092** | **[A6]** |
| Remuneration of councillors | (13 297 433) | (831 236) | **(14 128 669)** | (13 120 696) | **1 007 973** | **[A7]** |
| Depreciation and amortisation | (41 711 800) | (1 198 222) | **(42 910 022)** | (34 142 139) | **8 767 883** | **[A8]** |
| Finance costs | (368 200) | - | **(368 200)** | (1 448 544) | **(1 080 344)** | |
| Lease rentals on operating lease | - | - | **-** | (2 273 814) | **(2 273 814)** | **[A10]** |
| Debt Impairment | (6 312 000) | - | **(6 312 000)** | (4 396 859) | **1 915 141** | **[A9]** |
| Contracted Services | (12 790 440) | 2 689 700 | **(10 100 740)** | (5 752 250) | **4 348 490** | **[A10]** |
| Transfers and Subsidies | (8 468 600) | (3 000 000) | **(11 468 600)** | (10 363 478) | **1 105 122** | **[A5]** |
| General Expenses | (61 915 696) | 2 339 763 | **(59 575 933)** | (52 731 505) | **6 844 428** | **[A10]** |
| **Total expenditure** | **(216 030 625)** | **5** | **(216 030 620)** | **(190 116 649)** | **25 913 971** | |
| **Operating surplus** | **43 322 611** | **1 901 774** | **45 224 385** | **68 210 540** | **22 986 155** | |
| Loss on disposal of assets and liabilities | - | 70 000 | **70 000** | (383 207) | **(453 207)** | |
| Actuarial gains/losses | - | - | **-** | (662 002) | **(662 002)** | |
| Inventories losses/write-downs | - | - | **-** | (1 042 305) | **(1 042 305)** | |
| | **-** | **70 000** | **70 000** | **(2 087 514)** | **(2 157 514)** | |
| **Surplus before taxation** | **43 322 611** | **1 971 774** | **45 294 385** | **66 123 026** | **20 828 641** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **43 322 611** | **1 971 774** | **45 294 385** | **66 123 026** | **20 828 641** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 1 625 449 | - | **1 625 449** | 733 097 | **(892 352)** | |
| Receivables from exchange transactions | - | - | **-** | 6 434 195 | **6 434 195** | **[B1]** |
| Receivables from non-exchange transactions | 15 006 297 | - | **15 006 297** | 4 962 808 | **(10 043 489)** | **[B2]** |
| VAT receivable | - | - | **-** | 16 497 672 | **16 497 672** | **[B3]** |
| Consumer debtors | 1 319 107 | - | **1 319 107** | 1 274 183 | **(44 924)** | |
| Cash and cash equivalents | 122 095 086 | - | **122 095 086** | 57 055 088 | **(65 039 998)** | **[B4]** |
| | **140 045 939** | **-** | **140 045 939** | **86 957 043** | **(53 088 896)** | |
| **Non-Current Assets** | | | | | | |
| Investment property | 12 780 393 | - | **12 780 393** | 11 461 003 | **(1 319 390)** | **[B5]** |
| Property, plant and equipment | 397 129 783 | - | **397 129 783** | 464 402 328 | **67 272 545** | **[B5]** |
| | **409 910 176** | **-** | **409 910 176** | **475 863 331** | **65 953 155** | |
| **Total Assets** | **549 956 115** | **-** | **549 956 115** | **562 820 374** | **12 864 259** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | 11 572 000 | - | **11 572 000** | 343 906 | **(11 228 094)** | **[B6]** |
| Payables from exchange transactions | 26 300 000 | - | **26 300 000** | 29 597 520 | **3 297 520** | **[B6]** |
| Consumer deposits | 157 800 | - | **157 800** | 61 000 | **(96 800)** | |
| Employee benefit obligation | - | - | **-** | 403 759 | **403 759** | |
| Unspent conditional grants and receipts | - | - | **-** | 1 951 670 | **1 951 670** | **[B7]** |
| Provisions | 4 734 000 | - | **4 734 000** | - | **(4 734 000)** | **[B10]** |
| | **42 763 800** | **-** | **42 763 800** | **32 357 855** | **(10 405 945)** | |
| **Non-Current Liabilities** | | | | | | |
| Finance lease obligation | - | - | **-** | 31 757 | **31 757** | |
| Operating lease liability | 2 104 000 | - | **2 104 000** | 2 349 705 | **245 705** | **[B8]** |
| Employee benefit obligation | - | - | **-** | 3 624 453 | **3 624 453** | **[B9]** |
| Provisions | 7 364 000 | - | **7 364 000** | 12 091 384 | **4 727 384** | **[B10]** |
| | **9 468 000** | **-** | **9 468 000** | **18 097 299** | **8 629 299** | |
| **Total Liabilities** | **52 231 800** | **-** | **52 231 800** | **50 455 154** | **(1 776 646)** | |
| **Net Assets** | **497 724 315** | **-** | **497 724 315** | **512 365 220** | **14 640 905** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 497 724 315 | - | **497 724 315** | 512 365 220 | **14 640 905** | |

# Statement of Comparison of Budget and Actual Amounts

**Budget on Accrual Basis**

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | **6 416 000** | 4 602 701 | **(1 813 299)** | |
| Service charges | 1 000 000 | - | **1 000 000** | - | **(1 000 000)** | |
| Other revenue | 20 491 238 | (452 566) | **20 038 672** | 7 755 192 | **(12 283 480)** | |
| Grants | 226 394 000 | 3 000 000 | **229 394 000** | 229 071 385 | **(322 615)** | |
| Interest income | 3 051 998 | 1 424 335 | **4 476 333** | 4 942 637 | **466 304** | |
| | **259 353 236** | **1 971 769** | **261 325 005** | **246 371 915** | **(14 953 090)** | |
| **Payments** | | | | | | |
| Suppliers and employees | (159 170 025) | 4 099 949 | **(155 070 076)** | (148 622 770) | **6 447 306** | |
| Finance costs | (368 200) | - | **(368 200)** | (484 941) | **(116 741)** | |
| Grants and subsidies paid | (8 468 600) | (3 000 000) | **(11 468 600)** | (10 363 478) | **1 105 122** | |
| | **(168 006 825)** | **1 099 949** | **(166 906 876)** | **(159 471 189)** | **7 435 687** | |
| **Net cash flows from operating activities** | **91 346 411** | **3 071 718** | **94 418 129** | **86 900 726** | **(7 517 403)** | **[C1]** |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (83 420 000) | - | **(83 420 000)** | (87 570 256) | **(4 150 256)** | **[C2]** |
| **Cash flows from financing activities** | | | | | | |
| Finance lease payments | - | - | **-** | (330 568) | **(330 568)** | |
| Net increase/(decrease) in cash and cash equivalents | 7 926 411 | 3 071 718 | **10 998 129** | (1 000 098) | **(11 998 227)** | |
| Cash and cash equivalents at the beginning of the year | 50 000 000 | 48 250 311 | **98 250 311** | 57 804 801 | **(40 445 510)** | |
| **Cash and cash equivalents at the end of the year** | **57 926 411** | **51 322 029** | **109 248 440** | **56 804 703** | **(52 443 737)** | |

## Appropriation Statement

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Economic entity - 2019** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | 6 416 000 | - | | 6 416 000 | 9 092 763 | | 2 676 763 | 142 % | 108 % |
| Service charges | 1 000 000 | - | 1 000 000 | - | | 1 000 000 | 1 021 941 | | 21 941 | 102 % | 102 % |
| Investment revenue | 3 051 998 | 1 424 335 | 4 476 333 | - | | 4 476 333 | 5 619 535 | | 1 143 202 | 126 % | 184 % |
| Transfers recognised - operational | 142 974 000 | 3 000 000 | 145 974 000 | - | | 145 974 000 | 142 815 384 | | (3 158 616) | 98 % | 100 % |
| Other own revenue | 20 646 238 | (522 566) | 20 123 672 | - | | 20 123 672 | 6 675 460 | | (13 448 212) | 33 % | 32 % |
| **Total revenue (excluding capital transfers and contributions)** | **176 088 236** | **1 901 769** | **177 990 005** | **-** | | **177 990 005** | **165 225 083** | | **(12 764 922)** | **93 %** | **94 %** |
| Employee costs | (76 655 175) | - | (76 655 175) | - | - | (76 655 175) | (71 155 764) | - | 5 499 411 | 93 % | 93 % |
| Remuneration of councillors | (13 647 433) | (831 236) | (14 478 669) | - | - | (14 478 669) | (13 436 340) | - | 1 042 329 | 93 % | 98 % |
| Debt impairment | (6 312 000) | - | (6 312 000) | | | (6 312 000) | (4 396 859) | - | 1 915 141 | 70 % | 70 % |
| Depreciation and asset impairment | (41 887 800) | (1 198 222) | (43 086 022) | | | (43 086 022) | (34 333 771) | - | 8 752 251 | 80 % | 82 % |
| Finance charges | (380 300) | - | (380 300) | - | - | (380 300) | (2 097 632) | - | (1 717 332) | 552 % | 552 % |
| Other expenditure | (76 611 557) | 709 463 | (75 902 094) | - | - | (75 902 094) | (67 139 789) | - | 8 762 305 | 88 % | 88 % |
| **Total expenditure** | **(215 494 265)** | **(1 319 995)** | **(216 814 260)** | **-** | **-** | **(216 814 260)** | **(192 560 155)** | **-** | **24 254 105** | **89 %** | **89 %** |
| **Surplus/(Deficit)** | **(39 406 029)** | **581 774** | **(38 824 255)** | **-** | | **(38 824 255)** | **(27 335 072)** | | **11 489 183** | **70 %** | **70 %** |

## Appropriation Statement

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 83 516 800 | - | 83 516 800 | - | | 83 516 800 | 93 324 698 | | 9 807 898 | 112 % | 112 % |
| **Surplus (Deficit) after capital transfers and contributions** | **44 110 771** | **581 774** | **44 692 545** | **-** | | **44 692 545** | **65 989 626** | | **21 297 081** | **148 %** | **150 %** |
| **Surplus/(Deficit) for the year** | **44 110 771** | **581 774** | **44 692 545** | **-** | | **44 692 545** | **65 989 626** | | **21 297 081** | **148 %** | **150 %** |

# Appropriation Statement

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Controlling entity - 2019** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Property rates | 8 416 000 | (2 000 000) | 6 416 000 | - | | 6 416 000 | 9 092 763 | | 2 676 763 | 142 % | 108 % |
| Service charges | 1 000 000 | - | 1 000 000 | - | | 1 000 000 | 1 021 941 | | 21 941 | 102 % | 102 % |
| Investment revenue | 3 051 998 | 1 424 335 | 4 476 333 | - | | 4 476 333 | 5 619 535 | | 1 143 202 | 126 % | 184 % |
| Transfers recognised - operational | 142 974 000 | 3 000 000 | 145 974 000 | - | | 145 974 000 | 142 815 384 | | (3 158 616) | 98 % | 100 % |
| Other own revenue | 20 515 005 | (1 028 231) | 19 486 774 | - | | 19 486 774 | 6 452 868 | | (13 033 906) | 33 % | 31 % |
| **Total revenue (excluding capital transfers and contributions)** | **175 957 003** | **1 396 104** | **177 353 107** | **-** | | **177 353 107** | **165 002 491** | | **(12 350 616)** | **93 %** | **94 %** |
| Employee costs | (71 166 456) | - | (71 166 456) | - | - | (71 166 456) | (65 887 364) | - | 5 279 092 | 93 % | 93 % |
| Remuneration of councillors | (13 297 433) | (831 236) | (14 128 669) | - | - | (14 128 669) | (13 120 696) | - | 1 007 973 | 93 % | 99 % |
| Debt impairment | (6 312 000) | - | (6 312 000) | | | (6 312 000) | (4 396 859) | - | 1 915 141 | 70 % | 70 % |
| Depreciation and asset impairment | (41 711 800) | (1 198 222) | (42 910 022) | | | (42 910 022) | (34 142 139) | - | 8 767 883 | 80 % | 82 % |
| Finance charges | (368 200) | - | (368 200) | - | - | (368 200) | (1 448 544) | - | (1 080 344) | 393 % | 393 % |
| Transfers and grants | (8 468 600) | (3 000 000) | (11 468 600) | - | - | (11 468 600) | (10 363 478) | - | 1 105 122 | 90 % | 122 % |
| Other expenditure | (169 703 871) | (1 452 999) | (171 156 870) | - | - | (171 156 870) | (62 845 083) | - | 108 311 787 | 37 % | 37 % |
| **Total expenditure** | **(311 028 360)** | **(6 482 457)** | **(317 510 817)** | **-** | **-** | **(317 510 817)** | **(192 204 163)** | **-** | **125 306 654** | **61 %** | **62 %** |
| **Surplus/(Deficit)** | **(135 071 357)** | **(5 086 353)** | **(140 157 710)** | **-** | | **(140 157 710)** | **(27 201 672)** | | **112 956 038** | **19 %** | **20 %** |

# Appropriation Statement

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 83 420 000 | - | 83 420 000 | - | | 83 420 000 | 93 324 698 | | 9 904 698 | 112 % | 112 % |
| **Surplus (Deficit) after capital transfers and contributions** | **(51 651 357)** | **(5 086 353)** | **(56 737 710)** | **-** | | **(56 737 710)** | **66 123 026** | | **122 860 736** | **(117)%** | **(128)%** |
| **Surplus/(Deficit) for the year** | **(51 651 357)** | **(5 086 353)** | **(56 737 710)** | **-** | | **(56 737 710)** | **66 123 026** | | **122 860 736** | **(117)%** | **(128)%** |

# Appropriation Statement

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|---|---|---|---|

**Budget differences**

**Material differences between budget and actual amounts**

The variances between budget and actual are explained below:

**[A] Statement of financial performance**

**[A1]** Interest received from debtors was more than budgeted due to continued deterioration in the collections from debtors.

**[A2]** The levels of operations of the municipality was lower than planned due to instability in the first half of the financial year. This resulted in other income being much lower than budgeted.

**[A3]** Interest received from unutilised funds in call accounts was more than budgeted due to increase in cash in those accounts. This was due to decrease in the operations of the municipality due to strike actions.

**[A4]** Property rates revenue increased during the year due to the undertaking made by the municipality to bill all the rate payers on the valuation roll. The discounts offered by the municipality were also lower in the current year.

**[A5]** The government grants received were less than budgeted. These consist of operational and capital grants. Out of these the Municipality also transferred over some Grants to Port St Johns Development Agency amounting to R10m.

**[A6]** Actual employee costs were less than budgeted due to vacancies at the municipality and employees leaving the municipality. Some of senior managers positions remained vacant for the greater part of the financial year. These are the root causes of the actual expenditure being less than the budgeted.

**[A7]** The remuneration of councilors was lower than budgeted.

**[A8]** Depreciation of property, plant and equipment is in line with the assets of the municipality. Much of the infrastructure assets budgeted for are still under construction and therefore depreciation is less than budgeted since those assets cannot be depreciated until they are completed.

**[A9]** The impairment was based on the collection rates from customers, but the actual amount was lower than budgeted since the collection improved due to engagement of debt collectors.

**[A10]** The operating expenditure was largely lower than budgets due to reduced operations following strike action and adherence to cost cutting measures implemented by the municipality.

**[B] Statement of financial position**

**[B1]** The receivables from exchange were higher than budgeted due to a deposit of R6m made by the municipality towards the end of the year for the purchase of land to build municipal offices.

**[B2]** Consumer debtors were less than budgeted due to increased collections.

**[B3]** VAT receivable increased due to the fact that no VAT returns were submitted to SARS from October 2018, so the receivable was increasing monthly.

**[B4]** The cash at year end is less than anticipated even though the collection increased, the grants received was less than budgeted.

**[B5]** The property, plant and equipment increased beyond budgeted due to increase in assets under construction.

**[B6]** The financial leases are less than budgeted due to the leases being almost paid over. The payables are more in line with budget amount.

## Appropriation Statement

| | Reported unauthorised expenditure | Expenditure authorised in terms of section 32 of MFMA | Balance to be recovered | Restated audited outcome |
|---|---|---|---|---|

**[B7]** Unspent conditional grants are due to projects that were commissioned towards year end and therefore the money could not be spent in full before year end.

**[B8]** Operating lease liability in line with budgeted amounts.

**[B9]** The employee benefit obligation is the liability for employees' long service awards. This increased beyond the budgeted amounts due to increase in qualifying employees and higher than anticipated salary increases.

**[B10]** The provisions in landfill restoration increased beyond budgeted amounts due to an increase in the estimated costs of rehabilitation of late as well as change in valuation method.

**[C] Cash Flow statement**

**[C1]** Cash flow from operating activities is more than budgeted due to increase in collections from customers, and cost savings on suppliers and employees.

**[C2]** Cash spend on accruing property, plant and equipment was in line with the budget.

# Accounting Policies

### 1. Presentation of Consolidated Annual Financial Statements

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

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

### 1.2 Going concern assumption

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

### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### 1.4 Consolidation

**Basis of consolidation**

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

The consolidated consolidated annual financial statements incorporate the consolidated annual financial statements of the controlling entity and those of its controlled entitiy (Port St Johns Development Agency).

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

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

**1.4 Consolidation (continued)**

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

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

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

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

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

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

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

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

**Loss of control**

When a controlling entity loses control of a controlled entity, it:

- derecognises the assets and liabilities of the controlled entity at their carrying amounts at the date when control is lost;
- derecognises the carrying amount of any non-controlling interests in the former controlled entity at the date when control is lost (including any components in the statement of financial performance attributable to them);
- recognises:
  - the fair value of the consideration received (if any), from the transaction, event or circumstances that resulted in the loss of control; and
  - if the transaction that resulted in the loss of control involves a distribution of residual interests of the controlled entity to owners in their capacity as owners, that distribution;
- recognises any investment retained in the former controlled entity at its fair value at the date when control is lost;
- reclassifies to surplus or deficit, or transfers directly to accumulated surplus or deficit, if required in accordance with other accounting policies, the amounts identified; and
- recognises any resulting difference as a gain or loss in surplus or deficit (in accordance with the accounting policy on Transfer of functions between entities not under common control or in accordance with the accounting policy on Transfer of functions between entities under common control) attributable to the controlling entity.

On the loss of control of a controlled entity, any investment retained in the former controlled entity and any amounts owed by or to the former controlled entity are accounted for in accordance with other accounting policies from the date when control is lost.

The fair value of any investment retained in the former controlled entity at the date when control is lost is regarded as the fair value on initial recognition of financial assets in accordance with the Standard of GRAP on Financial instruments or when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

# Accounting Policies

### 1.5 Significant judgements and sources of estimation uncertainty

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

**Receivables**

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

The impairment for consumer receivables  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.

**Allowance for slow moving, damaged and obsolete stock**

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

**Impairment testing**

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

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

**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 19 - Provisions.

**Useful lives and residual values of property, plant and equipment**

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

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

**Post-retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

**Effective interest rate**

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

**Allowance for doubtful debts**

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

# Accounting Policies

### 1.6 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 economic entity, 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.

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

| Item | Useful life |
|---|---|
| Property - land | indefinite |
| Property - buildings | 20 - 30 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.

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 nature of the asset;
- The reason(s) why the assets was acquired; and
- The asset's current use.

The economic entity separately discloses expenditure to repair and maintain investment property in the notes to the consolidated annual financial statements (see note 11).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the consolidated annual financial statements (see note 11).

### 1.7 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 economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Property, plant and equipment 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 | Depreciation method | Average useful life |
|---|---|---|
| Land | Non depreciable | Not depreciable |
| Buildings | Straight line | 30 years |
| Plant and machinery | Straight line | 2 - 15 years |
| Furniture and fixtures | Straight line | 7 - 10 years |
| Transport assets | Straight line | 5 - 10 years |
| Office equipment | Straight line | 3 - 7 years |
| IT equipment | Straight line | 3 years |
| Infrastructure | Straight line | 15 - 30 years |
| Community assets | Straight line | 30 years |
| Bins and containers | Straight line | 5 years |

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

| | | |
|---|---|---|
| Cellular equipment | Straight line | 2 years |

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

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the economic entity. 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 economic entity assesses at each reporting date whether there is any indication that the economic entity 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 economic entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

Assets which the economic entity 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.

The economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

### 1.8 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.

# Accounting Policies

### 1.9 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.

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).

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.

**Classification**

The municipality 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 amortised cost |

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

| Class | Category |
|---|---|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Finance lease obligation | Financial liability measured at amortised cost |

**Initial recognition**

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

The municipality recognises financial assets using trade date accounting.

# Accounting Policies

### 1.9 Financial instruments (continued)

**Initial measurement of financial assets and financial liabilities**

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

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

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

# Accounting Policies

### 1.9 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

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

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality 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 economic entity 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.

Short term receivables and payables are not discounted where initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

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

***Financial assets measured at amortised cost:***

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

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

***Financial assets measured at cost:***

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

### 1.9 Financial instruments (continued)

**Derecognition**

**Financial assets**

The municipality derecognises financial assets using trade date accounting.

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 entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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 municipality 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.

### 1.10 Statutory receivables

**Identification**

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

### 1.10 Statutory receivables (continued)

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

**Recognition**

The economic entity recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

**Initial measurement**

The economic entity initially measures statutory receivables at their transaction amount.

**Subsequent measurement**

The economic entity measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

**Accrued interest**

Where the economic entity levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

**Other charges**

Where the economic entity is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

**Impairment losses**

The economic entity assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the economic entity considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

### 1.10 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the economic entity measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an economic entity considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

**Derecognition**

The economic entity derecognises a statutory receivable, or a part thereof, when:

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.11 Leases

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

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

**Finance leases - lessee**

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

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

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

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

### 1.11 Leases (continued)

**Operating leases - lessee**

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

### 1.12 Inventories

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

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

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

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

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

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

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

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

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

### 1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

**1.13 Impairment of cash-generating assets (continued)**

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

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

**Designation**

At initial recognition, the economic entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an economic entity's objective of using the asset.

The economic entity designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the economic entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the economic entity designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

**Identification**

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

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

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

**Value in use**

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

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

**Basis for estimates of future cash flows**

In measuring value in use the economic entity:
- 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.

# Accounting Policies

### 1.13 Impairment of cash-generating assets (continued)

**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 economic entity 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.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity 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.

# Accounting Policies

### 1.13 Impairment of cash-generating assets (continued)

**Cash-generating units**

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

### 1.13 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

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

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

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

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

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

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.

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

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

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

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

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

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

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

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

# Accounting Policies

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

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

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

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

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

**Designation**

At initial recognition, the economic entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an economic entity's objective of using the asset.

The economic entity designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The economic entity designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the economic entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the economic entity designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

**Identification**

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

The economic entity 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 economic entity estimates the recoverable service amount of the asset.

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

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

**Value in use**

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

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

**Depreciated replacement cost approach**

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

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the economic entity 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.

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

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity 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 economic entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

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

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

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.

# Accounting Policies

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

**Redesignation**

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

### 1.15 Employee benefits

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

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

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

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

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

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

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

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

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

### 1.15 Employee benefits (continued)

#### 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 recognises 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 recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

#### Post-employment benefits

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

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

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

### 1.15 Employee benefits (continued)

**Post-employment benefits: Defined contribution plans**

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

### 1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

#### Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.15 Employee benefits (continued)

**Termination benefits**

The municipality 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 municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

### 1.16 Provisions and contingencies

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the economic entity 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 expenses.

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

### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

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

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

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

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

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

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

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

### 1.16 Provisions and contingencies (continued)

**Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in 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 tests 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 1.13 and 1.14.

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. This applies under both the cost model and the revaluation model.

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

### 1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.18 Revenue from exchange transactions

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

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

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

**Measurement**

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

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the economic entity 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 economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 1.18 Revenue from exchange transactions (continued)

**Rendering of services**

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

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

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

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

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

**Interest**

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

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

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

### 1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an 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.

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

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

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

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

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

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

**Recognition**

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

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

**Measurement**

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

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

**Taxes (property rates)**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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

**Transfers**

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

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

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

**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.

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

**Services in-kind**

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

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

**Grants**

Revenue received from conditional grants is recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. A liability is recognised, to the extent that the criteria, conditions or obligations have not been met.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received but the Municipality has not met the condition, a liability is recognised.

Revenue is measured at the fair value of the consideration received or receivable.

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 present 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 will be recognised as revenue.

# Accounting Policies

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

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

### 1.22 Comparative figures

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

### 1.23 Unauthorised expenditure

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

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

### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

### 1.25 Irregular expenditure (continued)

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

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

### 1.26 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and income expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

### 1.27 Budget information

The municipality is 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 economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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

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

The consolidated 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.

Variances numerically greater than R250 000 and 10% of approved budgets are considered material and explanations for those variances are provided in the note to the financial statements.

### 1.28 Related parties

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

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

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

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

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

# Accounting Policies

### 1.28 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity 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 economic entity.

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

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

### 1.29 Events after reporting date

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

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

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

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

### 1.30 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No. 89 of 1991.

### 1.31 Unpaid Conditional Grants and Receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

### 2. New standards and interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

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

**GRAP 12 (as amended 2016): Inventories**

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term “ammunition” in IPSAS 12 was replaced with the term “military inventories” and provides a description of what it comprises in accordance with Government Finance Statistics terminology

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**GRAP 16 (as amended 2016): Investment Property**

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**GRAP 17 (as amended 2016): Property, Plant and Equipment**

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

# Notes to the Consolidated Annual Financial Statements

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

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term “specialist military equipment” in IPSAS 17 was replaced with the term “weapon systems” and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**GRAP 21 (as amended 2016): Impairment of non-cash-generating assets**

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

The most significant changes to the Standard are:

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

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**GRAP 26 (as amended 2016): Impairment of cash-generating assets**

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

The most significant changes to the Standard are:

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

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**GRAP 31 (as amended 2016): Intangible Assets**

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

# Notes to the Consolidated Annual Financial Statements

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

The most significant changes to the Standard are:

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

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

The economic entity has adopted the amendment for the first time in the 2018/2019 consolidated annual financial statements.

The impact of the amendment is not material.

**2.2 Standards and interpretations issued, but not yet effective**

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2019 or later periods:

**GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

The economic entity expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

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

**Guideline: Guideline on Accounting for Landfill Sites**

# Notes to the Consolidated Annual Financial Statements

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

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

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

The economic entity expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

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

**Guideline: Guideline on the Application of Materiality to Financial Statements**

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

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

The economic entity expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

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

**GRAP 1 (amended): Presentation of Financial Statements**

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

**Materiality and aggregation**

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

**Statement of financial position and statement of financial performance**

# Notes to the Consolidated Annual Financial Statements

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

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

**Notes structure**

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

**Disclosure of accounting policies**

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An economic entity applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The economic entity will adopt the interpretation for the first time in the 2020/2021 consolidated annual financial statements.

The adoption of this amendment has not had a material impact on the results of the economic entity, but has resulted in more disclosure than would have previously been provided in the consolidated annual financial statements.

**GRAP 34: Separate Financial Statements**

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

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

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2020/2021 consolidated annual financial statements.

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

**GRAP 35: Consolidated Financial Statements**

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2020/2021 consolidated annual financial statements.

# Notes to the Consolidated Annual Financial Statements

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

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

**GRAP 38: Disclosure of Interests in Other Entities**

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2020/2021 consolidated annual financial statements.

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

**IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue**

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An economic entity applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the interpretation for the first time in the 2020/2021 consolidated annual financial statements.

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

**GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements**

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

# Notes to the Consolidated Annual Financial Statements

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

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The economic entity expects to adopt the amendment for the first time in the 2019/2020 consolidated annual financial statements.

It is unlikely that the amendment will have a material impact on the economic entity's consolidated annual financial statements.

**Directive 7 (revised): The Application of Deemed Cost**

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

The economic entity expects to adopt the directive for the first time in the 2019/2020 consolidated annual financial statements.

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

**GRAP 20: Related parties**

The objective of this standard is to ensure that a reporting entity's consolidated 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 apply this standard in:

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

# Notes to the Consolidated Annual Financial Statements

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

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 consolidated annual financial statements.

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

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

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

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

The standard elaborates on the definitions and identification of:

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

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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

The economic entity expects to adopt the standard for the first time in the 2019/2020 consolidated annual financial statements.

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

**GRAP 108: Statutory Receivables**

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

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

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

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

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

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

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

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

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

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

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

The economic entity expects to adopt the interpretation for the first time in the 2019/2020 consolidated annual financial statements.

It is unlikely that the interpretation will have a material impact on the economic entity's consolidated annual financial statements.

**IGRAP 19: Liabilities to Pay Levies**

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

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

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

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;

# Notes to the Consolidated Annual Financial Statements

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

- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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

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

It is unlikely that the interpretation will have a material impact on the economic entity's consolidated annual financial statements.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 3. Inventories

| | | | | |
|---|---|---|---|---|
| Stores | 733 097 | 1 587 716 | 733 097 | 1 587 716 |

**Inventory is categorised as follows:**

| | | | | |
|---|---|---|---|---|
| Construction material | 407 331 | 742 514 | 407 331 | 742 514 |
| Protective and cleaning material | 36 601 | 57 560 | 36 601 | 57 560 |
| Gardening | 46 641 | 48 015 | 46 641 | 48 015 |
| Mechanical tools | 19 231 | 143 593 | 19 231 | 143 593 |
| Spare parts | 155 024 | 436 375 | 155 024 | 436 375 |
| Fuel and oil | 68 269 | 159 659 | 68 269 | 159 659 |
| | **733 097** | **1 587 716** | **733 097** | **1 587 716** |

**Inventories expensed during the year**

| | | | | |
|---|---|---|---|---|
| Amount expensed | 1 321 132 | 475 927 | 1 321 132 | 475 927 |

**Inventory pledged as security**

No inventory was pledged as security.

**Inventories losses/write-downs**

The amount written off in the Statement of Financial Performance in respect of inventories is detailed as follows:

| | | | | |
|---|---|---|---|---|
| Stock count variances | 425 352 | 24 796 | 425 352 | 24 796 |
| Stock paid for but not delivered | 615 884 | - | 615 884 | - |
| Obsolete inventory | 1 069 | - | 1 069 | - |
| | **1 042 305** | **24 796** | **1 042 305** | **24 796** |

## 4. Receivables from exchange transactions

| | | | | |
|---|---|---|---|---|
| Deposits [2] | 6 000 000 | - | 6 000 000 | - |
| Sundry debtors (Overpayment of councilors) | 32 319 | 32 319 | 32 319 | 32 319 |
| Suspense account (ABSA) [1] | 33 801 | 701 081 | 33 801 | 701 081 |
| Interest receivable [4] | 368 075 | - | 368 075 | - |
| Other receivables [3] | 23 070 | - | - | - |
| | **6 457 265** | **733 400** | **6 434 195** | **733 400** |

**[1]** ABSA relates to the amounts fraudulently deducted from the municipal bank account in prior years.

**[2]** The Municipality had signed an agreement to buy land to build offices by year end at a cost of R17 500 000 and by end of year, it had made a deposit payment of R6 000 000. In terms of the agreement, the Municipality is required to pay the balance over eight (8) monthly instalments starting from 31 July 2019. Transfer of the property to the Municipality will only happen after all the payments are done. It cannot occupy the land or start making improvements before the property is transferred to it.

**[3]** These represents overpayments to suppliers which have been reclassified to receivables.

**[4]** Interest receivable relates to interest that was accrued on the municipal bank accounts in June 2019 but only received after year end.

**Trade and other receivables pledged as security**

There were no trade and other receivables pledged as security.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 5. Receivables from non-exchange transactions

| | | | | |
|---|---|---|---|---|
| Fines | 283 156 | 286 665 | 283 156 | 286 665 |
| Consumer debtors - Rates | 4 679 652 | 5 994 345 | 4 679 652 | 5 994 345 |
| | **4 962 808** | **6 281 010** | **4 962 808** | **6 281 010** |

**Receivables from non-exchange transactions pledged as security**

No receivables from non-exchange have been pledged as security for any liabilities of the municipality.

**Credit quality of receivables from non-exchange transactions**

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

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

**Other disclosures**

Consumer receivables from rates are billed annually. Interest is charged on overdue consumer receivables at a rate of 15% (2018: 15%) per annuNo interest is charges on overdue traffic fines debtors

No interest is charges on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

## 6. VAT receivable

| | | | | |
|---|---|---|---|---|
| VAT | 16 497 672 | 4 264 590 | 16 497 672 | 4 264 590 |

VAT is payable to SARS on the receipt basis. No interest is payable to SARS if the VAT is paid over timeously. However, interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are made before the due date. During the current year, the Municipality did not submit all its VAT returns. The last VAT return submitted so SARS was for September 2018. This has resulted in non-compliance with the law and its expected that the Municipality will incur penalties when the outstanding returns are submitted.

AT receivable amount is made up of two bases as follows:

| | | | | |
|---|---|---|---|---|
| **Cash basis** | | | | |
| Vat Input | 40 288 406 | 22 844 539 | 40 288 406 | 22 844 539 |
| Vat Output | (414 969) | (525 584) | (414 969) | (525 584) |
| Vat Control | (24 999 164) | (19 362 682) | (24 999 164) | (19 362 682) |
| | **14 874 273** | **2 956 273** | **14 874 273** | **2 956 273** |

| | | | | |
|---|---|---|---|---|
| **Accrual basis** | | | | |
| Creditors VAT Provisional | 2 347 684 | 1 958 136 | 2 347 684 | 1 958 136 |
| Debtors VAT Provisional | (724 285) | (649 819) | (724 285) | (649 819) |
| Cash basis balance | 14 874 273 | 2 956 273 | 14 874 273 | 2 956 273 |
| | **16 497 672** | **4 264 590** | **16 497 672** | **4 264 590** |

## Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 7. Consumer debtors

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| **Gross balances** | | | | |
| Refuse | 8 037 835 | 6 710 236 | 8 037 835 | 6 710 236 |
| Property lease rental | 161 616 | 161 616 | 161 616 | 161 616 |
| | **8 199 451** | **6 871 852** | **8 199 451** | **6 871 852** |
| **Less: Allowance for impairment** | | | | |
| Refuse | (6 779 814) | (5 906 677) | (6 779 814) | (5 906 677) |
| Property lease rental | (145 454) | (145 454) | (145 454) | (145 454) |
| | **(6 925 268)** | **(6 052 131)** | **(6 925 268)** | **(6 052 131)** |
| **Net balance** | | | | |
| Refuse | 1 258 021 | 803 559 | 1 258 021 | 803 559 |
| Property lease rental | 16 162 | 16 162 | 16 162 | 16 162 |
| | **1 274 183** | **819 721** | **1 274 183** | **819 721** |
| **Refuse** | | | | |
| Current (0 -30 days) | 291 427 | 1 070 622 | 291 427 | 1 070 622 |
| 31 - 60 days | 292 260 | 58 148 | 292 260 | 58 148 |
| 61 - 90 days | 140 977 | 101 873 | 140 977 | 101 873 |
| 91 - 120 days | 138 165 | 100 608 | 138 165 | 100 608 |
| 121 - 300 days | 1 610 991 | 604 420 | 1 610 991 | 604 420 |
| > 300 days | 5 564 015 | 4 774 565 | 5 564 015 | 4 774 565 |
| | **8 037 835** | **6 710 236** | **8 037 835** | **6 710 236** |
| **Property lease rental** | | | | |
| > 300 days | 161 616 | 161 616 | 161 616 | 161 616 |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 7. Consumer debtors (continued)

**Summary of debtors by customer classification**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Residential** | | | | |
| Current (0 -30 days) | 34 094 | 234 401 | 34 094 | 234 401 |
| 31 - 60 days | 61 148 | 11 943 | 61 148 | 11 943 |
| 61 - 90 days | 29 721 | 22 671 | 29 721 | 22 671 |
| 91 - 120 days | 29 545 | 22 226 | 29 545 | 22 226 |
| 121 - 300 days | 334 551 | 129 571 | 334 551 | 129 571 |
| > 300 days | 1 416 771 | 1 307 883 | 1 416 771 | 1 307 883 |
| | **1 905 830** | **1 728 695** | **1 905 830** | **1 728 695** |
| **Business** | | | | |
| Current (0 -30 days) | 206 734 | 500 369 | 206 734 | 500 369 |
| 31 - 60 days | 137 224 | 26 815 | 137 224 | 26 815 |
| 61 - 90 days | 65 549 | 42 564 | 65 549 | 42 564 |
| 91 - 120 days | 63 421 | 41 369 | 63 421 | 41 369 |
| 121 - 300 days | 726 227 | 249 362 | 726 227 | 249 362 |
| > 300 days | 1 998 583 | 1 702 093 | 1 998 583 | 1 702 093 |
| | **3 197 738** | **2 562 572** | **3 197 738** | **2 562 572** |
| **National and provincial government** | | | | |
| Current (0 -30 days) | 50 598 | 335 852 | 50 598 | 335 852 |
| 31 - 60 days | 93 887 | 19 391 | 93 887 | 19 391 |
| 61 - 90 days | 45 706 | 36 638 | 45 706 | 36 638 |
| 91 - 120 days | 45 199 | 37 013 | 45 199 | 37 013 |
| 121 - 300 days | 550 212 | 225 487 | 550 212 | 225 487 |
| > 300 days | 2 310 278 | 1 926 204 | 2 310 278 | 1 926 204 |
| | **3 095 880** | **2 580 585** | **3 095 880** | **2 580 585** |
| **Total** | | | | |
| Current (0 -30 days) | 291 427 | 1 070 622 | 291 427 | 1 070 622 |
| 31 - 60 days | 292 260 | 58 148 | 292 260 | 58 148 |
| 61 - 90 days | 140 977 | 101 873 | 140 977 | 101 873 |
| 91 - 120 days | 138 165 | 100 608 | 138 165 | 100 608 |
| 121 - 300 days | 1 610 991 | 604 420 | 1 610 991 | 604 420 |
| > 300 days | 5 725 631 | 4 936 181 | 5 725 631 | 4 936 181 |
| | 8 199 451 | 6 871 852 | 8 199 451 | 6 871 852 |
| Less: Allowance for impairment | (6 925 268) | (6 052 131) | (6 925 268) | (6 052 131) |
| | **1 274 183** | **819 721** | **1 274 183** | **819 721** |
| **Less: Allowance for impairment** | | | | |
| Current (0 -30 days) | (6 925 268) | (6 052 131) | (6 925 268) | (6 052 131) |
| **Reconciliation of allowance for impairment** | | | | |
| Balance at beginning of the year | (6 052 131) | (5 169 454) | (6 052 131) | (5 169 454) |
| Contributions to allowance | (873 137) | (882 677) | (873 137) | (882 677) |
| | **(6 925 268)** | **(6 052 131)** | **(6 925 268)** | **(6 052 131)** |

**Consumer debtors pledged as security**

No receivables from non-exchange have been pledged as security for any liabilities of the municipality.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 7. Consumer debtors (continued)

### Credit quality of consumer debtors

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk control. No external credit rating is performed.

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

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 33). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

### Other disclosures

Consumer receivables from refuse and property lease rentals are billed monthly. Interest is charged on overdue consumer receivables at a rate of 15% (2018: 15%) per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables.

## 8. Consumer debtors disclosure

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Gross balances** | | | | |
| Consumer debtors - Rates | 33 513 371 | 31 541 412 | 33 513 371 | 31 541 412 |
| **Less: Allowance for impairment** | | | | |
| Consumer debtors - Rates | (28 833 719) | (25 547 067) | (28 833 719) | (25 547 067) |
| **Net balance** | | | | |
| Consumer debtors - Rates | 4 679 652 | 5 994 345 | 4 679 652 | 5 994 345 |
| **Ageing - Rates (Gross)** | | | | |
| Current (0 -30 days) | 372 101 | 10 914 293 | 372 101 | 10 914 293 |
| 31 - 60 days | 746 220 | 45 952 | 746 220 | 45 952 |
| 61 - 90 days | 430 873 | 218 339 | 430 873 | 218 339 |
| 91 - 120 days | 427 243 | 220 529 | 427 243 | 220 529 |
| 121 - 365 days | 32 513 759 | 13 886 157 | 32 513 759 | 13 886 157 |
| > 365 days | (976 825) | 6 256 142 | (976 825) | 6 256 142 |
| | **33 513 371** | **31 541 412** | **33 513 371** | **31 541 412** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

8. **Consumer debtors disclosure (continued)**

**Summary of debtors by customer classification**

| | | | | |
|---|---|---|---|---|
| **Residential** | | | | |
| Current (0 -30 days) | 147 115 | 2 020 287 | 147 115 | 2 020 287 |
| 31 - 60 days | 294 246 | 35 078 | 294 246 | 35 078 |
| 61 - 90 days | 146 155 | 105 669 | 146 155 | 105 669 |
| 91 - 120 days | 143 650 | 104 595 | 143 650 | 104 595 |
| 121 - 365 days | 11 130 549 | 5 556 287 | 11 130 549 | 5 556 287 |
| > 365 days | 63 723 | 2 613 152 | 63 723 | 2 613 152 |
| | **11 925 438** | **10 435 068** | **11 925 438** | **10 435 068** |
| **Business** | | | | |
| Current (0 -30 days) | 122 386 | 2 028 567 | 122 386 | 2 028 567 |
| 31 - 60 days | 242 233 | 9 434 | 242 233 | 9 434 |
| 61 - 90 days | 121 422 | 71 679 | 121 422 | 71 679 |
| 91 - 120 days | 122 009 | 71 449 | 122 009 | 71 449 |
| 121 - 365 days | 10 445 774 | 4 947 573 | 10 445 774 | 4 947 573 |
| > 365 days | (1 041 295) | 2 172 230 | (1 041 295) | 2 172 230 |
| | **10 012 529** | **9 300 932** | **10 012 529** | **9 300 932** |
| **National and provincial government** | | | | |
| Current (0 -30 days) | 102 599 | 6 865 439 | 102 599 | 6 865 439 |
| 31 - 60 days | 209 741 | 1 440 | 209 741 | 1 440 |
| 61 - 90 days | 163 296 | 40 991 | 163 296 | 40 991 |
| 91 - 120 days | 161 584 | 44 486 | 161 584 | 44 486 |
| 121 - 365 days | 10 937 436 | 3 382 297 | 10 937 436 | 3 382 297 |
| > 365 days | 748 | 1 470 759 | 748 | 1 470 759 |
| | **11 575 404** | **11 805 412** | **11 575 404** | **11 805 412** |
| **Total** | | | | |
| Current (0 -30 days) | 372 101 | 10 914 293 | 372 101 | 10 914 293 |
| 31 - 60 days | 746 220 | 45 952 | 746 220 | 45 952 |
| 61 - 90 days | 430 873 | 218 339 | 430 873 | 218 339 |
| 91 - 120 days | 427 243 | 220 529 | 427 243 | 220 529 |
| 121 - 365 days | 32 513 759 | 13 886 157 | 32 513 759 | 13 886 157 |
| > 365 days | (976 825) | 6 256 142 | (976 825) | 6 256 142 |
| | **33 513 371** | **31 541 412** | **33 513 371** | **31 541 412** |
| **Reconciliation of allowance for impairment** | | | | |
| Balance at beginning of the year | (25 547 067) | (19 435 471) | (25 547 067) | (19 435 471) |
| Contributions to allowance | (3 286 652) | (6 111 596) | (3 286 652) | (6 111 596) |
| | **(28 833 719)** | **(25 547 067)** | **(28 833 719)** | **(25 547 067)** |

The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 33). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash

The maximum exposure to credit risk at the reporting date is the fair value of each receivable mentioned above. The municipality does not hold any collateral as security.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 9. Cash and cash equivalents

Cash and cash equivalents consist of:

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Cash on hand | 6 012 | - | 6 000 | - |
| Bank balances | 3 900 964 | 2 004 029 | 3 647 536 | 1 900 029 |
| Short-term deposits | 53 401 552 | 55 904 772 | 53 401 552 | 55 904 772 |
| | **57 308 528** | **57 908 801** | **57 055 088** | **57 804 801** |

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

| **Credit rating - (Standard & Poor's - National Ratings)** | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Absa Bank Limited - zaA-1+ | 399 463 | 104 000 | 146 035 | - |
| Standard Bank Limited - zaA-1+ | 56 903 053 | 57 804 801 | 56 903 053 | 57 804 801 |
| | **57 302 516** | **57 908 801** | **57 049 088** | **57 804 801** |

### 9. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2019 | 30 June 2018 | 30 June 2017 | 30 June 2019 | 30 June 2018 | 30 June 2017 |
| Absa Bank - Current Account - Operational 9269 | - | - | 4 672 790 | 146 034 | - | 4 672 765 |
| STD Bank - Current Account | 6 700 516 | 1 899 694 | - | 3 501 501 | 1 900 028 | - |
| Absa Bank - Salaries Call Account - 7272 | - | - | 24 566 543 | - | - | 24 566 543 |
| STD Bank- Salaries Call Account - 9569 -001 | 4 713 902 | 32 272 082 | - | 4 713 902 | 32 272 082 | - |
| Absa Bank - MSP Fund Call Account - 9972 | - | - | 2 543 | - | - | 2 543 |
| Absa Bank - Repairs Call Account - 1344 | - | - | 19 475 415 | - | - | 19 475 415 |
| STD Bank - Repairs Call Account - 9569 -003 | 713 401 | 19 966 831 | - | 713 401 | 19 966 831 | - |
| Absa Bank - FMG Call Account - 6056 | - | - | 1 000 | - | - | 1 000 |
| STD Bank Call Account- FMG - 9569 - 006 | 54 222 | 1 030 440 | - | 54 222 | 1 030 440 | - |
| Absa Bank - MIG Call Account - 6187 | - | - | 1 000 | - | - | 1 000 |
| STD Bank -MIG Call Account-9569-008 | 155 623 | 2 189 216 | - | 8 155 623 | 2 189 216 | - |
| Absa Bank-LED Call Account-7159 | - | - | 13 704 | - | - | 13 705 |
| STD Bank-LED Call Account-9569-007 | 13 736 | 13 736 | - | 13 736 | 13 736 | - |
| Absa Bank-Traffic Call Account-3891 | - | - | 5 693 | - | - | 5 693 |
| STD Bank-Traffic Call Account-9569-004 | 41 533 192 | 5 666 | - | 33 533 193 | 5 666 | - |
| Absa Bank-Traffic Call Account-3922 | - | - | 27 136 | - | - | 27 136 |
| STD Bank-Plant Call Account-9569-002 | 29 754 | 28 256 | - | 29 754 | 28 256 | - |
| Absa Bank-EPWP Call Account-7506 | - | - | 1 339 | - | - | 1 339 |
| STD Bank-EPWP Call Account-9569-011 | 5 149 | 104 389 | - | 5 149 | 104 389 | - |
| Absa Bank-LG SETA Call Account- 9964 | - | - | 6 353 | - | - | 6 353 |
| Absa Bank-INEP Call Account-6122 | - | - | 1 000 | - | - | 1 000 |
| STD Bank-INEP Call Account-9569-010 | 5 512 158 | 148 811 | - | 5 512 158 | 148 811 | - |
| Absa Bank-DSRAC Call Account-7695 | - | - | 139 139 | - | - | 139 139 |
| STD Bnk-DSRAC Call Account-9569-009 | 670 415 | 145 346 | - | 670 415 | 145 346 | - |
| Absa Bank-Primary Account-6064-2488 | 18 579 | 68 695 | 340 450 | 18 579 | 68 695 | 340 450 |
| Absa Bank- Salaries Account-6320-8356 | 234 258 | 35 479 | 346 602 | 234 258 | 35 479 | 346 602 |
| Absa Bank-Small Scale Fish-6347-9179 | - | - | 1 950 | - | - | 1 950 |

### 9. Cash and cash equivalents (continued)

| | | | | | | |
|---|---|---|---|---|---|---|
| Absa Bank-Mngazi to Manteku-7165-4521 | 591 | (174) | (341) | 591 | (174) | (341) |
| **Total** | **60 355 496** | **57 908 467** | **49 602 316** | **57 302 516** | **57 908 801** | **49 602 292** |

The differences between cash book balances and bank reconciliations are cause by uncleared payments and deposits that went through the bank after year end.

### 10. Investment property

| Economic entity | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 11 461 003 | - | 11 461 003 | 11 461 003 | - | 11 461 003 |

| Controlling entity | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 11 461 003 | - | 11 461 003 | 11 461 003 | - | 11 461 003 |

**Reconciliation of investment property - Economic entity - 2019**

| | Opening balance | Total |
|---|---|---|
| Investment property | 11 461 003 | 11 461 003 |

**Reconciliation of investment property - Economic entity - 2018**

| | Opening balance | Total |
|---|---|---|
| Investment property | 11 461 003 | 11 461 003 |

**Reconciliation of investment property - Controlling entity - 2019**

| | Opening balance | Total |
|---|---|---|
| Investment property | 11 461 003 | 11 461 003 |

**Reconciliation of investment property - Controlling entity - 2018**

| | Opening balance | Total |
|---|---|---|
| Investment property | 11 461 003 | 11 461 003 |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 10. Investment property (continued)

**Pledged as security**

None of the above investment property has been pledged as security

**Investment property held for sale**

Property to the value of R8 741 167 is held pending finalisation of sale to the OR Tambo District Municipality. The entire investment property is land which does not depreciate even though the policy of the Municipality is to carry investment property at cost less accumulated depreciation and accumulated impairment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 11. Property, plant and equipment

| Economic entity | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 13 301 182 | (3 446 816) | 9 854 366 | 13 301 182 | (2 958 935) | 10 342 247 |
| Cellular equipment | 1 139 942 | (772 948) | 366 994 | 850 551 | (385 003) | 465 548 |
| Community assets | 13 274 008 | (4 838 854) | 8 435 154 | 13 274 008 | (4 333 046) | 8 940 962 |
| Furniture and fixtures | 2 868 017 | (1 858 603) | 1 009 414 | 2 650 332 | (1 418 695) | 1 231 637 |
| IT equipment | 2 963 495 | (1 891 483) | 1 072 012 | 2 684 765 | (1 388 107) | 1 296 658 |
| Infrastructure | 488 111 939 | (248 414 315) | 239 697 624 | 460 328 940 | (220 767 957) | 239 560 983 |
| Infrastructure - WIP | 115 849 209 | - | 115 849 209 | 63 424 591 | (14 299) | 63 410 292 |
| Land | 55 118 000 | - | 55 118 000 | 55 118 000 | - | 55 118 000 |
| Plant and machinery | 42 389 348 | (13 956 769) | 28 432 579 | 37 019 355 | (11 197 761) | 25 821 594 |
| Signage | 28 936 | (24 918) | 4 018 | 24 436 | (22 749) | 1 687 |
| Transport assets | 9 420 678 | (4 413 629) | 5 007 049 | 8 222 648 | (2 838 895) | 5 383 753 |
| **Total** | **744 464 754** | **(279 618 335)** | **464 846 419** | **656 898 808** | **(245 325 447)** | **411 573 361** |

| Controlling entity | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 13 301 182 | (3 446 816) | 9 854 366 | 13 301 182 | (2 958 935) | 10 342 247 |
| Cellular equipment | 1 139 942 | (772 948) | 366 994 | 850 551 | (385 003) | 465 548 |
| Community assets | 2 682 744 | (1 690 505) | 992 239 | 2 370 965 | (1 184 578) | 1 186 387 |
| Community assets | 13 274 008 | (4 838 854) | 8 435 154 | 13 274 008 | (4 333 046) | 8 940 962 |
| Furniture and fixtures | 2 670 239 | (1 692 771) | 977 468 | 2 467 132 | (1 248 954) | 1 218 178 |
| Infrastructure | 488 111 939 | (248 414 315) | 239 697 624 | 460 328 940 | (220 767 957) | 239 560 983 |
| Infrastructure - WIP | 115 849 209 | - | 115 849 209 | 63 410 291 | - | 63 410 291 |
| Land | 55 118 000 | - | 55 118 000 | 55 118 000 | - | 55 118 000 |
| Plant and machinery | 42 371 529 | (13 942 304) | 28 429 225 | 37 001 536 | (11 184 196) | 25 817 340 |
| Transport assets | 8 621 878 | (3 939 829) | 4 682 049 | 7 525 334 | (2 483 381) | 5 041 953 |
| **Total** | **743 140 670** | **(278 738 342)** | **464 402 328** | **655 647 939** | **(244 546 050)** | **411 101 889** |

### 11. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - Economic entity - 2019**

| | Opening balance | Additions | Disposals | Transfers | Fair value adjustment | Other changes | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|
| Buildings | 10 342 247 | - | - | - | - | - | (487 881) | 9 854 366 |
| Cellular Equipment | 465 548 | 201 176 | - | - | - | 54 354 | (354 084) | 366 994 |
| Community | 8 940 962 | - | - | - | - | - | (505 808) | 8 435 154 |
| Furniture and fixtures | 1 231 637 | 250 026 | (37 816) | - | - | - | (434 433) | 1 009 414 |
| IT equipment | 1 296 658 | 403 307 | (58 701) | - | - | - | (569 252) | 1 072 012 |
| Infrastructure | 239 560 983 | - | - | 27 783 000 | - | - | (27 646 359) | 239 697 624 |
| Infrastructure WIP | 63 410 292 | 80 221 917 | - | (27 783 000) | - | - | - | 115 849 209 |
| Land | 55 118 000 | - | - | - | - | - | - | 55 118 000 |
| Plant and machinery | 25 821 594 | 5 369 993 | - | - | - | - | (2 759 008) | 28 432 579 |
| Signage | 1 687 | 4 500 | - | - | - | - | (2 169) | 4 018 |
| Transport Asset | 5 383 753 | 1 383 238 | (286 694) | - | 101 487 | - | (1 574 735) | 5 007 049 |
| | **411 573 361** | **87 834 157** | **(383 211)** | **-** | **101 487** | **54 354** | **(34 333 729)** | **464 846 419** |

**Reconciliation of property, plant and equipment - Economic entity - 2018**

| | Opening balance | Additions | Disposals | Transfers | Fair value adjustment | Other changes | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|
| Buildings | 65 910 256 | 37 800 | - | (55 118 000) | - | - | (487 809) | 10 342 247 |
| Cellular Equipment | 20 834 | 505 810 | - | - | - | - | (61 096) | 465 548 |
| Community | 9 448 921 | - | - | - | - | - | (507 959) | 8 940 962 |
| Furniture and fixtures | 578 286 | 477 751 | (6 402) | 503 341 | - | - | (321 339) | 1 231 637 |
| IT equipment | 1 287 448 | 395 826 | (11 323) | - | - | - | (375 293) | 1 296 658 |
| Infrastructure | 172 732 432 | - | - | 93 297 783 | - | - | (26 469 232) | 239 560 983 |
| Infrastructure WIP | 114 119 897 | 42 588 178 | - | - | (93 297 783) | - | - | 63 410 292 |
| Land | - | - | - | 55 118 000 | - | - | - | 55 118 000 |
| Plant and machinery | 28 094 069 | 396 642 | (507 230) | - | - | - | (2 161 887) | 25 821 594 |
| Signage | 3 374 | - | - | - | - | - | (1 687) | 1 687 |
| Transport assets | 2 595 118 | 3 716 412 | (84 528) | - | 105 886 | - | (949 135) | 5 383 753 |
| | **394 790 635** | **48 118 419** | **(609 483)** | **93 801 124** | **(93 191 897)** | **-** | **(31 335 437)** | **411 573 361** |

# Notes to the Consolidated Annual Financial Statements

**Figures in Rand**

## 11. Property, plant and equipment (continued)

### Reconciliation of property, plant and equipment - Controlling entity - 2019

| | Opening balance | Additions | Disposals | Transfers | Other changes | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Buildings | 10 342 247 | - | - | - | - | (487 881) | 9 854 366 |
| Cellular equipment | 465 548 | 201 176 | - | - | 54 354 | (354 084) | 366 994 |
| Community assets | 8 940 962 | - | - | - | - | (505 808) | 8 435 154 |
| Furniture and fixtures | 1 218 178 | 224 626 | (37 812) | - | - | (427 524) | 977 468 |
| Community assets | 1 186 387 | 370 480 | (58 701) | - | - | (505 927) | 992 239 |
| Infrastructure | 239 560 983 | - | (1) | 27 783 000 | - | (27 646 358) | 239 697 624 |
| Infrastructure - WIP | 63 410 291 | 80 221 918 | - | (27 783 000) | - | - | 115 849 209 |
| Land | 55 118 000 | - | - | - | - | - | 55 118 000 |
| Plant and machinery | 25 817 340 | 5 369 993 | - | - | - | (2 758 108) | 28 429 225 |
| Transport assets | 5 041 953 | 1 383 239 | (286 694) | - | - | (1 456 449) | 4 682 049 |
| | **411 101 889** | **87 771 432** | **(383 208)** | **-** | **54 354** | **(34 142 139)** | **464 402 328** |

### Reconciliation of property, plant and equipment - Controlling entity - 2018

| | Opening balance | Additions | Disposals | Transfers | Other changes | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Buildings | 65 910 256 | 37 800 | - | (55 118 000) | - | (487 809) | 10 342 247 |
| Cellular equipment | 20 834 | 444 714 | - | - | - | - | 465 548 |
| Community assets | 9 448 921 | - | - | - | - | (507 959) | 8 940 962 |
| Furniture and fixtures | 567 500 | 470 611 | (6 404) | 503 341 | - | (316 870) | 1 218 178 |
| Community assets | 1 246 618 | 265 861 | (11 323) | - | - | (314 769) | 1 186 387 |
| Infrastructure | 172 732 432 | - | - | 93 297 783 | - | (26 469 232) | 239 560 983 |
| Infrastructure - WIP | 114 119 898 | 42 588 176 | - | (93 297 783) | - | - | 63 410 291 |
| Land | - | - | - | 55 118 000 | - | - | 55 118 000 |
| Cellular equipment | 503 341 | - | - | (503 341) | - | - | - |
| Plant and machinery | 28 094 069 | 392 141 | (507 230) | - | - | (2 161 640) | 25 817 340 |
| Transport assets | 2 240 917 | 3 716 412 | (84 527) | - | - | (830 849) | 5 041 953 |
| | **394 884 786** | **47 915 715** | **(609 484)** | **-** | **-** | **(31 089 128)** | **411 101 889** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |

### 11. Property, plant and equipment (continued)

**Pledged as security**

There are no assets held as security:

**Assets subject to finance lease (Net carrying amount)**

| | | | | |
|---|---|---|---|---|
| Cellular equipment | 366 994 | 465 548 | 366 994 | 465 548 |
| Transport Assets | 325 000 | 341 800 | - | - |
| | **691 994** | **807 348** | **366 994** | **465 548** |

**Reconciliation of Work-in-Progress Economic entity - 2019**

| | Access Roads | Bridges | Electrification Structures | Total |
|---|---|---|---|---|
| Opening balance | 36 253 728 | - | 27 156 563 | 63 410 291 |
| Additions/capital expenditure | 57 665 396 | - | 22 556 522 | 80 221 918 |
| Transferred to completed items | (27 783 000) | - | - | (27 783 000) |
| | **66 136 124** | **-** | **49 713 085** | **115 849 209** |

**Reconciliation of Work-in-Progress Economic entity - 2018**

| | Access Roads | Bridges | Electrification Structures | Total |
|---|---|---|---|---|
| Opening balance | 97 171 134 | 5 545 253 | 11 403 509 | 114 119 896 |
| Additions/capital expenditure | 24 697 574 | 2 137 549 | 15 753 054 | 42 588 177 |
| Transferred to completed items | (85 614 980) | (7 682 802) | - | (93 297 782) |
| | **36 253 728** | **-** | **27 156 563** | **63 410 291** |

**Reconciliation of Work-in-Progress Controlling entity - 2019**

| | Access Roads | Bridges | Electrification Structures | Total |
|---|---|---|---|---|
| Opening balance | 36 253 728 | - | 27 156 563 | 63 410 291 |
| Additions/capital expenditure | 57 665 396 | - | 22 556 522 | 80 221 918 |
| Transferred to completed items | (27 783 000) | - | - | (27 783 000) |
| | **66 136 124** | **-** | **49 713 085** | **115 849 209** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 11. Property, plant and equipment (continued)

**Reconciliation of Work-in-Progress Controlling entity - 2018**

| | Access Roads | Bridges | Electrification Structures | Total |
|---|---|---|---|---|
| Opening balance | 97 171 134 | 5 545 253 | 11 403 509 | 114 119 896 |
| Additions/capital expenditure | 24 697 574 | 2 137 549 | 15 753 054 | 42 588 177 |
| Transferred to completed items | (85 614 980) | (7 682 802) | - | (93 297 782) |
| | **36 253 728** | **-** | **27 156 563** | **63 410 291** |

Below is the list of access roads construction projects that are taking longer to complete compared to initial targets. The reasons for the delays are also included.

| Project | Amount | Reasons for the delay |
|---|---|---|
| Lutshaya | 10 518 159 | The project was done in-house and awaiting the completion certificate. |
| Thontsini to Gangatha | 957 912 | The construction was mainly done for the council meeting. |
| Sports Field | 194 225 | Project was deprioritised as per Council prerogative. |
| Bhuje Access Road | 6 769 876 | The project has now been completed and we are awaiting the final Completion certificates. |
| Gabelana to Noqekwana Acces Road | 3 699 083 | The project was placed on hold, due to budget constraints. |
| PSJ Villages Electrification Project | 49 713 085 | The households have been electrified however there handover to Eskom has not been made. |
| Mkhuzaza Access road | 2 462 401 | The delays were due to budget constraints. The project is still in progress. |
| Hotana Access road | 4 279 753 | The delays were due to budget constraints. The project is still in progress. |
| Ntlenga Access road | 2 203 600 | The delays were due to budget constraints. The project is still in progress. |
| Uprade of the Aggate Terrace Road | 21 431 053 | The project was delayed by the Department of environmental and agriculture when they identified that there was a milk wood trees on the route and we had to reroute the project. The permit is not issued by the department yet. |
| Upgrading Of Port St Johns Residential Street - Marine Drive & Marine Drive Link Roads | 14 617 436 | The project is still in progress and permit to construct has been issued. The delays were encountered due to relocation of services e.g. Eskom and Telkom |
| | **116 846 583** | |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |

### 11. Property, plant and equipment (continued)

**Expenditure incurred to repair and maintain property, plant and equipment**

| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance - (General expenses)** | | | | |
|---|---|---|---|---|
| Buildings | 682 589 | 875 679 | 682 589 | 850 653 |
| Office equipment | 331 289 | 502 331 | 331 289 | 509 459 |
| Furniture and fixtures | 67 306 | 83 976 | 67 306 | 66 909 |
| Infrastructure | 1 555 230 | 539 603 | 1 555 230 | 537 107 |
| IT equipment | 153 850 | 147 192 | 153 850 | 149 038 |
| Transport Assets | 293 059 | 265 637 | 272 359 | 264 591 |
| Plant and machinery | 1 151 441 | 1 430 564 | 1 144 743 | 1 413 497 |
| | **4 234 764** | **3 844 982** | **4 207 366** | **3 791 254** |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. Finance lease obligation

| | | | | |
|---|---|---|---|---|
| **Minimum lease payments due** | | | | |
| - within one year | 399 214 | 363 223 | 364 862 | 261 336 |
| - in second to fifth year inclusive | 32 857 | 273 449 | 32 857 | 239 558 |
| | 432 071 | 636 672 | 397 719 | 500 894 |
| less: future finance charges | (22 814) | (54 785) | (22 056) | (46 791) |
| **Present value of minimum lease payments** | **409 257** | **581 887** | **375 663** | **454 103** |

| | | | | |
|---|---|---|---|---|
| **Present value of minimum lease payments due** | | | | |
| - within one year | 377 500 | 319 326 | 343 906 | 226 103 |
| - in second to fifth year inclusive | 31 757 | 262 561 | 31 757 | 228 000 |
| | **409 257** | **581 887** | **375 663** | **454 103** |

| | | | | |
|---|---|---|---|---|
| Non-current liabilities | 31 757 | 262 732 | 31 757 | 228 001 |
| Current liabilities | 377 500 | 319 155 | 343 906 | 226 102 |
| | **409 257** | **581 887** | **375 663** | **454 103** |

It is economic entity policy to lease motor vehicles and equipment under finance leases.

The average lease term was between 2-5 years and the average effective borrowing rate was 10% (2018: 10%).

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

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 13. Payables from exchange transactions

| | | | | |
|---|---|---|---|---|
| Trade payables | 9 804 645 | 4 303 374 | 8 250 815 | 2 672 936 |
| Payments received in advanced [1] | 1 266 051 | 1 195 642 | 1 266 051 | 1 195 642 |
| Retentions | 6 347 952 | 3 676 506 | 6 347 952 | 3 676 506 |
| OR Tambo advance [2] | 6 132 284 | 6 132 284 | 6 132 284 | 6 132 284 |
| Accrued leave pay | 5 255 096 | 4 533 717 | 5 113 015 | 4 346 100 |
| Accrued bonus | 1 560 762 | 1 393 568 | 1 560 762 | 1 393 568 |
| Payroll accruals | 553 882 | 192 567 | 456 869 | 184 881 |
| Unallocated deposits | 469 775 | 435 066 | 469 775 | 435 066 |
| | **31 390 447** | **21 862 724** | **29 597 523** | **20 036 983** |

[1] This refers to consumer debtors with credit balances.

[2] An amount of 6 132 284 was advanced to the municipality by the OR District Municipality in exchange for land. The land is yet to be transferred to the District. There is no interest to the advanced payment.

## 14. VAT payable

| | | | | |
|---|---|---|---|---|
| Tax payables | 4 510 006 | 4 673 978 | - | - |

## 15. Consumer deposits

| | | | | |
|---|---|---|---|---|
| Refuse | 61 000 | 61 000 | 61 000 | 61 000 |

## 16. Employee benefit obligations

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

| | | | | |
|---|---|---|---|---|
| **Carrying value** | | | | |
| Present value of the defined benefit obligation-wholly unfunded | (4 028 212) | (2 876 183) | (4 028 212) | (2 876 183) |
| Non-current liabilities | (3 624 453) | (2 631 390) | (3 624 453) | (2 631 390) |
| Current liabilities | (403 759) | (244 793) | (403 759) | (244 793) |
| | **(4 028 212)** | **(2 876 183)** | **(4 028 212)** | **(2 876 183)** |

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

| | | | | |
|---|---|---|---|---|
| Opening balance | 2 876 183 | 2 455 626 | 2 876 183 | 2 455 626 |
| Benefits paid | (167 247) | (402 617) | (167 247) | (402 617) |
| Net expense recognised in the statement of financial performance | 1 319 276 | 823 174 | 1 319 276 | 823 174 |
| | **4 028 212** | **2 876 183** | **4 028 212** | **2 876 183** |

**Net expense recognised in the statement of financial performance**

| | | | | |
|---|---|---|---|---|
| Current service cost | 424 093 | 350 262 | 424 093 | 350 262 |
| Interest cost | 233 181 | 186 807 | 233 181 | 186 807 |
| Actuarial losses | 662 002 | 286 105 | 662 002 | 286 105 |
| | **1 319 276** | **823 174** | **1 319 276** | **823 174** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 16. Employee benefit obligations (continued)

**Calculation of actuarial gains and losses**

| | | | | |
|---|---|---|---|---|
| Basis changes: increase in net discount rate | (36 637) | (29 950) | (36 637) | (29 950) |
| Changes to employee profile different from assumed | 210 322 | 153 492 | 210 322 | 153 492 |
| Salary increases higher than assumed | 131 228 | 162 563 | 131 228 | 162 563 |
| Net impact of changes in assumed average retirement ages | 250 264 | - | 250 264 | - |
| Application of revised withdrawal rates | 184 371 | - | 184 371 | - |
| Actual benefits vesting, lower than expected | (77 546) | - | (77 546) | - |
| | **662 002** | **286 105** | **662 002** | **286 105** |

**Key assumptions used**

Assumptions used at the reporting date:

| | | | | |
|---|---|---|---|---|
| Discount rates used | 8.06 % | 8.46 % | 8.06 % | 8.46 % |
| Expected increase in salaries | 5.52 % | 6.10 % | 5.52 % | 6.10 % |
| Average Retirement Age: Males (years) | 62 | 63 | 62 | 63 |
| Average Retirement Age: females (years) | 62 | 58 | 62 | 58 |

**Discount rate**

The discount rate reflects the estimated timing of benefit payments which is oftenly achieved this by applying a single weighted average discount rate that reflects the estimated timing and amount of benefit payments and the currency in which the benefits are to be paid. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The cash flow weighted duration of the liabilities is approximately 6.09 years (2018: 6,13 years). The valuation, therefore, used the nominal yield curve for SA Government bonds with duration of 6 years as at 30 June 2019. The resultant discount rate was 8.06% (2018: 8.46%). These rates were deduced from the interest rate data obtained from the JSE after the market close on 28 June 2019

**Future Salary inflation**

The general inflation assumption was used to estimate the base rate for determining the rate at which the future salaries will increase. The assumption was that salary inflation will exceed general inflation by about 1,0% per annum. The Salary inflation rate was therefore set at 5.52% (2018: 6.10%) per annum.

**Pre-retirement mortalit**y

The valuation assumed that the pre-retirement mortality will be in line with the SA85-90 ultimate table, adjusted down for female lives. This assumption is in line with the previous assumption used.

**Assumed Retirement Age**

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**16. Employee benefit obligations (continued)**

**Other assumptions**

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

| | 2 yrs decrease in retirement age | 2 yrs decrease in retirement age | 2 yrs increase in retirement age | 2 yrs decrease in retirement age |
|---|---|---|---|---|
| Effect on the aggregate of the service cost and interest cost | 457 900 | 395 200 | 457 900 | 395 200 |
| Effect on the aggregate of the interest cost | 259 300 | 213 000 | 259 300 | 213 000 |
| Effects of defined benefits obligation | 717 200 | 608 200 | 717 200 | 608 200 |

Amounts for the current and previous four years are as follows:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Defined benefit obligation | 4 028 212 | 2 876 183 | 2 455 626 | 2 128 356 | 1 981 000 |

**Defined contribution plan**

It is the policy of the economic entity to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The economic entity is under no obligation to cover any unfunded benefits.

| | | | | |
|---|---|---|---|---|
| The total economic entity contribution to such schemes | 6 789 329 | 8 945 366 | 6 789 329 | 8 945 366 |

**17. Unspent conditional grants and receipts**

**Unspent conditional grants and receipts comprises of:**

| | | | | |
|---|---|---|---|---|
| **Unspent conditional grants and receipts** | | | | |
| Local Government Sector Education and Training Authority | 113 264 | 26 189 | 113 264 | 26 189 |
| Expanded Public Works Programme [3] | 1 285 750 | 207 513 | 1 285 750 | 207 513 |
| Finance Management Grant | - | 938 212 | - | 938 212 |
| Department of Sports, Recreation, Arts and Culture | 552 656 | 248 696 | 552 656 | 248 696 |
| Municipal Infrastructure Grant | - | 7 150 940 | - | 7 150 940 |
| Small Town Revitalization | - | 448 817 | - | 448 817 |
| Cutweni | 1 219 989 | 1 219 989 | - | - |
| Mangazi to Manteku project | 20 095 | 20 095 | - | - |
| Small scale Fish Factory | 1 011 550 | 1 011 550 | - | - |
| | **4 203 304** | **11 272 001** | **1 951 670** | **9 020 367** |

**Movement during the year**

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | 11 272 001 | 2 368 757 | 9 020 367 | 117 125 |
| Unspent grant repaid | (8 296 665) | - | (8 296 665) | - |
| Additions during the year | 101 639 385 | 62 227 895 | 101 639 385 | 62 227 895 |
| Income recognition during the year | (100 411 417) | (53 324 651) | (100 411 417) | (53 324 653) |
| | **4 203 304** | **11 272 001** | **1 951 670** | **9 020 367** |

**[1]**. See note 26 for reconciliation of grants from National/Provincial Government.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 17. Unspent conditional grants and receipts (continued)

**[2]**. These amounts are invested in a ring-fenced investment until utilised. Refer note 9.

**[3]**. The EPWP project was funded by two grantors in the current year namely The National Treasury and the Provincial Department of Transport. The funding from the former was fully utilised during the year while that of the latter had some unspend portion as detailed below.

| **Desciption** | **National Treasury** | **Department of Transport** | **National Treasury** | **Department of Transport** | **Total** |
|---|---|---|---|---|---|
| Openning balance | 207 513 | - | 207 513 | - | 415 026 |
| Unspend grant repaid | (207 513) | - | (207 513) | - | (415 026) |
| Receipts | 1 775 000 | 1 431 429 | 1 775 000 | 1 431 429 | 6 412 858 |
| Conditions met (transferred to revenue) | (1 775 000) | (145 679) | (1 775 000) | (145 679) | (3 841 358) |
| | **-** | **1 285 750** | **-** | **1 285 750** | **2 571 500** |

There is unspent portion from Provincial Department of Transport due to the following reasons:
- Local contractors all want to participate in the project;
- Negotiations with the community regarding their yards because they were affected by the project; and
- Bidding process - there were no responsive bid on the first tender and it was readvertised.

## 18. Operating lease liability

| | | | | |
|---|---|---|---|---|
| Non-current liabilities | (2 349 705) | (1 917 574) | (2 349 705) | (1 917 574) |

The Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 19. Provisions

**Reconciliation of provisions - Economic entity - 2019**

| | Opening Balance | Additions | Change in landfill provision | Interest charge | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation - landfill sites [1] | 11 644 361 | - | (465 627) | 912 650 | 12 091 384 |
| VAT provision [2] | 5 583 430 | 569 505 | - | - | 6 152 935 |
| | **17 227 791** | **569 505** | **(465 627)** | **912 650** | **18 244 319** |

**Reconciliation of provisions - Economic entity - 2018**

| | Opening Balance | Additions | Change in landfill provision | Interest charge | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation - landfill sites [1] | 11 213 864 | - | (481 998) | 912 495 | 11 644 361 |
| VAT Provision [2] | 5 259 688 | 323 742 | - | - | 5 583 430 |
| | **16 473 552** | **323 742** | **(481 998)** | **912 495** | **17 227 791** |

**Reconciliation of provisions - Controlling entity - 2019**

| | Opening Balance | Additions | Change in landfill provision | Interest charge | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation - landfill sites [1] | 11 644 361 | - | (465 627) | 912 650 | 12 091 384 |

**Reconciliation of provisions - Controlling entity - 2018**

| | Opening Balance | Additions | Change in landfill provision | Interest charge | Total |
|---|---|---|---|---|---|
| Environmental rehabilitation - landfill sites [1] | 11 213 864 | - | (481 998) | 912 495 | 11 644 361 |

| | | | | |
|---|---|---|---|---|
| Non-current liabilities | 12 091 384 | 11 644 361 | 12 091 384 | 11 644 361 |
| Current liabilities | 6 152 935 | 5 583 430 | - | - |
| | **18 244 319** | **17 227 791** | **12 091 384** | **11 644 361** |

**[1]. Environmental rehabilitation**

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2039 and has been discounted to reflect its present value.

The evaluation, audit and computation of the provision for rehabilitation of the sites have been carried out by Environmental & Sustainability Solution CC.

The landfill site is expected to be used for the next twenty (20) years and it is estimated that R27 492 272 (2018: R27 492 272) will be spent to rehabilitate the site.

## Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 19. Provisions (continued)

**VAT Provision [2]**

A provision occurred in respect of interest and penalties on output VAT payable to the South African Revenue Services("SARS").

The agency did not declare output VAT on grant received when submitting VAT returns from the year 2006 to 2013. It is probable that SARS will charge interest and penalties on this debt.SARS official interest rate were used to determine the interest payable while penalties were provided for at 10% of the VAT liabilityin line with SARS practices.

### 20. Service charges

| | | | | |
|---|---|---|---|---|
| Refuse removal | 1 021 941 | 862 744 | 1 021 941 | 862 744 |

### 21. Rental of facilities and equipment

| | | | | |
|---|---|---|---|---|
| **Premises** | | | | |
| Halls and Billboards | 12 635 | 20 821 | 12 635 | 20 821 |

### 22. Licences and permits (exchange)

| | | | | |
|---|---|---|---|---|
| Trade licences | 30 966 | 46 537 | 30 966 | 46 537 |

### 23. Other income

| | | | | |
|---|---|---|---|---|
| Insurance claims received [1] | 1 090 681 | (176 672) | 1 090 681 | (176 672) |
| Plan and tender documents fees | 176 658 | 306 651 | 176 658 | 306 651 |
| Sundry Income [2] | 1 121 109 | 400 532 | 1 098 604 | 400 532 |
| Grave sites | 24 907 | 152 235 | 24 907 | 152 235 |
| Commission received | 111 986 | 51 227 | 111 986 | 51 227 |
| Management fees received | 98 601 | - | - | - |
| | **2 623 942** | **733 973** | **2 502 836** | **733 973** |

[1] The huge increase in insurance claims received is due to the various claims received from insurers following the burning down of offices during srike action which happened in August 2018

[2] The sundry income in prior year was composed of other receipts and the decrease in landfill site provision amounting to R409 020 that is accounted as a gain in line with GRAP 2 requirements. In current year the main contributor is the receipts from LG Seta.

### 24. Investment revenue

| | | | | |
|---|---|---|---|---|
| **Interest revenue** | | | | |
| Bank | 5 619 535 | 3 691 816 | 5 619 535 | 3 691 816 |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 25. Property rates

**Rates received**

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Rates | 9 092 763 | 8 754 396 | 9 092 763 | 8 754 396 |

Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies.

**Valuations**

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| Residential | 157 565 459 | 157 565 459 | 157 565 459 | 157 565 459 |
| Commercial | 121 816 140 | 121 816 140 | 121 816 140 | 121 816 140 |
| State | 427 332 300 | 427 332 300 | 427 332 300 | 427 332 300 |
| Municipal | 42 397 710 | 42 397 710 | 42 397 710 | 42 397 710 |
| Small holdings and farms | 32 444 550 | 32 444 550 | 32 444 550 | 32 444 550 |
| Vacant plots | 48 445 569 | 48 445 569 | 48 445 569 | 48 445 569 |
| Place Of Worship | 3 492 300 | 3 492 300 | 3 492 300 | 3 492 300 |
| | **833 494 028** | **833 494 028** | **833 494 028** | **833 494 028** |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.No interim valuation was done in the 2018-2019 financial year.The last such interim valuation came into effect on 1 July 2015.

Rates are levied on an annual basis.. Interest at 15% per annum (2018: 15%).

The new general valuation will be implemented on 01 July 2020.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 26. Government grants and subsidies

| | | | | |
|---|---|---|---|---|
| **Operating grants** | | | | |
| Equitable share | 135 728 665 | 125 772 000 | 135 728 665 | 125 772 000 |
| Expanded Public Works Programme | 1 920 679 | 1 293 487 | 1 920 679 | 1 293 487 |
| Finance Management Grant | 1 970 000 | 961 788 | 1 970 000 | 961 788 |
| Department of Sports, Recreation, Arts and Culture | 196 040 | 142 240 | 196 040 | 142 240 |
| OR Tambo Intervention | - | 700 000 | - | 700 000 |
| Eradication of allien plants project | 3 000 000 | - | 3 000 000 | - |
| | **142 815 384** | **128 869 515** | **142 815 384** | **128 869 515** |
| **Capital grants** | | | | |
| Integrated National Electrification Programme | 25 940 000 | 18 000 000 | 25 940 000 | 18 000 000 |
| Municipal Infrastructure Grant | 33 705 000 | 27 746 060 | 33 705 000 | 27 746 060 |
| Small Town Revitalisation | 33 679 698 | 5 181 078 | 33 679 698 | 5 181 078 |
| | **93 324 698** | **50 927 138** | **93 324 698** | **50 927 138** |
| | **236 140 082** | **179 796 653** | **236 140 082** | **179 796 653** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | | | | |
|---|---|---|---|---|
| Conditional grants received | 100 411 417 | 53 324 653 | 100 411 417 | 53 324 653 |
| Unconditional grants received | 135 728 665 | 126 472 000 | 135 728 665 | 126 472 000 |
| | **236 140 082** | **179 796 653** | **236 140 082** | **179 796 653** |

**Equitable Share**

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

All registered indigents receive a monthly subsidy of 50 kWH - (2018: 50 kWH), which is funded from the equitable share grant.

Refuse removal services for a tarrif of 100% of amount billed (2018: R102.47) per month are offered for free to the indigent communities of Port St Johns.

**Local Government Sector Education and Training Authority**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 26 189 | 26 189 | 26 189 | 26 189 |
| Current-year receipts | 87 075 | - | 87 075 | - |
| | **113 264** | **26 189** | **113 264** | **26 189** |

Conditions still to be met - remain liabilities (see note 17).

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan(SSP) and the priorities set out in the national skills development strategy (NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector

The Municipality applied for roll over of the unspent portion of the grant which was approved.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |

### 26. Government grants and subsidies (continued)

**Expanded Public Works Programme**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 207 513 | - | 207 513 | - |
| Unspent grant repaid | (207 513) | - | (207 513) | - |
| Current year receipts | 3 206 429 | 1 501 000 | 3 206 429 | 1 501 000 |
| Conditions met - transferred to revenue | (1 920 679) | (1 293 487) | (1 920 679) | (1 293 487) |
| | **1 285 750** | **207 513** | **1 285 750** | **207 513** |

Conditions still to be met - remain liabilities (see note 17).

The purpose of the grant is to incentivise economic entity to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas

The municipality applied for roll over of the unspent portion of the grant which was approved.

**Finance Management Grant**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 938 212 | - | 938 212 | - |
| Unspent grant repaid | (938 212) | - | (938 212) | - |
| Current year receipts | 1 970 000 | 1 900 000 | 1 970 000 | 1 900 000 |
| Conditions met - transferred to revenue | (1 970 000) | (961 788) | (1 970 000) | (961 788) |
| | **-** | **938 212** | **-** | **938 212** |

Conditions still to be met - remain liabilities (see note 17).

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act

The Municipality applied for roll over of the unspent portion of the grant which was approved.

**Integrated National Electrification Programme Grant**

| | | | | |
|---|---|---|---|---|
| Current-year receipts | 25 940 000 | 18 000 000 | 25 940 000 | 18 000 000 |
| Conditions met - transferred to revenue | (25 940 000) | (18 000 000) | (25 940 000) | (18 000 000) |
| | **-** | **-** | **-** | **-** |

Conditions still to be met - remain liabilities (see note 17).

The grant is received from National government for electrification projects within the previously disadvantage communities of the municipalityt

The Municipality applied for roll over of the unspent portion of the grant which was approved.

**Department of Sports, Recreation, Arts and Culture**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 248 696 | 90 936 | 248 696 | 90 936 |
| Current-year receipts | 500 000 | 300 000 | 500 000 | 300 000 |
| Conditions met - transferred to revenue | (196 040) | (142 240) | (196 040) | (142 240) |
| | **552 656** | **248 696** | **552 656** | **248 696** |

Conditions still to be met - remain liabilities (see note 17).

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 26. Government grants and subsidies (continued)

The purpose of the grant is to maintain existing library facilities, assist in supervising and administration of staff in public libraries, establish library structures , support library awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts

The Municipality applied for roll over of the unspent portion of the grant which was approved

**Municipal Infrastructure Grant**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 7 150 940 | - | 7 150 940 | - |
| Unspent grant repaid | (7 150 940) | - | (7 150 940) | - |
| Current year receipts | 33 705 000 | 34 897 000 | 33 705 000 | 34 897 000 |
| Conditions met - transferred to revenue | (33 705 000) | (27 746 060) | (33 705 000) | (27 746 060) |
| | **-** | **7 150 940** | **-** | **7 150 940** |

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

The Municipality applied for roll over of the unspent portion of the grant which was approved.

**Small Town Revitalisation**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 448 817 | - | 448 817 | - |
| Current-year receipts | 33 230 881 | 5 629 895 | 33 230 881 | 5 629 895 |
| Conditions met - transferred to revenue | (33 679 698) | (5 181 078) | (33 679 698) | (5 181 078) |
| | **-** | **448 817** | **-** | **448 817** |

Conditions still to be met - remain liabilities (see note 17).

The project provides finance for upgrading of road infrastructure in rural townships.

The Municipality applied for roll over of the unspent portion of the grant which was approved.

**Eradication of allien plants project**

| | | | | |
|---|---|---|---|---|
| Current-year receipts | 3 000 000 | - | 3 000 000 | - |
| Conditions met - transferred to revenue | (3 000 000) | - | (3 000 000) | - |
| | **-** | **-** | **-** | **-** |

Conditions still to be met - remain liabilities (see note 17).

The purpose of the grant is to supply finance to enable communities to bring invasive species such as blue gums, poplar and wattle under control in such way that it contributes to the conservation of the natural resources.

**Cutweni project**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 1 219 989 | 1 219 989 | - | - |

Conditions still to be met - remain liabilities (see note 17).

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 26. Government grants and subsidies (continued)

**Mangazi to Manteku project**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 20 095 | 20 095 | - | - |

Conditions still to be met - remain liabilities (see note 17).

**Small scale Fish Factory**

| | | | | |
|---|---|---|---|---|
| Balance unspent at beginning of year | 1 011 550 | 1 011 550 | - | - |

Conditions still to be met - remain liabilities (see note 17).

## 27. Fines, Penalties and Forfeits

| | | | | |
|---|---|---|---|---|
| Municipal Traffic Fines | 252 423 | 355 650 | 252 423 | 355 650 |

## 28. Employee related costs

| | | | | |
|---|---|---|---|---|
| Salaries [1] | 60 168 184 | 55 416 065 | 54 899 784 | 50 594 829 |
| Medical aid - company contributions | 3 104 738 | 4 890 828 | 3 104 738 | 4 890 828 |
| UIF | 375 255 | 758 123 | 375 255 | 758 123 |
| Leave pay accrual charge | 293 463 | 546 119 | 293 463 | 546 119 |
| Defined contribution plans | 6 789 329 | 8 945 366 | 6 789 329 | 8 945 366 |
| Overtime payments | 702 | 106 741 | 702 | 106 741 |
| Long-service awards | 424 093 | 350 262 | 424 093 | 350 262 |
| | **71 155 764** | **71 013 504** | **65 887 364** | **66 192 268** |

[1] Salaries amount is composed of basic salaries, overtime, bonuses and allowances.

**Remuneration of municipal manager - HT Hlazo (Appointed August 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 631 326 | - | 631 326 | - |
| Car Allowance | 135 000 | - | 135 000 | - |
| Bonuses | 28 563 | - | 28 563 | - |
| Contributions to UIF, Medical and Pension Funds | 1 636 | - | 1 636 | - |
| Back pay | 32 471 | - | 32 471 | - |
| Other allowances (housing, remote and travel) | 9 518 | - | 9 518 | - |
| | **838 514** | **-** | **838 514** | **-** |

**Remuneration of former Acting municipal manager - BP Mase (Appointed February 2018 - Left July 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 63 685 | 172 323 | 63 685 | 172 323 |
| Car Allowance | - | 9 986 | - | 9 986 |
| Contributions to UIF, Medical and Pension Funds | 297 | 744 | 297 | 744 |
| Cell phone allowance | 3 593 | - | 3 593 | - |
| | **67 575** | **183 053** | **67 575** | **183 053** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 28. Employee related costs (continued)

**Remuneration of former municipal manager - N Pakade (Appointed April 2016 - Left March 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | - | 572 138 | - | 572 138 |
| Car Allowance | - | 152 807 | - | 152 807 |
| Contributions to UIF, Medical and Pension Funds | - | 58 048 | - | 58 048 |
| Other allowances (housing, remote and travel) | - | 177 682 | - | 177 682 |
| Back pay | - | 38 398 | - | 38 398 |
| Leave paid | - | 184 133 | - | 184 133 |
| | **-** | **1 183 206** | **-** | **1 183 206** |

**Remuneration of the Acting Chief Financial Officer - N Hlangu (Appointed August 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 708 690 | 55 497 | 708 690 | 55 497 |
| Bonuses | 59 381 | - | 59 381 | - |
| Contributions to UIF, Medical and Pension Funds | 172 553 | 12 208 | 172 553 | 12 208 |
| Acting Allowance | 63 811 | - | 63 811 | - |
| Back pay | 98 326 | - | 98 326 | - |
| | **1 102 761** | **67 705** | **1 102 761** | **67 705** |

The incumbent also acted as the Chief financial Officer for one month in June 2018.

**Remuneration of the former Chief Financial Officer - P Gwana (Left July 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 80 021 | 935 620 | 80 021 | 935 620 |
| Car Allowance | 18 962 | 221 706 | 18 962 | 221 706 |
| Contributions to UIF, Medical and Pension Funds | 186 | 2 222 | 186 | 2 222 |
| Other allowances (housing, remote and travel) | 6 743 | 78 836 | 6 743 | 78 836 |
| Leave paid | 195 424 | - | 195 424 | - |
| Back pay | - | 32 546 | - | 32 546 |
| | **301 336** | **1 270 930** | **301 336** | **1 270 930** |

**Remuneration of Corporate Services Manager - LT Somtseu (Appointed September 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 644 441 | - | 644 441 | - |
| Contributions to UIF, Medical and Pension Funds | 3 862 | - | 3 862 | - |
| Other allowances (housing, remote and travel) | 45 567 | - | 45 567 | - |
| Back pay | 25 010 | - | 25 010 | - |
| | **718 880** | **-** | **718 880** | **-** |

The position was vacant since Mr F Guleni left March 2018 until the new Senior Manager was appointed in September 2018.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |

## 28. Employee related costs (continued)

**Remuneration of former Corporate Services Manager / Community Services Manager - F Guleni (Appointed September 2012 - Left March 2018 / Appointed Senior Manager Community Services in January 2019)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 412 437 | 513 370 | 412 437 | 513 370 |
| Car Allowance | - | 152 486 | - | 152 486 |
| Contributions to UIF, Medical and Pension Funds | 892 | 1 518 | 892 | 1 518 |
| Other allowances (housing, remote and travel) | 7 815 | 147 403 | 7 815 | 147 403 |
| Acting Allowance | - | 8 654 | - | 8 654 |
| Leave paid | - | 241 658 | - | 241 658 |
| Back pay | 8 777 | 32 546 | 8 777 | 32 546 |
| | **429 921** | **1 097 635** | **429 921** | **1 097 635** |

The incumbent was the Senior Manager - Corprate Services until March 2018 and was later appointed as the Senior Manager - Community Services in Janauary 2019.

**Remuneration of former Community Services Manager - T Mvukuzo (Appointed September 2012 -Left March 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | - | 615 536 | - | 615 536 |
| Car Allowance | - | 145 858 | - | 145 858 |
| Contributions to UIF, Medical and Pension Funds | - | 1 518 | - | 1 518 |
| Other allowances (housing, remote and travel) | - | 51 866 | - | 51 866 |
| Leave paid | - | 171 175 | - | 171 175 |
| Back pay | - | 32 546 | - | 32 546 |
| | **-** | **1 018 499** | **-** | **1 018 499** |

**Remuneration of Engineering Services Manager - CCA O'Bose (Appointed September 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 644 441 | - | 644 441 | - |
| Contributions to UIF, Medical and Pension Funds | 1 487 | - | 1 487 | - |
| Other allowances (housing, remote and travel) | 7 815 | - | 7 815 | - |
| Back pay | 25 835 | - | 25 835 | - |
| | **679 578** | **-** | **679 578** | **-** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 28. Employee related costs (continued)

**Remuneration of former Engineering Services Manager - B Tshitshi (Appointed 1 September 2012 - Left March 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | - | 600 952 | - | 600 952 |
| Car Allowance | - | 103 192 | - | 103 192 |
| Bonuses | - | 88 858 | - | 88 858 |
| Contributions to UIF, Medical and Pension Funds | - | 1 518 | - | 1 518 |
| Other allowances (housing, remote and travel) | - | 23 589 | - | 23 589 |
| Leave paid | - | 186 278 | - | 186 278 |
| Acting Allowance | - | 36 181 | - | 36 181 |
| Back pay | - | 69 200 | - | 69 200 |
| | **-** | **1 109 768** | **-** | **1 109 768** |

After the incumbent left the position became vacant until the Appoinment of Mr CCA O'Bose in September 2018.

**Remuneration of LED Manager - S Xuku ( Appointed April 2019)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 404 449 | - | 404 449 | - |
| Bonuses | 19 551 | - | 19 551 | - |
| Contributions to UIF, Medical and Pension Funds | 4 948 | - | 4 948 | - |
| Other allowances (housing, remote and travel) | 7 815 | - | 7 815 | - |
| Leave paid | 52 016 | - | 52 016 | - |
| Back pay | 2 070 | - | 2 070 | - |
| | **490 849** | **-** | **490 849** | **-** |

**Remuneration of former LED Manager - Z Masumpa (Appointed 1 July 2013 - Left September 2018)**

| | | | | |
|---|---|---|---|---|
| Annual Remuneration | 240 063 | 935 620 | 240 063 | 935 620 |
| Car Allowance | 56 886 | 221 706 | 56 886 | 221 706 |
| Contributions to UIF, Medical and Pension Funds | 557 | 2 222 | 557 | 2 222 |
| Other allowances (housing, remote and travel) | 20 228 | 78 836 | 20 228 | 78 836 |
| Leave paid | 241 658 | - | 241 658 | - |
| Back pay | 6 980 | 32 546 | 6 980 | 32 546 |
| | **566 372** | **1 270 930** | **566 372** | **1 270 930** |

After Ms Z Masumpa left in September 2018, the positiion became vacant until the appointment of Mr S Xuku in April 2019.

### 29. Remuneration of councillors

| | | | | |
|---|---|---|---|---|
| Councillors | 13 120 696 | 14 020 264 | 13 120 696 | 14 020 264 |
| PSJDA Board members | 315 644 | 245 906 | - | - |
| | **13 436 340** | **14 266 170** | **13 120 696** | **14 020 264** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 29. Remuneration of councillors (continued)

| 2019 Economic Entity | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Directors empluments | Total |
|---|---|---|---|---|---|---|
| Mlombile/Cingo N - Mayor | 604 396 | 17 528 | 201 465 | 2 688 | - | 826 077 |
| Nokhanda B - Speaker | 360 549 | 20 371 | 120 183 | 3 154 | - | 504 257 |
| Nduku/Mazuza C - Chief Whip | 453 298 | 19 675 | 151 099 | 4 189 | - | 628 261 |
| Subtotal | 1 418 243 | 57 574 | 472 747 | 10 031 | - | 1 958 595 |
| Other Councillors | 7 782 634 | 546 239 | 2 576 470 | 256 758 | - | 11 162 101 |
| Board members | - | - | - | - | 315 644 | 315 644 |
| | **9 200 877** | **603 813** | **3 049 217** | **266 789** | **315 644** | **13 436 340** |

| 2018 Economic Entity | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Directors empluments | Total |
|---|---|---|---|---|---|---|
| Mlombile/Cingo N - Mayor | 668 333 | 66 899 | 222 778 | 9 234 | - | 967 244 |
| Nokhanda B - Speaker | 726 226 | 114 223 | 242 075 | 20 698 | - | 1 103 222 |
| Nduku/Mazuza C - Chief Whip | 312 953 | 36 109 | 104 317 | 29 814 | - | 483 193 |
| Subtotal | 1 707 512 | 217 231 | 569 170 | 59 746 | - | 2 553 659 |
| Other Councillors | 7 029 981 | 1 094 934 | 2 343 234 | 998 456 | - | 11 466 605 |
| Board members | - | - | - | - | 245 906 | 245 906 |
| | **8 737 493** | **1 312 165** | **2 912 404** | **1 058 202** | **245 906** | **14 266 170** |

| 2019 Controlling Entity | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Total |
|---|---|---|---|---|---|
| Mlombile/Cingo N - Mayor | 604 396 | 17 528 | 201 465 | 2 688 | 826 077 |
| Nokhanda B - Speaker | 360 549 | 20 371 | 120 183 | 3 154 | 504 257 |
| Nduku/Mazuza C - Chief Whip | 453 298 | 19 675 | 151 099 | 4 189 | 628 261 |
| Subtotal | 1 418 243 | 57 574 | 472 747 | 10 031 | 1 958 595 |
| Other Councillors | 7 782 634 | 546 239 | 2 576 470 | 256 758 | 11 162 101 |
| | **9 200 877** | **603 813** | **3 049 217** | **266 789** | **13 120 696** |

| 2018 Controlling Entity | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Total |
|---|---|---|---|---|---|
| Mlombile/Cingo N - Mayor | 668 333 | 66 899 | 222 778 | 9 234 | 967 244 |
| Nokhanda B - Speaker | 726 226 | 114 223 | 242 075 | 20 698 | 1 103 222 |
| Nduku/Mazuza C - Chief Whip | 312 953 | 36 109 | 104 317 | 29 814 | 483 193 |
| Subtotal | 1 707 512 | 217 231 | 569 170 | 59 746 | 2 553 659 |
| Other Councillors | 7 029 981 | 1 094 934 | 2 343 234 | 998 456 | 11 466 605 |
| | **8 737 493** | **1 312 165** | **2 912 404** | **1 058 202** | **14 020 264** |

### In-kind benefits

The Mayor, Speaker and Chief Whip are full-time. Each is provided with an office and secretarial support at the cost of the Council.

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

Detailed remuneration details per councilor are disclosed in note 43.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |

### 30. Depreciation and amortisation

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | 34 333 771 | 31 301 661 | 34 142 139 | 31 116 335 |

### 31. Finance costs

| | | | | |
|---|---|---|---|---|
| Late payment of trade and other payables | 247 812 | 49 986 | 247 812 | 49 986 |
| Other finance costs [1] | 1 849 820 | 1 638 704 | 1 200 732 | 1 107 803 |
| | **2 097 632** | **1 688 690** | **1 448 544** | **1 157 789** |

Other finance costs relate to interest charged on the main bank account, on finance leases, on landfill site rehabilitation provision, on provision on late payment of taxes and on employee benefits obligations.

### 32. Lease rentals on operating lease

| | | | | |
|---|---|---|---|---|
| **Equipment** | | | | |
| Contractual amounts | 2 359 414 | 1 125 929 | 2 273 814 | 1 049 821 |

### 33. Debt impairment

| | | | | |
|---|---|---|---|---|
| Debt impairment | 4 396 859 | 7 205 329 | 4 396 859 | 7 205 329 |

### 34. Contracted services

| | | | | |
|---|---|---|---|---|
| Consultants and professional fees | 2 092 265 | 4 730 778 | 2 092 265 | 4 730 778 |
| Security services | 2 514 348 | - | 2 514 348 | - |
| Legal fees | 1 145 637 | 817 705 | 1 145 637 | 817 705 |
| | **5 752 250** | **5 548 483** | **5 752 250** | **5 548 483** |

### 35. Grants and subsidies paid

| | | | | |
|---|---|---|---|---|
| **Other subsidies** | | | | |
| LED Programmes- (PSJDA) | - | - | 10 363 478 | 7 322 273 |

## Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 36. General expenses

| | | | | |
|---|---|---|---|---|
| Accounting fees | 208 750 | 280 100 | - | - |
| Advertising | 1 210 265 | 663 253 | 1 196 585 | 608 149 |
| Audit Committee Fees | 128 299 | 95 237 | 116 097 | 88 380 |
| Audit Committee Fees | 252 924 | 240 497 | 252 924 | 240 497 |
| Auditors remuneration | 6 464 747 | 4 654 252 | 6 149 135 | 4 169 538 |
| Bank charges | 182 302 | 138 583 | 157 072 | 126 075 |
| Books and publications | - | 60 510 | - | 60 510 |
| Community development and training | 299 508 | 341 465 | 299 508 | 341 465 |
| Computer expenses | 27 373 | 6 894 | 11 295 | (11 120) |
| Consumables | 250 373 | 319 407 | 250 373 | 319 407 |
| Debt collection | 334 541 | 225 263 | 334 541 | 225 263 |
| Electricity | 1 326 330 | 742 465 | 1 326 330 | 742 465 |
| Entertainment | 514 972 | 289 748 | 502 181 | 267 512 |
| Fines and penalties | - | 641 975 | - | 641 975 |
| Fuel and oil | 3 974 011 | 3 476 600 | 3 960 809 | 3 453 137 |
| Grant project expenses | 7 829 558 | 2 468 343 | 4 825 858 | 2 124 140 |
| Hire | 215 241 | 59 348 | 215 241 | 59 348 |
| Insurance | 1 312 243 | 1 773 186 | 1 253 554 | 1 714 366 |
| Licence Fees | 715 519 | 450 324 | 681 679 | 424 930 |
| Licence Fees | 621 995 | 431 190 | 616 184 | 431 190 |
| Motor vehicle expenses | 45 931 | - | 45 931 | - |
| Other expenses | 476 825 | 378 898 | 451 697 | 322 652 |
| Postage and courier | 1 635 | 780 | 1 635 | 780 |
| Protective Clothing | 646 004 | 678 972 | 633 479 | 677 821 |
| Repairs and maintenance | 4 227 214 | 3 821 446 | 4 207 366 | 3 791 255 |
| Section 79 committees | 55 200 | - | 55 200 | - |
| Skills Development Levy | 670 465 | 660 498 | 670 465 | 660 498 |
| Social Responsibility program | 7 261 220 | 5 716 568 | 7 261 220 | 5 716 568 |
| Subscriptions and membership fees | 1 598 209 | 837 582 | 1 598 209 | 837 582 |
| Telephone and fax | 4 121 924 | 3 360 846 | 4 038 286 | 3 233 217 |
| Training | 798 297 | 927 818 | 796 947 | 924 218 |
| Travel - local | 7 233 962 | 6 696 986 | 6 886 937 | 6 304 187 |
| Ward Committees Stipend | 3 934 767 | 4 317 537 | 3 934 767 | 4 317 537 |
| | **56 940 604** | **44 756 571** | **52 731 505** | **42 813 542** |

### 37. Auditors' remuneration

| | | | | |
|---|---|---|---|---|
| Fees | 6 464 747 | 4 654 252 | 6 149 135 | 4 169 538 |

## Notes to the Consolidated Annual Financial Statements

### 38. Operating surplus

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

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Operating lease charges** | | | | |
| Equipment | | | | |
| • Contractual amounts | 2 359 414 | 1 125 929 | 2 273 814 | 1 049 821 |
| (Loss) gain on sale of property, plant and equipment | (383 214) | 57 796 | (383 207) | 57 796 |
| Depreciation on property, plant and equipment | 34 333 771 | 31 301 661 | 34 142 139 | 31 116 335 |
| Employee costs | 84 592 104 | 85 279 674 | 79 008 060 | 80 212 532 |

### 39. Cash generated from operating activities

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Surplus | 65 989 626 | 19 232 736 | 66 123 026 | 19 607 083 |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | 34 333 771 | 31 301 661 | 34 142 139 | 31 116 335 |
| Gain (loss) on sale of assets and liabilities | 383 214 | (57 796) | 383 207 | (57 796) |
| Fair value adjustments | (101 486) | (105 886) | - | - |
| Finance costs - Finance leases | 59 778 | 24 365 | 50 953 | 4 572 |
| Debt impairment | 4 396 859 | 7 205 329 | 4 396 859 | 7 205 329 |
| Movements in operating lease assets and accruals | 432 131 | 95 039 | 432 131 | 95 039 |
| Movements in retirement benefit assets and liabilities | 1 152 029 | 420 557 | 1 152 029 | 420 557 |
| Movements in provisions | 1 016 528 | 6 613 536 | 447 023 | 6 289 794 |
| Other non-cash items | (1 855 737) | (5 812 241) | (1 855 719) | (5 812 240) |
| **Changes in working capital:** | | | | |
| Inventories | 854 619 | (438 254) | 854 619 | (438 254) |
| Receivables from exchange transactions | (5 723 865) | 346 172 | (5 700 795) | 346 172 |
| Consumer debtors | (4 851 321) | (6 963 722) | (4 851 321) | (6 963 722) |
| Other receivables from non-exchange transactions | 1 318 202 | (2 720 881) | 1 318 202 | (2 720 881) |
| Payables from exchange transactions | 9 527 721 | (2 608 718) | 9 560 537 | (2 445 095) |
| VAT | (12 397 054) | 1 857 | (12 233 082) | 225 946 |
| Unspent conditional grants and receipts | (7 068 697) | 8 903 244 | (7 068 697) | 8 903 244 |
| | **87 466 318** | **55 436 998** | **87 151 111** | **55 776 083** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 40. Financial instruments disclosure

### Categories of financial instruments

### Economic entity - 2019

### Financial assets

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 6 457 265 | 6 457 265 |
| Receivables from non-exchange transactions | 4 962 808 | 4 962 808 |
| Consumer debtors | 1 274 183 | 1 274 183 |
| VAT receivable | 16 497 672 | 16 497 672 |
| Cash and cash equivalents | 57 308 528 | 57 308 528 |
| | **86 500 456** | **86 500 456** |

### Financial liabilities

| | At amortised cost | Total |
|---|---|---|
| Finance lease liability | 409 257 | 409 257 |
| Payables from exchange transactions | 31 369 447 | 31 369 447 |
| VAT payable | 4 510 006 | 4 510 006 |
| Unspent conditional grants and receipts | 4 203 304 | 4 203 304 |
| Consumer deposits | 61 000 | 61 000 |
| | **40 553 014** | **40 553 014** |

### Economic entity - 2018

### Financial assets

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 733 400 | 733 400 |
| Receivables from non-exchange transactions | 6 281 010 | 6 281 010 |
| Consumer debtors | 819 721 | 819 721 |
| VAT receivable | 4 264 590 | 4 264 590 |
| Cash and cash equivalents | 57 908 801 | 57 908 801 |
| | **70 007 522** | **70 007 522** |

### Financial liabilities

| | At amortised cost | Total |
|---|---|---|
| Payables from exchange transactions | 21 862 724 | 21 862 724 |
| Finance lease liability | 581 887 | 581 887 |
| Unspent conditional grants and receipts | 11 272 001 | 11 272 001 |
| Consumer deposits | 61 000 | 61 000 |
| VAT payable | 4 673 978 | 4 673 978 |
| | **38 451 590** | **38 451 590** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**40. Financial instruments disclosure (continued)**

**Controlling entity - 2019**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 6 434 195 | 6 434 195 |
| Receivables from non-exchange transactions | 4 962 808 | 4 962 808 |
| Consumer debtors | 1 274 183 | 1 274 183 |
| VAT receivable | 16 497 672 | 16 497 672 |
| cash and cash equivalent | 57 055 088 | 57 055 088 |
| | **86 223 946** | **86 223 946** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Payables from exchange transactions | 29 597 520 | 29 597 520 |
| Finanance lease liability | 375 663 | 375 663 |
| Unspent conditional grants and receipts | 1 951 670 | 1 951 670 |
| Consumer deposits | 61 000 | 61 000 |
| | **31 985 853** | **31 985 853** |

**Controlling entity - 2018**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from exchange transactions | 733 400 | 733 400 |
| Receivables from non-exchange transactions | 6 281 010 | 6 281 010 |
| Consumer debtors | 819 721 | 819 721 |
| VAT receivable | 4 264 590 | 4 264 590 |
| Cash and cash equivalents | 57 804 801 | 57 804 801 |
| | **69 903 522** | **69 903 522** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Payables from exchange transactions | 20 036 983 | 20 036 983 |
| Finance lease liability | 454 103 | 454 103 |
| Unspent conditional grants and receipts | 9 020 367 | 9 020 367 |
| Consumer deposits | 61 000 | 61 000 |
| | **29 572 453** | **29 572 453** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

40. **Financial instruments disclosure (continued)**

**Financial instruments in Statement of financial performance**

**Economic entity - 2019**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 9 273 543 | 9 273 543 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (2 097 632) | (2 097 632) |
| | **7 175 911** | **7 175 911** |

**Economic entity - 2018**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 5 715 518 | 5 715 518 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (1 688 690) | (1 688 690) |
| | **4 026 828** | **4 026 828** |

**Controlling entity - 2019**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 9 273 543 | 8 596 645 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (1 448 544) | (535 894) |
| | **7 824 999** | **8 060 751** |

**Controlling entity - 2018**

| | At amortised cost | Total |
|---|---|---|
| Interest income (calculated using effective interest method) for financial instruments at amortised cost | 5 715 518 | 5 715 518 |
| Interest expense (calculated using effective interest method) for financial instruments at amortised cost | (1 157 789) | (454 990) |
| | **4 557 729** | **5 260 528** |

## Notes to the Consolidated Annual Financial Statements

### 41. Commitments

**Authorised capital expenditure**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Already contracted for but not provided for** | | | | |
| • Property, plant and equipment | 69 433 708 | 29 993 594 | 69 433 708 | 29 993 594 |
| **Total capital commitments** | | | | |
| Already contracted for but not provided for | 69 433 708 | 29 993 594 | 69 433 708 | 29 993 594 |

**Authorised operational expenditure**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Already contracted for but not provided for** | | | | |
| • General expenditure | 14 019 945 | 2 973 046 | 13 484 423 | 2 617 980 |
| **Total operational commitments** | | | | |
| Already contracted for but not provided for | 14 019 945 | 2 973 046 | 13 484 423 | 2 617 980 |

**Total commitments**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Total commitments** | | | | |
| Authorised capital expenditure | 69 433 708 | 29 993 594 | 69 433 708 | 29 993 594 |
| Authorised operational expenditure | 14 019 945 | 2 973 046 | 13 484 423 | 2 617 980 |
| | **83 453 653** | **32 966 640** | **82 918 131** | **32 611 574** |

This committed expenditure relates to access roads land acquisition and operational expenditure. It will be financed by the Municipal Infrastructure Grant and municipal own internal resources.

**Operating leases - as lessee (expense)**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Minimum lease payments due** | | | | |
| - within one year | 545 790 | 176 354 | 545 790 | 176 354 |
| - in second to fifth year inclusive | 1 518 001 | 879 074 | 1 518 001 | 879 074 |
| - later than five years | 5 558 860 | 5 830 203 | 5 558 860 | 5 830 203 |
| | **7 622 651** | **6 885 631** | **7 622 651** | **6 885 631** |

[1] Port St Johns Local Municipality leases land from Transnet for a period of 30 years Effective from 1 January 2006. The lease payment is R5 000 per month with annual escalation of 9%. No Contingent rent is payable. The lease is not renewable at the end of the lease term.

[2] Port St Johns Local Municipality leases 10 photocopier machines for a period of 36 months from Aloe Office and Business Equipment effective from 31 January 2019. The lease payment varies according to the machine leased which is payable monthly and has no escalation. No contingent rent is payable.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 42. Contingencies

**Assets**

**Port St John Municipality v Coastal Properties (Pty)Ltd (D E le Roux - MAT 2409)**

The Municipality instituted action against Coastal Properties (Pty)Ltd for arrear rates in the sum of R218 879. Defaults Judgment was obtained. LRI has instructed its correspondent attorney to proceed to re-issue the warrant of execution. A report is awaited from the correspondent attorney.

The estimated fees are R255 000.

**Liabilities**

**Mr. Mfecane Vs Port St Municipality (case number 4058/2019)**

Mr. Mfecane is suing the Municipality for R 6 876 268 for the loss suffered when a property he unlawfully occupied was demolished in terms of the court order.The case has been handed over to attorney for defending.

The estimated fees including cost and disbursements are R 7 500 00**Mr. Bodlani Vs Port St Johns Municipality (D E le Roux - MAT 4627**)

Mr. Bodlani instituted action against the Municipality for damages allegedly suffered in the sum of R495 000 as a result of being assaulted by municipal employees. LRI is still awaiting a trial date. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R650 000.

**Almo Projects CC t/a Zamani Civils Vs Port St John Municipality (D E le Roux - MAT 5106)**

Almo Projects CC t/a Zamani Civils Instituted action against the Municipality for alleged breach of contract in the sum of R9 944 339. The claim has been ceded to Nurcha Finance Development Finance (Pty) Ltd. The matter was set down for hearing on 14 February 2018 but could not proceed as the plaintiff's counsel was unavailable. Due to the delay in finalising the matter the attorneys have advised the Municipality to consider referring the case to arbitration. The Municipality is still to give an instruction to the attorneys on the arbitration decision. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R11 000 000.

**Bambilanga and Tshibilika Vs Port St Johns Municipality (case No. 4435/2016) and (case No. 92/2017)**

These two matters concerns Municipal employee who was assaulted by casual workers. He is suing the Municipality for injuries he suffered as he says that the Municipality did not put in place protective measures to protect. The attorneys of record have withdrawn from the matter, which means it now dormant until they appoint another attorneyThe estimated fees are R500 000.

The estimated fees are R500 000.

**Port Johns Municipality Vs Various persons**

This is an application for which an interdicted was sought and granted on the 15th of December 2017 when the interim interdict was granted. The return date is the 30th January 2018. The matter is undefended yet.

The estimated fees are R120 000.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**42. Contingencies (continued)**
**Port St John Local Municipality Vs SAMWU**

This is the matter where the municipality is seeking an interdict to declare the strike unlawful. An interim interdict was obtained. The matter was due back in court on the 2nd of August 2018 for the final interdict.

The estimated fees are R120 000.

**Fundile Nogumla & Another Vs Port St Johns (Case Number 591/16)**

A civil claim for damages against the municipality suffered as a result of alleged negligence by the municipality (shark attack). The attorneys are going to hold a pre-trial conference as pleadings in the matter have been closed and they shall apply for a trial date. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R 500 000.

**Z Ndabeni & Others Vs Port St Johns (Case number 220/2019)**

The Municipality is being sued for unlawful arrest. Pleadings have been closed. Awaiting trial date from the registrar of the high court. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R 200 000.

**Nomlindo Mbulungwana Vs Port St Johna Municipality (Case number 53/2017)**

The Plaintiff issued Summons against the municipality in which she is claiming an amount of R150 000 for damages suffered as a result of a road which was constructed, purportedly through her property, on Greens Farm, Port St. Johns. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated fees are R150 000.

**Port St Johns Municipality Vs Luxolo Fono (Case number 4056/2018)**

This matter is about the illegal structure built at ERF 1 & 736 at Second beach.

The estimated legal fees are still being determined.

**Port St Johns Municipality Vs F. Abdullah & T. Hassain**

This matter is about illegal land use at Mpantu. The municipality applied to interdict the block making at ERF 1602.

The estimated legal fees are still being determined.

**Mnoneleli T. Mfecane Vs Port St Johns**

Mfenace applied for interdict to stop the Municipality from using ERF 283 & 266 at first beach. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful.

The estimated legal fees are still being determined.

**Nokwenzeka M . Magidigidi Vs Port St Johns Local Municipality (Case Number 5212/2018)**

Claim for the wrongfully impounded vehicle. The plaintiff seeks to be reimbursed of the 3 motor vehicles that were impounded to be compensated with the monetary value of R83 000. The lawyers of the municipality are unable to ascertain the likelihood of action against the municipality being successful

The estimated legal fees are still being determined.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**42. Contingencies (continued)**

**Fono & Others Vs Port St Johns Local Municipality (Case Number 4056/2018)**

Illegal building. The applicant commenced building without an approved building plan. The municipality is seeking to prevent illegal construction of a building.

The estimated legal fees are still being determined.

**Sikwele Nqileni & Others Vs Port St Johns Local Municipality (Case Number Ecel 397-19)**

Full time employment claim. The employees are seeking to be employed on a pemanent basis claiming that they were promised to be employed permanently.

The estimated legal fees are still being determined

**Nandipha Sibobi Vs Port St Johns Local Municipality (Case Number Ecel 397-19**)

Interview claim. The plaintiff is disputing her non-appointment as Chief Financial Officer and is challenging the outcome of the interview. She has demanded the results of the interview.

The estimated legal fees are still being determined.

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 43. Related parties

**Relationships**

| | |
|---|---|
| Accounting Officer | Mr H T Hlazo |
| Other members of key management | N Hlangu - Acting Chief Financial Officer<br>LT Somtseu - Cororate Services Senior Manager<br>S Xuku - LED Senior Manager<br>CCA O'Bose - Engeneering Services Senior Manager<br>F Guleni - Community Services Senior Manager |
| Ditrict Municipality | OR Tambo District Municipality |
| Controlled entity [1] | Port St Johns Development Agency |
| Mayor | Cllr. NM Cingo (appointed 14 February 2018) |
| Speakers | Cllr B Nokhanda (from 14 February 2018 to 20 March 2019)<br>Cllr. A.A. Gantsho (Appointed 20 March 2019) |
| Chief Whip | Cllr. C.S. Mazuza |
| Councillors | Cllr. N. F. Bokwe<br>Cllr. Cube Z. H<br>Cllr. Dyosoba M<br>Cllr. Fono K. M<br>Cllr. Jama F<br>Cllr. Fono N. C<br>Cllr. Hobo M<br>Cllr. Madini D.V<br>Cllr. Mafaka F<br>Cllr. Majali N. P<br>Cllr. Majeke K<br>Cllr. Maqina Z<br>Cllr. Mavimbela S. V<br>Cllr. Rolobile L<br>Cllr. Mhlabeni Z<br>Cllr. Mfiki N<br>Cllr. Mnceba D. Z<br>Cllr. Mjakuja B<br>Cllr. Moni X<br>Cllr. Mtiki Z<br>Cllr. Mtuku N.B<br>Cllr. Mzungule A<br>Cllr. Ndamase L<br>Cllr. Msongelwa T. M<br>Cllr. Ntlatywa S. L<br>Cllr. Ntsham T<br>Cllr. Sicoto S. E<br>Cllr. Soga. N. P<br>Cllr. Tani N<br>Cllr. Tshitshiliza N<br>Cllr. Tshotho G<br>Cllr. Totwana Z<br>Cllr. Vava N<br>Cllr. Veni M<br>Cllr. Vimba G. X<br>Cllr. Zweni R. M |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 43. Related parties (continued)

Directors of the controlled entitiy (Port St Johns Development Agency)

X Mvinjelwa
A Nyikinya
AL Bewana N Balfour
L Mbane
FB Makiwane LS Nduku
N Mtakati-Futwa

**Related party balances**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Advance on purchase of land** | | | | |
| OR Tambo District Municipality | 6 132 284 | 6 132 284 | 6 132 284 | 6 132 284 |

**Related party transactions**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| **Grant paid to related parties** | | | | |
| Grants paid by the Municipality to PSJDA | - | - | 10 363 478 | 7 322 273 |

**43. Related parties (continued)**

**Remuneration of management**

**Councillors**

**2019**

| Name | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Total |
|---|---|---|---|---|---|
| Cllr. NM Cingo | 604 396 | 17 529 | 201 465 | 2 688 | 826 078 |
| Cllr B Nokhanda | 360 549 | 20 371 | 120 183 | 3 154 | 504 257 |
| Cllr. A.A. Gantsho | 133 053 | 21 809 | 26 611 | 11 100 | 192 573 |
| Cllr. C.S. Mazuza | 453 298 | 19 675 | 151 099 | 4 189 | 628 261 |
| Cllr. N. F. Bokwe | 191 269 | 13 636 | 63 756 | 10 789 | 279 450 |
| Cllr. Z.H Cube | 191 269 | 13 636 | 63 756 | 4 189 | 272 850 |
| Cllr. M Dyosoba | 191 269 | 13 636 | 63 756 | 5 278 | 273 939 |
| Cllr. K.M Fono | 252 886 | 15 056 | 84 295 | 5 989 | 358 226 |
| Cllr. F Jama | 191 269 | 12 808 | 63 756 | 5 278 | 273 111 |
| Cllr. N.C Fono | 191 269 | 13 636 | 63 756 | 4 189 | 272 850 |
| Cllr. M. Hobo | 245 462 | 14 885 | 81 821 | 5 910 | 348 078 |
| Cllr. D.V. Madini | 191 269 | 13 636 | 63 756 | 4 189 | 272 850 |
| Cllr. F. Mafaka | 252 886 | 15 056 | 84 295 | 3 478 | 355 715 |
| Cllr. N.P. Majali | 252 886 | 15 056 | 84 295 | 10 078 | 362 315 |
| Cllr. K. Majeke | 191 269 | 13 636 | 63 757 | 3 478 | 272 140 |
| Cllr. Z. Maqina | 191 269 | 13 636 | 63 756 | 10 789 | 279 450 |
| Cllr. S.V. Mavimbela | 245 462 | 14 885 | 81 821 | 3 478 | 345 646 |
| Cllr. L. Rolobile | 196 340 | 13 636 | 65 447 | 4 189 | 279 612 |
| Cllr. Z. Mhlabeni | 191 269 | 13 636 | 63 756 | 4 189 | 272 850 |
| Cllr. N. Mfiki | 247 814 | 31 800 | 82 605 | 7 409 | 369 628 |
| Cllr. D.Z Mnceba | 191 269 | 13 636 | 63 757 | 3 478 | 272 140 |
| Cllr. B. Mjakuja | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. X. Moni | 252 886 | 15 056 | 84 295 | 5 989 | 358 226 |
| Cllr. Z. Mtiki | 191 269 | 13 636 | 63 757 | 5 989 | 274 651 |
| Cllr. N.B. Mtuku | 252 886 | 15 056 | 84 295 | 8 989 | 361 226 |
| Cllr. A. Mzungule | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. L. Ndamase | 252 886 | 15 056 | 84 295 | 8 989 | 361 226 |
| Cllr. T.M. Msongelwa | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. S.L. Ntlatywa | 191 269 | 13 636 | 63 757 | 10 078 | 278 740 |
| Cllr. T. Ntsham | 191 269 | 13 636 | 63 757 | 3 478 | 272 140 |
| Cllr. S.E. Sicoto | 191 269 | 13 636 | 63 757 | 5 278 | 273 940 |
| Cllr. N.P. Soga | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. N. Tani | 252 886 | 15 056 | 84 295 | 4 189 | 356 426 |
| Cllr. N. Tshitshiliza | 245 462 | 14 885 | 81 821 | 10 789 | 352 957 |
| Cllr. G. Tshotho | 191 269 | 13 636 | 63 757 | 10 789 | 279 451 |
| Cllr. Z. Totwana | 191 269 | 13 636 | 63 757 | 5 278 | 273 940 |
| Cllr. N. Vava | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. M. Veni | 245 462 | 14 885 | 81 821 | 8 989 | 351 157 |
| Cllr. G.X. Vimba | 191 269 | 13 636 | 63 757 | 8 278 | 276 940 |
| Cllr. R.M. Zweni | 245 462 | 14 885 | 81 821 | 10 789 | 352 957 |
| | **9 200 880** | **603 801** | **3 049 226** | **266 789** | **13 120 696** |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**43. Related parties (continued)**

**2018**

| Name | Annual Remuneration | Backpay | Car Allowance | Cellphone Allowance and other | Total |
|---|---|---|---|---|---|
| Cllr. NM Cingo | 221 538 | 1 504 | 73 846 | 45 | 296 933 |
| Cllr B Nokhanda | 442 874 | 57 089 | 147 624 | 20 698 | 668 285 |
| Cllr. C.S. Mazuza | 312 953 | 36 109 | 104 317 | 29 814 | 483 193 |
| Cllr. N. F. Bokwe | 181 779 | 27 701 | 60 593 | 28 432 | 298 505 |
| Cllr. Z.H. Cube | 181 779 | 27 701 | 60 593 | 27 882 | 297 955 |
| Cllr. M. Dyosoba | 181 779 | 26 231 | 60 593 | 28 032 | 296 635 |
| Cllr. K.M. Fono | 240 339 | 35 885 | 80 113 | 29 964 | 386 301 |
| Cllr. F. Jama | 181 779 | 22 660 | 60 593 | 28 032 | 293 064 |
| Cllr. N.C. Fono | 181 779 | 27 701 | 60 593 | 27 883 | 297 956 |
| Cllr. T. Khukula | 283 352 | 57 133 | 94 451 | - | 434 936 |
| Cllr. M. Hobo | 233 283 | 33 937 | 77 761 | 28 032 | 373 013 |
| Cllr. D.V. Madini | 181 779 | 27 701 | 60 593 | 27 883 | 297 956 |
| Cllr. F. Mafaka | 240 339 | 33 665 | 80 113 | 29 814 | 383 931 |
| Cllr. N.P. Majali | 240 339 | 33 665 | 80 113 | 30 364 | 384 481 |
| Cllr. K. Majeke | 181 779 | 26 231 | 60 593 | 27 883 | 296 486 |
| Cllr. Z. Maqina | 181 779 | 27 701 | 60 593 | 28 432 | 298 505 |
| Cllr. S.V. Mavimbela | 233 283 | 35 313 | 77 761 | 27 882 | 374 239 |
| Cllr. L. Rolobile | 446 795 | 65 395 | 148 932 | 9 189 | 670 311 |
| Cllr. Z. Mhlabeni | 181 779 | 27 701 | 60 593 | 27 883 | 297 956 |
| Cllr. N. Mfiki | 181 779 | 28 283 | 60 593 | 27 701 | 298 356 |
| Cllr. D.Z. Mnceba | 181 779 | 26 231 | 60 593 | 27 883 | 296 486 |
| Cllr. B. Mjakuja | 181 779 | 26 231 | 60 593 | 28 283 | 296 886 |
| Cllr. X. Moni | 240 339 | 35 641 | 80 113 | 29 964 | 386 057 |
| Cllr. Z. Mtiki | 181 779 | 27 701 | 60 593 | 28 033 | 298 106 |
| Cllr. N.B. Mtuku | 240 339 | 35 884 | 80 113 | 30 215 | 386 551 |
| Cllr. A. Mzungule | 182 053 | 26 141 | 60 593 | 28 283 | 297 070 |
| Cllr. L. Ndamase | 240 339 | 35 729 | 80 113 | 30 214 | 386 395 |
| Cllr. T.M. Msongelwa | 181 779 | 26 141 | 60 593 | 28 283 | 296 796 |
| Cllr. S.L. Ntlatywa | 181 779 | 26 141 | 60 593 | 28 432 | 296 945 |
| Cllr. T. Ntsham | 181 779 | 26 231 | 60 593 | 27 883 | 296 486 |
| Cllr. S.E. Sicoto | 181 779 | 26 141 | 60 593 | 28 033 | 296 546 |
| Cllr. N.P. Soga | 181 779 | 26 141 | 60 593 | 28 283 | 296 796 |
| Cllr. N. Tani | 240 339 | 35 885 | 80 113 | 29 814 | 386 151 |
| Cllr. N. Tshitshiliza | 233 283 | 33 937 | 77 761 | 28 432 | 373 413 |
| Cllr. G. Tshotho | 181 779 | 27 701 | 60 593 | 28 433 | 298 506 |
| Cllr. Z. Totwana | 181 779 | 26 231 | 60 593 | 28 033 | 296 636 |
| Cllr. N. Vava | 181 779 | 26 231 | 60 593 | 28 283 | 296 886 |
| Cllr. M. Veni | 233 283 | 33 937 | 77 761 | 28 282 | 373 263 |
| Cllr. G.X. Vimba | 181 779 | 26 231 | 60 593 | 28 283 | 296 886 |
| Cllr. R.M. Zweni | 233 283 | 33 937 | 77 761 | 28 432 | 373 413 |
| Cllr. M Tsili | - | 4 832 | - | - | 4 832 |
| Cllr. N Ndakayi | - | 4 832 | - | - | 4 832 |
| Cllr. MPJ Kotana | - | 4 832 | - | - | 4 832 |
| Cllr. S Mzaza | - | 4 832 | - | - | 4 832 |
| Cllr. P Langa | - | 2 544 | - | - | 2 544 |
| Cllr. NF Diko | - | 3 940 | - | - | 3 940 |
| Cllr. N Mbotshwa | - | 3 940 | - | - | 3 940 |
| Cllr. VN Mcekisa | - | 3 940 | - | - | 3 940 |
| Cllr. T Nompaka | - | 3 940 | - | - | 3 940 |
| Cllr. Sophotela | - | 3 940 | - | - | 3 940 |
| Cllr. ST Sotshongaye | - | 3 940 | - | - | 3 940 |

# Notes to the Consolidated Annual Financial Statements

| | | Economic entity | | Controlling entity | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |

### 43. Related parties (continued)

| | | | | | |
|---|---|---|---|---|---|
| Cllr. MS Mbovhana | - | 3 940 | - | - | 3 940 |
| Cllr. EZ Mncwati | - | 3 940 | - | - | 3 940 |
| Cllr. SJ Lobi | - | 1 027 | - | - | 1 027 |
| Cllr. X Nomagedeshe | - | 2 694 | - | - | 2 694 |
| Cllr. SN Tayi | - | 3 940 | - | - | 3 940 |
| Cllr. S Madolo | - | 3 940 | - | - | 3 940 |
| | **8 737 491** | **1 312 742** | **2 912 405** | **1 057 626** | **14 020 264** |

**Executive management**

*Details of remuneration paid to key management personnel have been disclosed on note 28 "Employee related costs".

**Councilors' outstanding consumer accounts**

Details of oustanding consumer accounts have been disclosed in note 48 "Additional disclosure in terms of Municipal Finance Management Act".

### 44. Risk management

**Financial risk management**

**Liquidity risk**

**Liquidity risk** is the risk that the Municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the Municipality are backed by appropriate assets and it has adequate liquid resources. Council has an approved financial plan which brought policies and procedures in place to monitor the cash projections and by ensuring that financial resources are available to meet its cash requirements.

**Credit risk**

**Credit risk** is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors.

Consumer debtors comprise of many ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are cut immediately.

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high-quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits, which are included in the Municipality's cash management and investment policy. These limits are reviewed annually by the CFO and authorised by the executive mayoral committee.

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

| **Financial instrument** | **Economic entity - 2019** | **Economic entity - 2018** | **Controlling entity - 2019** | **Controlling entity - 2018** |
|---|---|---|---|---|
| Receivables from exchange transactions | 6 457 265 | 733 400 | 6 434 195 | 733 400 |
| Receivables from non-exchange transactions | 4 962 808 | 6 281 010 | 4 962 808 | 6 281 010 |
| Consumer debtors | 1 274 183 | 819 721 | 1 274 183 | 819 721 |
| Cash and cash equivalents | 57 308 528 | 57 908 801 | 57 055 088 | 57 804 801 |

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 44. Risk management (continued)

### Market risk

### Interest rate risk

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

As the municipality has no significant interest-bearing financial liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates except for the effect of interest received on cash placed on call accounts.

**Cash flow interest rate risk - Economic entity**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Receivables from exchange transactions | - % | 6 457 265 | - | - | - | - |
| Receivables from non-exchange transactions | 15.00 % | 4 962 808 | - | - | - | - |
| Consumer debtors | 15.00 % | 1 274 183 | - | - | - | - |
| Cash in current banking institutions | - % | 57 308 528 | - | - | - | - |
| Finance lease liabilities | 10.00 % | (377 500) | - | - | - | - |
| Payables from exchange transactions | - % | (31 390 447) | - | - | - | - |

**Cash flow interest rate risk - Controlling entity**

| Financial instrument | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|---|---|---|---|---|---|
| Receivables from exchange transactions | - % | 6 434 195 | - | - | - | - |
| Receivables from non-exchange transactions | 15.00 % | 4 962 808 | - | - | - | - |
| Consumer debtors | 15.00 % | 1 274 183 | - | - | - | - |
| Cash in current banking institutions | - % | 57 055 088 | - | - | - | - |
| Finance lease liabilities | 10.00 % | (343 906) | - | - | - | - |
| Payables from exchange transactions | - % | (29 597 518) | - | - | - | - |
| | - | - | - | - | - | - |

### Price risk

**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 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.

The Municipality does not have any financial instruments that are affected by price risk.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 45. Going concern

We draw attention to the fact that at 30 June 2019, the economic entity had an accumulated surplus of 512 365 217 and that the economic entity's total liabilities exceed its assets by 512 365 217.

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

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

### 46. Events after the reporting date

There are no material adjusting and non-adjusting events after the reporting date.

### 47. Unauthorised expenditure

| | | | | |
|---|---|---|---|---|
| Opening balance as previously reported | 126 322 878 | 123 684 636 | 126 322 877 | 123 684 635 |
| **Opening balance as restated** | **126 322 878** | **123 684 636** | **126 322 877** | **123 684 635** |
| Add: unauthorise Expenditure - Current year | 3 987 958 | 2 638 242 | 3 987 958 | 2 638 242 |
| **Closing balance** | **130 310 836** | **126 322 878** | **130 310 835** | **126 322 877** |

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes: overspending of the total amount appropriated in the municipality’s approved budget; overspending of the total amount appropriated for a vote in the approved budget expenditure from a vote unrelated to the department or functional area covered by the vote; expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation otherwise than in accordance with any conditions of the allocation; or a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

Unauthorised expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

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

| | | | | |
|---|---|---|---|---|
| Cash | 3 987 958 | 2 638 242 | 3 987 958 | 2 638 242 |

**Analysed as follows: cash**

| | | | | |
|---|---|---|---|---|
| General expenditure | 3 987 958 | 2 638 242 | 3 987 958 | 2 638 242 |

**Unauthorised expenditure: Budget overspending – per municipal department**

| | | | | |
|---|---|---|---|---|
| Community services | 2 791 012 | 2 622 536 | 2 791 012 | 2 622 536 |
| Planning and development | - | 15 706 | - | 15 706 |
| Corporate services | 1 196 946 | - | 1 196 946 | - |
| | **3 987 958** | **2 638 242** | **3 987 958** | **2 638 242** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 48. Fruitless and wasteful expenditure

| | | | | |
|---|---|---|---|---|
| Opening balance as previously reported | 25 463 421 | 24 260 352 | 18 566 211 | 17 874 250 |
| **Opening balance as restated** | **25 463 421** | **24 260 352** | **18 566 211** | **17 874 250** |
| Add: Expenditure -current year | 1 541 782 | 1 203 069 | 880 946 | 691 961 |
| **Closing balance** | **27 005 203** | **25 463 421** | **19 447 157** | **18 566 211** |

## Notes to the Consolidated Annual Financial Statements

| | | Economic entity | | Controlling entity | |
|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 |

### 48. Fruitless and wasteful expenditure (continued)

**Expenditure identified in the current year include those listed below:**

| | Disciplinary steps taken/criminal proceedings | | | | |
|---|---|---|---|---|---|
| Interest incurred on late payment of suppliers | None | 54 199 | 109 376 | 45 991 | 49 986 |
| Penaties paid to SARS for non-compliance with the Tax Administration ACT. | None | 854 449 | 1 093 693 | 201 821 | 641 975 |
| Removal of Polish | None | 14 250 | - | 14 250 | - |
| Payments made for inventory items not delivered | [1] | 618 884 | - | 618 884 | - |
| | | **1 541 782** | **1 203 069** | **880 946** | **691 961** |

[1] This relates to fuel ordered and paid for but not delivered. The Municipality has commissioned an investigation into the matter and this is underway.

[2] Fruitless and wasteful expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

### 49. Irregular expenditure

| | | | | |
|---|---|---|---|---|
| Opening balance as previously reported | 139 158 211 | 127 498 185 | 132 322 220 | 120 662 194 |
| **Opening balance as restated** | **139 158 211** | **127 498 185** | **132 322 220** | **120 662 194** |
| Add: Irregular Expenditure - current year | 6 100 688 | 11 660 026 | 6 100 688 | 11 660 026 |
| **Closing balance** | **145 258 899** | **139 158 211** | **138 422 908** | **132 322 220** |

# Notes to the Consolidated Annual Financial Statements

| | | Economic entity | | Controlling entity | |
|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** |

**49. Irregular expenditure (continued)**

**Incidents/cases identified in the current year include those listed below:**

| | **Disciplinary steps taken/criminal proceedings** | | | | |
|---|---|---|---|---|---|
| Regulation 32 incorrectly applied | None | 1 451 555 | 5 987 154 | 1 451 555 | 5 987 154 |
| Three written quotations not obtained | None | 1 064 688 | 206 883 | 1 064 688 | 206 883 |
| Overspending on contracts | None | 795 876 | 1 128 718 | 795 876 | 1 128 718 |
| Award above CIDB grading | None | 2 463 356 | 944 216 | 2 463 356 | 944 216 |
| Expenditure outside municipal mandate | None | 123 963 | - | 123 963 | - |
| Not advertised for required time | None | 171 000 | 365 925 | 171 000 | 365 925 |
| Other | | 14 250 | - | 14 250 | - |
| Non-compliance with SCM policy | | 16 000 | 2 769 825 | 16 000 | 2 769 825 |
| Deviation not justifiable | | - | 257 305 | - | 257 305 |
| | | **6 100 688** | **11 660 026** | **6 100 688** | **11 660 026** |

Irregular expenditure relates to expenditure incurred contrary to supply chain management policy and regulations. Irregular expenditure incurred in the previous years is currently under investigation by the Municipal Public Accounts Committee (MPAC) working together with the Internal Audit. There is also an independent investigation on same being performed jointly by the Department of Cooperative Governance and Traditional Affairs and National Treasury. These investigations are still underway, and their reports will inform the Municipality on how to deal with the expenditure as directed by legislation.

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

## 50. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government - SALGA**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Opening balance | - | 820 712 | - | 820 712 |
| Current year subscription / fee | 1 593 077 | - | 1 593 077 | - |
| Amount paid - current year | (1 593 077) | (820 712) | (1 593 077) | (820 712) |
| | **-** | **-** | **-** | **-** |

**Audit fees**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Opening balance | 163 320 | (192 740) | 163 320 | (192 740) |
| Current year subscription / fee | 7 239 680 | 4 170 350 | 7 239 680 | 4 170 350 |
| Amount paid - current year | (7 403 000) | (3 814 290) | (7 403 000) | (3 814 290) |
| | **-** | **163 320** | **-** | **163 320** |

**PAYE, UIF and SDL**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Opening balance | 584 529 | 1 807 527 | 584 529 | 1 807 527 |
| Current year subscription / fee | 12 573 404 | 12 487 471 | 12 573 404 | 12 487 471 |
| Amount paid - current year | (13 238 569) | (14 161 955) | (13 238 569) | (14 161 955) |
| Interest and penalties | 80 790 | 451 486 | 80 790 | 451 486 |
| | **154** | **584 529** | **154** | **584 529** |

**Pension and Medical Aid Deductions**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| Opening balance | (213 084) | 151 593 | (213 084) | 151 593 |
| Current year subscription / fee | 15 022 154 | 14 130 011 | 15 022 154 | 14 130 011 |
| Amount paid - current year | (14 342 653) | (14 494 688) | (14 342 653) | (14 494 688) |
| | **466 417** | **(213 084)** | **466 417** | **(213 084)** |

**VAT**

| | Economic entity 2019 | Economic entity 2018 | Controlling entity 2019 | Controlling entity 2018 |
|---|---|---|---|---|
| VAT receivable | 16 497 672 | 4 264 590 | 16 497 672 | 4 264 590 |
| VAT payable | 4 510 006 | 4 673 978 | - | - |
| | **21 007 678** | **8 938 568** | **16 497 672** | **4 264 590** |

VAT output payables and VAT input receivables are shown in notes 6 and 14.

The municipality has financial risk policies in place to ensure that payments are made before the due date. During the current year, the Municipality did not submit all its VAT returns. The last VAT return submitted so SARS was for September 2018. This has resulted in non-compliance with the law and its expected that the Municipality will incur penalties when the outstanding returns are submitted.

### 50. Additional disclosure in terms of Municipal Finance Management Act (continued)

**Councillors' arrear consumer accounts**

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

| 30 June 2019 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|---|---|---|---|
| Cllr. S.L. Ntlatywa | 2 916 | 5 446 | 8 362 |

| 30 June 2018 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|---|---|---|---|
| Cllr. S.L. Ntlatywa | 6 800 | 8 728 | 15 528 |

All the other councillors reside in the rural areas of Port St John's Municipality, therefore, they are not billed for any services

### 51. Deviation from supply chain management regulations

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

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

**Deviations for the period up to 30 June 2019**

The amount for deviations as at 30 June 2019 is R3 729 075 (2018: R3 812 415).

The following deviations and ratifications of minor breaches of procurement processes are reported to council in terms of Paragraph 36(2) of the SCM Policy:

| Category | Economic entity - 2019 | Economic entity - 2018 | Controlling entity - 2019 | Controlling entity - 2018 |
|---|---|---|---|---|
| Emergency | 585 520 | 505 798 | 585 520 | 505 798 |
| Exceptional cases | 1 970 818 | 2 367 632 | 1 970 818 | 2 367 632 |
| Sole supplier | 1 021 984 | 938 985 | 1 021 984 | 938 985 |
| Urgency | 150 753 | - | 150 753 | - |
| | **3 729 075** | **3 812 415** | **3 729 075** | **3 812 415** |

### 52. Prior period errors

During the year, the municipality discovered material, errors that affected previous years. All the errors were corrected retrospectively. The nature, details and effects of the errors are shown in the table below:

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

### 52. Prior period errors (continued)

**Economic Entity**

| Error and the effect on surplus/(deficit) | 2018 Reported results R (Inc)/Dec | Accumulated Surplus R (Inc)/DeC | Total |
|---|---|---|---|
| Infrastructure WIP expensed in error | (4 810 594) | - | (4 810 594) |
| General expenditure understated in previous years | - | 111 126 | 111 126 |
| Interest on finance leases overstated | (180) | - | (180) |
| Leave provision understated | 10 514 | - | 10 514 |
| Understatement of landfill provision | 635 266 | 5 859 298 | 6 494 564 |
| | **(4 164 994)** | **5 970 424** | **1 805 430** |

The impact of correction s of these errors as well as reclassifications on the Statement of Financial Performance and Statement of financial Position are as follows:

| Statement of financial position | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Property, plant and equipment | 406 762 767 | 4 810 593 | 411 573 360 |
| Finance lease obligation - current | (260 843) | (58 312) | (319 155) |
| Payables from exchange transactions | (21 741 084) | (121 640) | (21 862 724) |
| Unspent conditional grants and receipts | (11 308 844) | 36 843 | (11 272 001) |
| Accumulated surplus | (435 925 051) | 1 768 587 | (434 156 464) |
| Finance lease obligation -non-current | (321 224) | 58 492 | (262 732) |
| Provisions | (5 149 798) | (6 494 563) | (11 644 361) |
| | **(67 944 077)** | **-** | **(67 944 077)** |

| Statement of financial performance | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Other income | (660 994) | (72 979) | (733 973) |
| Employee related costs | 71 289 094 | (275 590) | 71 013 504 |
| Government grants and subsidies | (179 759 810) | (36 843) | (179 796 653) |
| Finance costs | 980 627 | 708 063 | 1 688 690 |
| Actuarial losses | - | 286 105 | 286 105 |
| Inventories losses/write-downs | - | 24 796 | 24 796 |
| General Expenses | 49 591 959 | (4 835 388) | 44 756 571 |
| | **(58 559 124)** | **(4 201 836)** | **(62 760 960)** |

# Notes to the Consolidated Annual Financial Statements

| | Economic entity | | Controlling entity | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |

**52. Prior period errors (continued)**

**Corrections to prior period disclosures**

During the year, the Municipality discovered and corrected prior period errors relating to disclosures on commitments and Fruitless and wasteful expenditure. These errors resulted in misstatement of the disclosed amounts. Corrections were made to the disclosures of the previous financial year. The impact of the retrospective corrections is tabulated below:

| Description | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Commitments | - | (3 702 304) | (3 702 304) |
| Fruitless and wasteful expenditure | - | (1 641) | (1 641) |
| | **-** | **(3 703 945)** | **(3 703 945)** |

### 52. Prior period errors (continued)

**Controlling entity**

| Error and the effect on surplus/(deficit) | 2018 Reported results R (Inc)/Dec | Accumulated Surplus R (Inc)/DeC | Total |
|---|---|---|---|
| Infrastructure WIP expensed in error | (4 810 594) | - | (4 810 594) |
| Understatement of landfill provision | 635 266 | 5 859 298 | 6 494 564 |
| | **(4 175 328)** | **5 859 298** | **1 683 970** |

The impact of corrections of these errors as well as reclassifications on the Statement of Financial Performance and Statement of financial Position are as follows:

| Statement of financial position | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Property, plant and equipment | 406 291 296 | 4 810 593 | 411 101 889 |
| Accumulated surplus | (449 727 530) | 1 683 970 | (448 043 560) |
| Provision | (5 149 798) | (6 494 563) | (11 644 361) |
| | **(48 586 032)** | **-** | **(48 586 032)** |

| Statement of financial performance | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Other income | (660 994) | (72 979) | (733 973) |
| Employee related costs | 66 478 372 | (286 104) | 66 192 268 |
| Finance costs | 449 545 | 708 244 | 1 157 789 |
| Actuarial losses | - | 286 105 | 286 105 |
| Inventories losses/write-downs | - | 24 796 | 24 796 |
| General Expenses | 47 648 930 | (4 835 388) | 42 813 542 |
| | **113 915 853** | **(4 175 326)** | **109 740 527** |

**Corrections to prior period disclosures**

During the year, the Municipality discovered and corrected prior period errors relating to disclosures on commitments and Fruitless and wasteful expenditure. These errors resulted in misstatement of the disclosed amounts. Corrections were made to the disclosures of the previous financial year. The impact of the retrospective corrections is tabulated below:

| Description | As previously disclosed | Reclassifications and correction of error(s) | Restated |
|---|---|---|---|
| Commitments | 36 313 878 | (3 702 304) | 32 611 574 |
| Fruitless and wasteful expenditure | 693 602 | (1 641) | 691 961 |
| | **37 007 480** | **(3 703 945)** | **33 303 535** |

### 53. Comparative figures

Certain comparative figures have been reclassified. The effects of the reclassification are shown above.