Nala Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Legal form of entity	Local Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Mayoral committee	
Executive Mayor	Mogoje TA
Speaker	Mashiya MN
Councillors	Khati MS
	Leburu GJ
	Mabaleng MP
	Mabaso MK
	Mafojane MS
	Marumule MS
	Mohloare TA
	Mokete MJ
	Molutsi TL
	Moshane ZM
	Mtombeni J
	Ngece TF
	Ntseki ML
	Sebate RA
	Tau RT
	Nanyane LB
	Reed D
	Makunye LS
	Jika NE
	Makhooe NE
	Botma JA
	Masencamp S
Grading of local authority	Nala Local Municipality is a grade 3 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998
Capacity of local authority	Medium Capacity Municipality
Municipal demarcation code	FS185
Accounting Officer	Mokomela BC
Chief Finance Officer (CFO)	Busakwe S
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660
Bankers	First National Bank

General Information

External auditors	Auditor-General of South Africa
Attorneys	Podbielski Incorporated Brits & Weideman Advocate Riaan Schmidt

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
HDF	Housing Development Fund
GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Council
IAS	International Accounting Standards
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PAYE	Pay As You Earn (Employee's Tax)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s proposed budget for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, he is supported by the municipality's finance department.

The annual financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed by:

Mokomela BC
Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rand	Notes	2019	2018 Restated*
Assets			
Current Assets			
Inventories	2	1 023 556	1 299 878
Receivables from exchange transactions	3	108 032 211	94 869 324
Receivables from non-exchange transactions	4	1 213 996	317 398
VAT receivable	5	50 591 213	43 431 577
Cash and cash equivalents	6	24 873 260	1 948 228
		185 734 236	**141 866 405**
Non-Current Assets			
Investment property	7	590 545 389	581 217 601
Property, plant and equipment	8	1 169 202 611	1 206 427 979
Intangible assets	9	131 239	186 961
Other financial assets	10	118 211	111 717
		1 759 997 450	**1 787 944 258**
Total Assets		**1 945 731 686**	**1 929 810 663**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	523 579 504	421 120 392
Consumer deposits	12	2 780 637	2 698 880
Employee benefit obligation	13	677 000	842 000
Unspent conditional grants and receipts	14	2 552 916	157 474
		529 590 057	**424 818 746**
Non-Current Liabilities			
Employee benefit obligation	13	6 564 000	8 063 000
Provisions	15	21 621 974	20 246 065
		28 185 974	**28 309 065**
Total Liabilities		**557 776 031**	**453 127 811**
Net Assets		**1 421 996 913**	**1 476 682 852**
Accumulated surplus		1 421 996 913	1 476 682 852

* See Note 36

Statement of Financial Performance

Figures in Rand	Notes	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	162 953 092	166 178 182
Rental of facilities		418 340	1 784 680
Interest received - Exchange receivables		30 509 541	23 385 878
Interest received - investment	18	1 036 250	1 079 324
Dividends received	18	7 347	6 497
Discount received		402	4 530
Other income	19	1 588 077	1 771 491
Total revenue from exchange transactions		**196 513 049**	**194 210 582**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	22 394 363	21 193 694
Fines, Penalties and Forfeits		100 430	44 331
Transfer revenue			
Government grants & subsidies	21	149 714 784	157 426 216
Total revenue from non-exchange transactions		**172 209 577**	**178 664 241**
Total revenue	16	**368 722 626**	**372 874 823**
Expenditure			
Employee related costs	22	(147 062 697)	(135 622 460)
Remuneration of councillors	23	(8 630 473)	(8 443 579)
Depreciation and amortisation	24	(49 018 285)	(49 480 598)
Impairment loss	25	(63 476 578)	(55 129 317)
Finance costs	26	(19 847 617)	(7 370 207)
Repairs and maintenance		(4 527 300)	(4 203 475)
Bulk purchases	27	(122 375 551)	(111 953 140)
Contracted services	28	(54 107 324)	(11 284 804)
General Expenses	30	(21 858 099)	(24 860 430)
Total expenditure		**(490 903 924)**	**(408 348 010)**
Operating deficit		**(122 181 298)**	**(35 473 187)**
Fair value adjustments on other financial assets		6 494	(9 996)
Actuarial gains/losses	13&15	2 159 866	3 444 327
Loss on property plant equipment written off		-	(37 632)
		2 166 360	**3 396 699**
Deficit for the year		**(120 014 938)**	**(32 076 488)**

* See Note 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**1 508 759 340**	**1 508 759 340**
Changes in net assets		
Restated deficit for the year	(32 076 488)	(32 076 488)
Total changes	(32 076 488)	(32 076 488)
Opening balance as previously reported	1 542 582 049	1 542 582 049
Adjustments		
Prior year adjustments	(570 198)	(570 198)
Restated* Balance at 01 July 2018 as restated	**1 542 011 851**	**1 542 011 851**
Changes in net assets		
Deficit for the year	(120 014 938)	(120 014 938)
Total changes	(120 014 938)	(120 014 938)
Balance at 30 June 2019	**1 421 996 913**	**1 421 996 913**

* See Note 36

Cash Flow Statement

Figures in Rand	Notes	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Taxation		16 672 599	18 039 358
Sale of goods and services		86 253 568	97 713 532
Grants		152 110 226	152 731 591
Interest income		31 545 791	24 465 202
Dividends received		7 347	6 497
		286 589 531	292 956 180
Payments			
Employee costs		(151 781 194)	(142 601 442)
Suppliers and other		(65 920 970)	(106 510 018)
Finance costs		(19 847 617)	(7 370 207)
		(237 549 781)	(256 481 667)
Net cash flows from operating activities	31	**49 039 750**	**36 474 513**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(26 114 718)	(42 796 929)
Net increase/(decrease) in cash and cash equivalents		**22 925 032**	**(6 322 416)**
Cash and cash equivalents at the beginning of the year		1 948 228	8 270 644
Cash and cash equivalents at the end of the year	6	**24 873 260**	**1 948 228**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	156 813 077	6 140 015	**162 953 092**	162 953 092	-	
Rental of facilities and equipment	412 795	5 545	**418 340**	418 340	-	
Interest received - consumer	28 471 288	2 038 253	**30 509 541**	30 509 541	-	
Discount received	634	(232)	**402**	402	-	
Other income	1 765 594	(177 517)	**1 588 077**	1 588 077	-	
Interest received - investment	510 360	525 890	**1 036 250**	1 036 250	-	
Dividends received	5 973	1 374	**7 347**	7 347	-	
Total revenue from exchange transactions	**187 979 721**	**8 533 328**	**196 513 049**	**196 513 049**	-	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	22 396 622	(2 259)	**22 394 363**	22 394 363	-	
Fines, Penalties and Forfeits	89 279	11 151	**100 430**	100 430	-	
Transfer revenue						
Government grants & subsidies	153 539 875	(3 825 091)	**149 714 784**	149 714 784	-	
Total revenue from non-exchange transactions	**176 025 776**	**(3 816 199)**	**172 209 577**	**172 209 577**	-	
Total revenue	**364 005 497**	**4 717 129**	**368 722 626**	**368 722 626**	-	
Expenditure						
Personnel	(148 633 327)	1 570 630	**(147 062 697)**	(147 062 697)	-	
Remuneration of Councilors	(8 736 974)	106 501	**(8 630 473)**	(8 630 473)	-	
Depreciation and amortisation	(64 952 400)	15 934 115	**(49 018 285)**	(49 018 285)	-	
Impairment loss/ Reversal of impairments	(50 000 000)	(13 476 578)	**(63 476 578)**	(63 476 578)	-	
Finance costs	(5 000 000)	(14 847 617)	**(19 847 617)**	(19 847 617)	-	
Repairs and maintenance	(10 503 145)	5 975 845	**(4 527 300)**	(4 527 300)	-	
Bulk purchases	(115 980 390)	(6 395 161)	**(122 375 551)**	(122 375 551)	-	
Contracted Services	(16 165 000)	(37 942 324)	**(54 107 324)**	(54 107 324)	-	
General Expenses	(39 207 819)	17 349 720	**(21 858 099)**	(21 858 099)	-	
Total expenditure	**(459 179 055)**	**(31 724 869)**	**(490 903 924)**	**(490 903 924)**	-	
Operating deficit	**(95 173 558)**	**(27 007 740)**	**(122 181 298)**	**(122 181 298)**	-	
Fair value adjustments	-	6 494	**6 494**	6 494	-	
Actuarial gains/losses	-	2 159 866	**2 159 866**	2 159 866	-	
	-	**2 166 360**	**2 166 360**	**2 166 360**	-	
Deficit before taxation	**(95 173 558)**	**(24 841 380)**	**(120 014 938)**	**(120 014 938)**	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(95 173 558)**	**(24 841 380)**	**(120 014 938)**	**(120 014 938)**	-	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

The municipality assesses its 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 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 balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

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

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of property, plant and equipment and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

Allowance for doubtful debts

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

1.3 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.

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

Accounting Policies

1.3 Investment property (continued)

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	indefinite

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.

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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 unrecognised.

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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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 unrecognised.

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	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 60 years
Motor vehicles	Straight line	5 - 15 years
Infrastructure		
- Electricity	Straight line	5 - 60 years
- Roads	Straight line	10 - 80 years
- Structures	Straight line	10 - 60 years
- Stormwater drainage	Straight line	50 - 60 years
- Sewer reticulation	Straight line	5 - 10 years
- Waste water treatment works	Straight line	15 - 80 years
- Water reticulation	Straight line	20 - 60 years
Other property, plant and equipment		
- Furniture and Fittings	Straight line	5 - 7 years
- IT Equipment	Straight line	6 - 7 years
- Landfill sites	Straight line	12 - 13 years
- Office equipment	Straight line	4 - 7 years
- Plant and machinery	Straight line	4 - 7 years
- Vehicles	Straight line	7 - 15 years
- Airports	Straight line	5 - 60 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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 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 unrecognised 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 unrecognised. 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.

1.5 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.

1.6 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

1.6 Intangible assets (continued)

Item	**Useful life**
Computer software, other	4 years

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

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

1.7 Financial instruments

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

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.

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

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

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

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

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

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

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

A financial liability is any liability that is a contractual obligation to:

1.7 Financial instruments (continued)

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

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

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

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

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

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
Other financial assets	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
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	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.

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.

Accounting Policies

1.7 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 fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Gains and losses

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

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

Impairment of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.7 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 municipality :
  - 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.

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.

Dividends or similar distributions 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.

1.8 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.

1.8 Statutory receivables (continued)

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.

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 municipality 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 municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality 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 municipality 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.

Other charges

Where the municipality 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.

Impairment losses

The municipality 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 municipality 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).

1.8 Statutory receivables (continued)

- 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.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality 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 are recognised in surplus or deficit.

In estimating the future cash flows, an municipality 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 municipality 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 municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, 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.

1.9 Leases

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

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

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

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.

1.10 Inventories

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

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

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

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

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.

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

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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).

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

Identification

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

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

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

1.12 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 reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

1.13 Employee benefits

Employee benefits are all forms of consideration given by a 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, 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 municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a municipality'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.

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

Short-term employee benefits

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

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

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

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

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

1.13 Employee benefits (continued)

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 municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) 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.

Multi-employer plans and/or State plans and/or Composite social security programs

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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 recognise the contribution payable to a defined contribution plan in exchange for that service:
- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality 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 municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

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

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

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

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

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

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

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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 municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The 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;

1.13 Employee benefits (continued)

- 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 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.

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

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

The 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.

1.13 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:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

1.14 Provisions and contingencies

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

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

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

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

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.

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

Provisions are not recognised for future operating deficits.

Contingencies are disclosed in note 34.

1.14 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 test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

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.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

When 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.17 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.

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.

1.17 Revenue from non-exchange transactions (continued)

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

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

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 for municipalities)

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

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.

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.

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

1.17 Revenue from non-exchange transactions (continued)

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

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 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.

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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

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

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

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

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

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

1.23 Budget information

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

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

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

Accounting Policies

1.24 Related parties

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

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

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

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

1.25 Events after reporting date

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

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

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

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

1.26 Value-Added Tax

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

1.27 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 expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. Inventories

Consumables	988 881	1 270 553
Water	34 675	29 325
	1 023 556	**1 299 878**

Inventories that were recognised as stores issues during the year amounted to R 1 990 615 (2018: R 2 354 980), of which a portion was capitalised.

Inventory pledged as security

No inventory was pledged as security for any liabilities.

3. Receivables from exchange transactions

Consumer debtors	630 108 746	553 023 333
Other receivables	13 166 411	13 077 049
Recoverable fruitless and wasteful expenditure	959 632	959 632
Overpayment to councillors	1 477 599	1 477 599
Less: Provision for bad debts on consumer debtors	(536 781 800)	(472 769 912)
Less: Provision for bad debts on other receivables	(898 377)	(898 377)
	108 032 211	**94 869 324**

Included in the amount of overpayment to councillors is amounts overpaid of R 0 (2018: R 23 457) to the Municipal Manager and R 0 (2018: R 33 104) to the Chief Financial Officer. These amounts were repaid after year end.

Trade and other receivables pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

3. Receivables from exchange transactions (continued)

Consumer debtors from exchange transactions

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

Consumer debtors

	2019	2018
Gross balances		
Electricity	78 571 942	72 139 318
Water	317 599 048	277 210 268
Sewerage	104 920 382	116 500 390
Refuse	129 017 374	87 173 357
	630 108 746	**553 023 333**
Less: Allowance for impairment		
Electricity	(47 335 417)	(50 123 170)
Water	(287 692 937)	(248 950 712)
Sewerage	(91 223 294)	(98 231 881)
Refuse	(110 530 152)	(75 464 149)
	(536 781 800)	**(472 769 912)**
Net balance		
Electricity	31 236 525	22 016 148
Water	29 906 111	28 259 556
Sewerage	13 697 088	18 268 509
Refuse	18 487 222	11 709 208
	93 326 946	**80 253 421**

Figures in Rand	2019	2018

3. Receivables from exchange transactions (continued)

Consumer debtor ageing

The ageing of amounts is as follows:

2019	Exchange transactions	Non exchange transactions	Total
Current (not past due)	25 622 608	2 076 191	27 698 799
1 month past due	15 932 048	692 947	16 624 995
2 months past due	14 333 146	545 264	14 878 410
3 months past due	574 220 944	34 128 085	608 349 029
	630 108 746	**37 442 487**	**667 551 233**

2018	Exchange transactions	Non exchange transactions	Total
Current (not past due)	31 131 482	2 070 815	33 202 297
1 month past due	11 805 937	931 111	12 737 048
2 months past due	12 089 002	771 284	12 860 286
3 months past due	497 996 912	29 906 141	527 903 053
	553 023 333	**33 679 351**	**586 702 684**

Exchange transactions	630 108 746	553 023 333
Non exchange transactions	37 442 487	33 679 351
	667 551 233	**586 702 684**

The above mentioned ageing included consumer debtors from exchange R 630 108 746 (2018 : R 553 023 333) and non exchange consumer debtors R 37 442 487 (2018 : R 33 679 351) stating the gross balances outstanding for consumer debtors. Refer to Note 4 for non exchange Consumer debtors - Rates

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(472 769 912)	(416 214 516)
Provision for impairment	(64 011 888)	(56 555 396)
	(536 781 800)	**(472 769 912)**

4. Receivables from non-exchange transactions

Consumer debtors - Rates	37 442 487	33 679 350
Less: Provision for bad debts on consumer debtors	(36 228 491)	(33 361 952)
	1 213 996	**317 398**

Pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Figures in Rand	2019	2018

4. Receivables from non-exchange transactions (continued)

Consumer debtors - Rates

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information.

Receivables from non-exchange transactions

Summary of receivables by customer classification		
Household consumers	34 821 388	28 110 074
Industrial and commercial consumers	3 350 219	4 940 006
National and provincial government	(729 120)	629 270
	37 442 487	**33 679 350**

Summary of provision for bad debts by customer classification		
Household consumers	(31 294 477)	(29 386 714)
Industrial and commercial consumers	(1 931 903)	(1 549 771)
National and provincial government	(3 002 111)	(2 425 467)
	(36 228 491)	**(33 361 952)**

Gross balances

Consumer debtors from non-exchange transactions	1 213 996	317 398

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(33 361 952)	(28 436 356)
Provision for impairment	(2 866 539)	(4 925 596)
	(36 228 491)	**(33 361 952)**

5. VAT receivable

VAT	50 591 213	43 431 577

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	477 575	1 329 203
Call account	24 395 685	619 025
	24 873 260	**1 948 228**

No cash and cash equivalents was pledged as security for liabilities.

The municipality have a guarantee arrangement of R 39 800 with Eskom which expires on 31 December 2025.

6. 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
FNB - Current Account 62025990765	1 316 526	1 363 729	1 669 159	477 575	1 329 203	1 791 800
FNB - Money Market 62026222521	19 894 044	119 673	80 078	19 894 044	119 673	80 078
FNB - Money Market 62002839506	4 501 443	435 655	6 338 372	4 501 480	435 655	6 338 372
FNB - Money Market 62373464503	161	63 697	60 394	161	63 697	60 394
Total	**25 712 174**	**1 982 754**	**8 148 003**	**24 873 260**	**1 948 228**	**8 270 644**

7. Investment property

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	590 846 218	(300 829)	590 545 389	581 453 764	(236 163)	581 217 601

Reconciliation of investment property - 2019

	Opening balance	Transfers	Write off @ carrying value	Depreciation	Total
Investment property	581 217 601	9 436 451	(43 997)	(64 666)	590 545 389

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	581 282 266	(64 665)	581 217 601

Pledged as security

No investment property were pledged as security.

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.

8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	183 999 446	-	183 999 446	197 940 807	-	197 940 807
Buildings	139 647 869	(79 976 757)	59 671 112	140 147 017	(77 634 755)	62 512 262
Motor vehicles	11 795 913	(3 391 313)	8 404 600	11 802 413	(2 965 783)	8 836 630
Infrastructure	1 685 825 845	(771 124 221)	914 701 624	1 659 723 218	(725 296 494)	934 426 724
Other property, plant	10 302 774	(7 876 945)	2 425 829	10 533 751	(7 822 195)	2 711 556
Total	**2 031 571 847**	**(862 369 236)**	**1 169 202 611**	**2 020 147 206**	**(813 719 227)**	**1 206 427 979**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Write off @ carrying value	Disposals	Transfers	Depreciation	Impairment reversal	
Land	197 940 807	-	-	(4 504 910)	(9 436 451)	-	-	18
Buildings	62 512 262	842 373	-	-	(1 152 450)	(2 531 073)	-	5
Motor vehicles	8 836 630	-	(3 380)	-	-	(432 030)	3 380	
Infrastructure	934 426 724	24 124 581	(264 782)	-	1 934 950	(45 519 849)	-	91
Other property, plant and equipment	2 711 556	1 147 764	(69 483)	-	(782 500)	(588 344)	6 836	
	1 206 427 979	**26 114 718**	**(337 645)**	**(4 504 910)**	**(9 436 451)**	**(49 071 296)**	**10 216**	**1 16**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Write-off @ carrying value	Transfers	Depreciation	Total
Land	197 940 807	-	-	-	-	197 940 807
Buildings	61 153 411	3 859 018	-	-	(2 500 167)	62 512 262
Motor vehicles	9 275 227	-	-	-	(438 597)	8 836 630
Infrastructure	941 474 690	38 342 179	(27 321)	127 592	(45 490 416)	934 426 724
Other property, plant and equipment	3 189 035	595 732	(30 778)	(127 592)	(914 841)	2 711 556
	1 213 033 170	**42 796 929**	**(58 099)**	**-**	**(49 344 021)**	**1 206 427 979**

Pledged as security

No property, plant and equipment were pledged as security.

Reconciliation of Work-in-Progress

	Included within Infrastructure 2019	Included within Infrastructure 2018
Opening balance	19 354 012	26 998 671
Additions/capital expenditure	26 114 718	42 796 929
Transferred to completed items	(28 964 290)	(50 441 588)
	16 504 440	**19 354 012**

Repairs and maintenance expenditure incurred on capital assets during the year amounted to R 4 527 300 (2018: R 3 876 842).

Included in the work in progress amount is a project amounting to R 1 566 182 for which no movement was shown for the last 3 years as final completion await action from third party.

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.

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 151 335	(2 020 096)	131 239	2 151 335	(1 964 374)	186 961

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	186 961	(55 722)	131 239

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	258 870	(71 909)	186 961

Pledged as security

No intangible assets were pledged as security for liabilities.

10. Other financial assets

	2019	2018
Designated at fair value		
Unlisted shares	118 211	111 717
Unlisted shares consist of 8 236 (2018 : 8 236) equity shares values at R4.90 (2018:R4.50) each in Senwes Belleggings Limited and 7 110 (2018 : 7 110) equity shares in Senwes Limited valued at R10.95 (2018 : R10.50) each.		

	2019	2018
Non-current assets		
Designated at fair value	118 211	111 717

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

	2019	2018
Level 1		
Senwes Belleggings	40 356	37 062
Senwes Limited	77 855	74 655
	118 211	**111 717**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Payables from exchange transactions

Trade payables	489 418 289	387 215 350
Payments received in advanced	6 378 333	6 378 333
Accrued leave pay	18 633 951	15 967 638
Accrued bonus	3 378 630	3 043 367
Other creditors	2 608 217	5 261 452
Retentions	3 162 084	3 254 252
	523 579 504	**421 120 392**

Discounting was performed on trade payables where interest on creditors was not accrued for. An assumption of prime +1% interest rate was used in the calculation on discounting the trade payables and the following interest amounts of R46 603 (2018:R37 523).

12. Consumer deposits

Electricity and water	2 780 637	2 698 880

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held for electricity and water deposits.

13. 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	(8 905 000)	(11 490 000)
Present value of the defined benefit obligation-partly or wholly funded	1 150 021	1 029 652
Fair value of plan assets	513 979	1 555 348
	(7 241 000)	**(8 905 000)**

Non-current liabilities	(6 564 000)	(8 063 000)
Current liabilities	(677 000)	(842 000)
	(7 241 000)	**(8 905 000)**

One ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's Post-employment Medical Aid Benefits Liability as at 30 June 2019 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5. The valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

The previous year's actuarial valuation was also conducted by ZAQ Consultants and Actuaries and the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

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

Opening balance	(8 905 000)	(11 490 000)
Benefits paid	1 150 021	1 029 652
Net movement recognised in the statement of financial performance	513 979	1 555 348
	(7 241 000)	**(8 905 000)**

Figures in Rand	2019	2018

13. Employee benefit obligations (continued)

Net movement recognised in the statement of financial performance

	2019	2018
Interest cost	(842 000)	(1 121 000)
Actuarial (gains) losses	1 355 979	2 676 348
	513 979	**1 555 348**

Calculation of actuarial gains and losses

	2019	2018
Actuarial gains – Obligation	1 355 979	2 676 348

Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

13. Employee benefit obligations (continued)

Financial Variable Assumed	**2019 Valuation**	**2018 Valuation**
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between curves	Difference between curves
Medical Aid Contribution Inflation	CPI+1	CPI+1%
Net Effective Discount Rate	Yield curve based nominal and yield	Yield curve based nominal and yield

Discount Rate

We used the nominal and real zero curves as at 30 June 2019 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.
South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

13. Employee benefit obligations (continued)

Withdrawal

A table setting out the assumed rates of withdrawal from service is set out below:
As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	**Withdrawal Rate Males**	**Withdrawal Rate Females**
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Current (In Service) Members

The table below provides a summary of details for current employees.

	Male	Female	Total
Number of active employees	1	0	1
Subsidy weighted average age	68	N/A	68
Subsidy weighted average past service	18,6	N/A	18,6
Number of spouses	N/A	N/A	N/A
Average monthly subsidy payable during retirement	R 1 780	N/A	R 1 780

Continuation Members (Pensioners)

The table below provides a summary of details for continuation members.

	Male	**Female**	**Total**
Number of continuation members	6	7	13
Subsidy weighted average age	84,6	74,4	79,2
Average monthly subsidy	R 5 170	R 4 990	R 5 070

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:

	One percentage point increase	**One percentage point decrease**
Effect on the aggregate of the service cost and interest cost	728 000	632 000
Effect on defined benefit obligation	7 748 000	6 784 000

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

	2019 R	**2018 R**	**2017 R**	**2016 R**	**2015 R**
Defined benefit obligation	(7 241 000)	(8 905 000)	(11 490 000)	(11 998 000)	(25 536 000)
Surplus/(deficit)	(7 241 000)	(8 905 000)	(11 490 000)	(11 998 000)	(5 535 998)
Experience adjustments on plan liabilities	13 538 000	13 538 000	13 538 000	13 538 000	15 837 000

Figures in Rand	2019	2018

13. Employee benefit obligations (continued)

Defined contribution plan asset

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grants	2 552 916	157 474

Movement during the year

Balance at the beginning of the year	157 474	4 852 100
Additions during the year	151 876 000	153 340 079
Income recognition during the year	(149 480 558)	(157 268 705)
National Treasury office	-	(766 000)
	2 552 916	**157 474**

Reconciliation of grants from National/Provincial Government.

Integrated National Electrification Program (INEP) Grant		
Balance unspent at beginning of year	574 377	-
Additions during the year	3 300 000	5 000 000
Income recognition - Capital	(3 720 781)	(4 425 623)
	153 596	**574 377**

Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	(1 095 314)	4 173 689
Additions during the year	27 651 650	38 067 050
Income recognition during the year	(24 319 133)	(42 570 053)
National Treasury offset*	-	(766 000)
	2 237 203	**(1 095 314)**

.*National Treasury has added an amount of R766 000 that is receivable by the Municipality and deducted R766 000 from the equitable share due to Nala Municipality accelerated spending of MIG monies the for 2017/18 financial period

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. Unspent conditional grants and receipts (continued)

Financial Management Grant (FMG)		
Additions during the year	2 415 000	2 345 000
Conditions met - transferred to revenue	(2 415 000)	(2 345 000)
	-	-

Extended Public Works Program Grant (EPWP)		
Additions during the year	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

South African National Energy Development Institute (SANEDI)		
Balance unspent at beginning of year	678 411	678 411
Conditions met - transferred to revenue	(517 393)	-
	161 018	**678 411**

Municipal Infrastructure Grant - Operational (MIG)		
Additions during the year	1 455 350	1 414 950
Conditions met - transferred to revenue	(1 455 350)	(1 414 950)
	-	-

Energy Efficiency and Demand Site Management (EEDSM)		
Additions during the year	5 000 000	-
Conditions met - transferred to revenue	(4 998 901)	-
	1 099	-

Municipal Infrastructure Grant (MIG) - Capital - Grants is used to fund the infrastructure project/capital projects of the municipality

Financial Management Grant - Grant is used to fund to assist to pay the financial systems expense of the municipality and the improvement of financial systems.

Municipal System Improvement Grant - Grant is to assist to pay the expenses that relates to addressing the audit action plan issues and the funding of municipal interns.

Integrated National Electrification Program Grant (INEP) - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant (EPWP) - Grant is used to fund social uplifting projects.

South African National Energy Development Institute (SANEDI) - The Grant is used to fund the installation of smart meters and energy efficiency

Municipal Infrastructure Grant (MIG) - Operational - Grants is used to fund the project management unit of the municipality

Energy Efficiency and Demand Site Management (EEDSM) - used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the Municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations.

Figures in Rand	2019	2018

15. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	10 659 065	-	-	968 909	-	11 627 974
Long Service Bonus Awards	9 587 000	902 000	(638 113)	947 000	(803 887)	9 994 000
	20 246 065	**902 000**	**(638 113)**	**1 915 909**	**(803 887)**	**21 621 974**

Reconciliation of provisions - 2018

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss / (Gain)	Total
Environmental rehabilitation	9 770 891	-	-	888 174	-	10 659 065
Long Service Bonus Awards	9 013 000	893 000	(451 021)	900 000	(767 979)	9 587 000
	18 783 891	**893 000**	**(451 021)**	**1 788 174**	**(767 979)**	**20 246 065**

Environmental rehabilitation provision

The municipality engages in waste disposal operations from residential and business areas within the following areas:
- Bothaville
- Wesselsbron

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

The life spans for the individual landfill sites were calculated based on available air space and cover material available on the estimations of Nala Local Municipality as well as a survey of each landfill site by a qualify surveyor.

The estimation of cost of capping and remediation is highly sensitive to many factors, including:
- where the landfill site pose a risk to the environment more stringent capping and remediation measures may be required
- changing legislation may alter the minimum requirements for capping and remediation
- availability of capping materials
- site specific requirements may vary, as well as proposed end-use of the site
- non-inflation linked costs like fuel
- the condition of infrastructure on site at the time of closure, for instance fencing, and storm water management

The average predicated inflation rate is 6 % per year for the period 1 July 2015 to 30 June 2023.

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

Key assumptions used

Discount rate 2019:	Yield Curve
Discount rate (2018):	Yield Curve
CPI 2019:	Difference between nominal and real yield curve
CPI (2018):	Difference between nominal and real yield curve

Figures in Rand	2019	2018

15. Provisions (continued)

Long service awards provision

ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's ('Nala')s long service bonus awards liability at 30 June 2019 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19). The valuation was performed by Niel Fourie B.Comm. (CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd

A previous actuarial valuation was performed by ZAQ Consultants and Actuaries as at 30 June 2018 to disclose on the long service bonus awards in Nala's financial statements.

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable Assumed	2019 Valuation	2018 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Discount Rate

We use the nominal and real zero curves as at 30 June 2019 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2019 of 7.36%. The next salary increase was assumed to take place on 01 July 2020.
In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

15. Provisions (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements
A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Membership Data
The information below is based on the membership data received from the Municipality.

Eligible male employees

Age band of employees salary	Number	Average annual average past service	Salary weighted accrued liability (Years)	Average
20 - 29	8	R 127 534	3,17	R 4 823
30 - 39	86	R 160 039	7,49	R 17 433
40 - 49	124	R 182 506	11,68	R 26 194
50 - 59	111	R 191 640	16,82	R 23 869
60 +	40	R 178 299	17,27	R 7 155
Total	**369**	**R 178 370**	**12,94**	**R 20 926**

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	3	R 175 663	2,77	R 4 955
30 - 39	24	R 182 876	6,84	R 14 577
40 - 49	44	R 209 775	13,23	R 31 487
50 - 59	21	R 194 983	17,67	R 24 136
60 +	11	R 227 732	28,83	R 1 369
Total	**103**	**R 201 416**	**14,37**	**R 22 059**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Provisions (continued)

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	11	R 140 660	3,03	R 4 859
30 - 39	110	R 165 022	7,33	R 16 810
40 - 49	168	R 189 648	12,13	R 27 580
50 - 59	132	R 192 172	16,96	R 23 911
60 +	51	R 188 961	20,27	R 5 907
Total	**472**	**R 183 399**	**13,28**	**R 21 173**

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

16. Revenue

	2019	2018
Service charges	162 953 092	166 178 182
Rental of facilities	418 340	1 784 680
Interest received - consumer	30 509 541	23 385 878
Interest received - investment	1 036 250	1 079 324
Dividends received	7 347	6 497
Discount received	402	4 530
Other income	1 588 077	1 771 491
Property rates	22 394 363	21 193 694
Fines, penalties and forfeits	100 430	44 331
Government grants & subsidies	149 714 784	157 426 216
	368 722 626	**372 874 823**

	2019	2018
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	162 953 092	166 178 182
Rental of facilities	418 340	1 784 680
Interest received - consumer	30 509 541	23 385 878
Interest received - investment	1 036 250	1 079 324
Dividends received	7 347	6 497
Discount received	402	4 530
Other income	1 588 077	1 771 491
	196 513 049	**194 210 582**

	2019	2018
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	22 394 363	21 193 694
Fines, penalties and forfeits	100 430	44 331
Transfer revenue		
Government grants & subsidies	149 714 784	157 426 216
	172 209 577	**178 664 241**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Service charges

Sale of electricity	84 964 992	83 407 255
Sale of water	45 865 457	46 482 403
Sewerage and sanitation charges	19 898 933	18 529 234
Refuse removal	12 223 710	17 759 290
	162 953 092	**166 178 182**

Included in the above service charges is income forgone to the amount of R44 592 940 (2018: R58 834 366).

18. Investment revenue

Dividend revenue		
Other financial assets	7 347	6 497
Interest revenue		
Bank	1 036 250	1 079 324
	1 043 597	**1 085 821**

19. Other income

Admin fees	19 971	43 514
Advertisement	4 026	15 240
Bad debts recovered	28	1 422
Burial income	577 539	535 112
Cemeteries	34 359	2 700
Connection Fees	215 541	309 417
Fees earned	375 291	472 151
Insurance claims received	-	8 668
Levies	359 741	373 120
Meter tampering/testing	(1 951)	6 580
Valuation certificates	3 532	3 567
	1 588 077	**1 771 491**

20. Property rates

Rates levied

Property rates	34 492 482	32 669 417
Less: Income forgone	(12 098 119)	(11 475 723)
	22 394 363	**21 193 694**

Figures in Rand	2019	2018

20. Property rates (continued)

Valuations

Residential	1 383 696 309	1 383 969 309
Commercial	294 990 703	294 990 703
State	215 207 785	215 207 785
Municipal	32 259 976	32 259 976
Agriculture	2 807 609 036	2 807 609 036
Other	85 452 584	85 452 584
	4 819 216 393	**4 819 489 393**

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. A decision was passed by council to extend the general valuation for a further 2 years until 30 June 2021.

The first R80 000 of the rateable value of residential property are exempted from taxes.
A 100% rebate is granted to churches, public benefit organisations and municipal property.
Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties

Rates are levied on an monthly basis and interest is levied on outstanding amounts.

Rates tariffs - 2019	
Residential	0.01000000
Business	0.01999000
Industrial	0.01999000
Municipal	0.01000000
Government	0.02999000
Agricultural	0.00250000
Multi purpose : Business	0.01999000
Multi purpose : Residential	0.01499000
Multi purpose : Guesthouse	0.01499000
Multi purpose : Agricultural	0.00250000
Non permitted use	0.03998000
Public benefit organisation	0.00250000
Education	0.02999000
Guesthouse	0.01499000
Crèche	0.01499000
Public workshop	0.00250000
PSI	0.00250000
Vacant	0.03998000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

21. Government grants and subsidies

Operating grants		
Equitable share	111 054 000	100 124 000
Municipal Infrastructure Grant	1 455 350	1 414 950
Financial assistance Grant (COGTA)	-	5 389 079
Financial Management Grant	2 415 000	2 345 000
Extended Public Works Grant	1 000 000	1 000 000
Local Government Sector Education and Training Authority Grant (LG SETA)	234 225	157 512
	116 158 575	**110 430 541**
Capital grants		
Municipal Infrastructure Grant	24 319 135	42 570 052
Integrated National Electrification Programme Grant (INEP)	3 720 781	4 425 623
South African National Energy Development Institute (SANEDI) Grant	517 393	-
Energy Efficiency and Demand Side Management (EEDSM)	4 998 900	-
	33 556 209	**46 995 675**
	149 714 784	**157 426 216**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Employee related costs

Acting allowances	1 189 967	966 155
Basic	85 801 859	79 762 779
Bonus	6 789 471	6 324 608
Employee benefits - costs	902 000	893 000
Housing benefits and allowances	306 262	185 934
Leave pay provision charge	2 666 313	403 624
Medical aid - company contributions	7 369 350	7 125 379
Night shift allowance	22 176	34 898
Overtime payments	9 475 064	7 298 855
Pension	14 750 382	13 805 810
SDL	1 112 030	1 078 511
Temporary workers	3 193 003	4 520 472
Travel, motor car, accommodation, subsistence and other allowances	12 034 731	11 723 974
UIF	733 048	705 481
WCA	717 041	792 980
	147 062 697	**135 622 460**

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	1 217 412	1 306 319
Car Allowance	108 000	106 364
Leave paid out	-	313 613
	1 325 412	**1 726 296**

Remuneration of Chief Finance Officer - Busakwe S

Annual Remuneration	889 486	930 328
Car Allowance	193 873	190 141
Subsistence allowance	1 100	3 905
Leave pay out	-	221 910
	1 084 459	**1 346 284**

Remuneration of Executive Corporate Services - Molupe BP

Annual Remuneration	384 957	886 939
Car Allowance	178 752	414 666
Leave pay out	255 548	-
Subsistence allowance	-	40 303
	819 257	**1 341 908**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations

23. Remuneration of councillors

Mayor	868 549	836 713
Speaker	703 000	677 531
Executive Members	1 525 245	1 512 890
Councillors	5 533 679	5 416 445
	8 630 473	**8 443 579**

There are 4 (2018: 4) Executive Committee Members and 19 (2018:17) Other Councillors.

Figures in Rand	2019	2018

23. Remuneration of councillors (continued)

In-kind benefits

The Mayor, speaker are full time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has one full-time bodyguard and one full-time driver.

24. Depreciation and amortisation

Property, plant and equipment	49 018 285	49 480 598

25. Impairment of assets and provision for bad debts

Impairments		
Trade and other receivables Provision for bad debts on trade and other receivables that was provided for.	63 476 578	55 129 317

26. Finance costs

Provisions and employee benefit obligations	2 757 909	3 836 208
Trade and other payables	17 089 708	3 533 999
	19 847 617	**7 370 207**

27. Bulk purchases

Electricity	74 728 171	68 305 488
Water	47 647 380	43 647 652
	122 375 551	**111 953 140**

Refer to note 44 for the detail regarding the distribution losses.

28. Contracted services

Meter Readers	852 598	1 555 700
Operating Leases	1 392 838	3 193 688
Other Contractors	197 986	-
Services Rendered	40 938 830	-
Specialist Services	10 725 072	6 535 416
	54 107 324	**11 284 804**

29. Auditors' remuneration

Fees	5 333 317	4 869 957

Figures in Rand	2019	2018

30. General expenses

Accounts delivery cost	812 500	828 000
Administration fees	30 462	11 604
Advertising	244 232	292 592
Audit committee	-	30 244
Auditors remuneration	5 333 317	4 869 957
Bank charges	919 239	859 328
Cashier shortages	514	(1 386)
Collection cost: Incentives	23 691	211 924
Conferences and seminars	434 520	651 537
Consulting and professional fees	1 999 761	2 606 672
Consumables	740 247	643 029
Electricity	2 583 906	2 021 598
Entertainment	-	47 614
Fuel and oil	2 515 457	2 216 261
Accommodation	28 456	276 863
Hire of equipment	480 808	204 814
Insurance	381 510	503 796
License fees	197 070	92 951
Membership fees	1 585 995	1 542 367
Motor vehicle expenses	3 270	20 608
Postage and courier	956 003	884 930
Printing and stationery	736 174	858 474
Stock value adjustments	31 764	5 924
Project workers	-	1 820 516
Telephone and fax	1 615 532	1 191 182
Transport and freight	176 934	109 453
Venue expenses	26 737	2 059 578
	21 858 099	**24 860 430**

31. Cash generated from operations

Surplus/(deficit)	(120 014 938)	(32 076 488)
Adjustments for:		
Depreciation and amortisation	49 018 285	49 480 598
Loss on property, plant and equipment recognised	-	37 632
Fair value adjustments	(6 494)	9 996
Impairment deficit	63 476 578	55 129 317
Movements in retirement benefit assets and liabilities	(1 664 000)	(2 585 000)
Movements in provisions	1 375 909	1 462 174
Actuarial gains and loss	(2 159 866)	(3 444 327)
Changes in working capital:		
Inventories	276 322	325 804
Receivables from exchange transactions	(63 603 715)	(66 826 900)
Receivables from non-exchange transactions	(3 763 137)	(3 198 667)
Payables from exchange transactions	125 625 801	43 224 217
VAT	(7 159 636)	(4 529 811)
Unspent conditional grants and receipts	2 395 442	(4 694 625)
Consumer deposits	81 757	265 321
Employee related payables	5 161 442	3 895 272
	49 039 750	**36 474 513**

32. Financial instruments disclosure

Categories of financial instruments

2019

. Financial instruments disclosure (continued)

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	108 032 211	108 032 211
Other receivables from non-exchange transactions	-	1 213 996	1 213 996
Cash and cash equivalents	-	24 873 260	24 873 260
Other financial assets	118 211	-	118 211
	118 211	**134 119 467**	**134 237 678**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	523 579 502	523 579 502
Consumer deposits	2 780 637	2 780 637
	526 360 139	**526 360 139**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

. Financial instruments disclosure (continued)

2018

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	94 869 324	94 869 324
Cash and cash equivalents	-	1 948 228	1 948 228
Other financial assets	111 717	-	111 717
Other receivables from non-exchange transactions	-	1 477 599	1 477 599
	111 717	**98 295 151**	**98 406 868**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	421 535 446	421 535 446
Consumer deposits	2 780 637	2 780 637
	424 316 083	**424 316 083**

33. Commitments

Authorised capital expenditure

	2019	2018
Already contracted for but not provided for		
• Property, plant and equipment	9 882 951	8 006 420
Total capital commitments		
Already contracted for but not provided for	9 882 951	8 006 420

This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG Grants funds.

Operating leases - as lessee (expense)

	2019	2018
Minimum lease payments due		
- within one year	167 308	466 254

The municipality utilises vehicles from the Free State Fleet Management trading entity (FSFM) and is billed monthly for the right to use the vehicle (daily tariff) as well as the usage (usage tariff) there of.

The leases are also treated as 3- and 4-year leases based on the type of asset.

Figures in Rand	2019	2018

34. Contingencies

Patula Balekane Joint Venture issued summons against the Municipality for payment in respect of outstanding payments due for construction work at the sewerage works in Wesselsbron to the plaintiff of an capital amount of R2.6mil plus interest (+/- R2.1mil) and legal cost (+/- R300 000).	5 000 000	5 000 000
SI Swartbooi was previously dismissed after disciplinary proceedings were instituted and the matter has been escalated to the Labour Court in Johannesburg and awaiting judgemental to be delivered.	-	3 000 000
Labour dispute - Nala vs Majoe matter was referred to labour court.	-	150 000
Labour dispute - Nala vs Makibinyane matter was referred to labour court.	1 500 000	-
Nala vs Mashalaba & associates - Action for damages.	45 000	-
Labour dispute - Nala vs Jooste matter was referred to labour court.	120 000	-
Nala vs Eskom - Summons for due account.	150 000	-
Nala vs Eskom - Review and application for warrant against Nala.	250 000	-
	7 065 000	**8 150 000**

Unlicenced landfill site

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Eskom

Eskom has a payment agreement with Nala Local Municipality to recover the area balances as agreed, the interest will be charged according to the payment agreement.

35. Related parties

Relationships	
Accounting Officer	Mr BC Mokomela
Members of key management	Refer to note 22

36. Prior period errors

Property, Plant and Equipment adjusted due to the asset register allocation adjusted from work in progress, repairs and maintenance to the asset register

Payables from exchange transactions was adjusted with invoices received in the current year dated in prior period.

Errors that was identified in the 2018/19 financial period in the current year was corrected against retained surplus.

Receivables from exchange transactions and VAT adjustment was made to correct the services charges on electricity sales due to estimation changes.

The correction of the errors results in adjustments as follows:

36. Prior period errors (continued)

Statement of financial position

Increase / (decrease) in receivables from exchange transactions	216 411
Increase / (decrease) in VAT receivable	(155 383)
(Increase) / decrease in unspent conditional grants and receipts	1 095 314
(Increase) / decrease in payables from exchange transactions	415 054
Increase / (decrease) in cash and cash equivalents	96 000
Increase / (decrease) in inventory	(1 881)
Increase / (decrease) in receivables from non-exchange transactions	(1 095 314)
	570 201

Statement of Financial Performance

(Increase) / decrease in property rates	3 268
(Increase) / decrease in service charges	247 978
(Increase) / decrease in employee related costs	(57 494)
(Increase) / decrease in general expenses	157 268
(Increase) / decrease in repairs and maintenance	(341 235)
(Increase) / decrease in rental of facilities	(443 711)
(Increase) / decrease in interest received	(97 689)
(Increase) / decrease in finance costs	(38 586)
	(570 201)

Cash flow statement

37. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	523 579 502	-	-	-

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	421 535 446	-	-	-

37. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

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

Financial instrument	2019	2018
Cash and cash equivalents	24 873 260	1 948 228
Receivables from exchange transactions	94 869 324	94 869 324
Receivables from non-exchange transactions	1 213 996	1 477 599
Other financial assets	118 211	111 717

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

38. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had accumulated surplus of R 1 421 996 913 and that the municipality's total assets exceed its liabilities by R 1 421 996 913. The municipality's current liabilities exceed its current assets by R 343 855 830.The municipality incurred a deficit of R 120 014 939 for the year (2018: R 32 614 089).

The debtors collection period is 2 764 days (2018: 2 460 days) which is an increase of 304 days.
The Impairment Provisions percentage improved slightly from 84.5% (2018) to 85.6%, the percentage remains high.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality as the current and liquidity ratio state that it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did well increase as other long term liabilities was settled during the year.

The main ratio in this regard is as follow:	2019	2018
Solvency ratio	4%	15%

39. Unauthorised expenditure

Opening balance	3 624 621	736 336
Unauthorised expenditure - current year	-	2 888 285
	3 624 621	**3 624 621**

Figures in Rand	2019	2018

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure opening balance	6 315 268	1 230 167
Interest	17 462 605	4 998 183
Arbitration	28 732	86 918
Less: Fruitless and wasteful expenditure - write off	(17 491 337)	-
	6 315 268	**6 315 268**

Interest is charged on arrear accounts by the creditors due to the fact that late payments are made to the creditors.

41. Irregular expenditure

Opening balance	58 609 919	13 277 585
Add: Irregular Expenditure - current year	800 189	1 477 702
Add: Irregular Expenditure - Identified after year-end	27 937 833	43 854 632
Less: Irregular Expenditure - write off	(44 488 270)	-
	42 859 671	**58 609 919**

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(597 992)	-
Current year subscription / fee	(1 585 995)	905 000
Amount paid - current year	150 000	(1 502 992)
	(2 033 987)	**(597 992)**

Audit fees

Opening balance	137 379	565 630
Current year fee	6 131 842	5 907 226
Interest charged	41 515	128 812
Interest written off	-	(64 050)
Amount paid - National Treasury Grant	-	(1 709 897)
Amount paid - current year	(5 057 138)	(4 690 342)
	1 253 598	**137 379**

PAYE and UIF

Opening balance	1 354 486	1 358 728
Current year subscription / fee	18 680 183	18 268 289
Amount paid - current year	(20 032 720)	(18 272 531)
	1 949	**1 354 486**

Pension and Medical Aid Deductions

Opening balance	2 898 436	2 931 621
Current year subscription / fee	37 341 931	34 243 929
Amount paid - current year	(40 130 649)	(34 277 114)
	109 718	**2 898 436**

VAT

VAT receivable	50 591 213	43 431 577

VAT output payables and VAT input receivables are shown in note 5 .

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

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati M.S.	256	-	256
Leburu G.J.	302	-	302
Mabaso M.K.	458	-	458
Mafojane M.S.	1 870	6 572	8 442
Makhooe N.E.	361	-	361
Makunye L.S.	575	-	575
Marumule M.S.	547	-	547
Mashiya M.N.	674	-	674
Mogoje T.A.	26 089	53 776	79 865
Mohloare T.A.	313	-	313
Mokete M.J.	434	-	434
Moshane Z.M.	535	-	535
Nanyane L.B.	2 244	-	2 244
Ngece T.F.	268	-	268
Ntseki M.L.	452	-	452
Reed D.	1 152	-	1 152
Sebate R.A.	452	-	452
Tau R.T.	1 855	69 401	71 256
Jika N.E.	256	-	256
Mabeleng M.P.	1 295	9 239	10 534
Botma J.A.	1 408	-	1 408
Masencamp S.	1 001	-	1 001
Mthombeni K.A.	302	-	302
	43 099	**138 988**	**182 087**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Khati M.S.	1 186	14 346	15 532
Leburu G.J.	424	-	424
Mabaso M.K.	497	-	497
Mafojane M.S.	495	-	495
Makhooe N.E.	734	-	734
Makunye L.S.	677	-	677
Marumule M.S.	350	-	350
Mashiya M.N.	424	-	424
Mogoje T.A.	12 740	-	12 740
Mohloare T.A.	350	-	350
Mokete M.J.	365	-	365
Molutsi T.L.	308	-	308
Moshane Z.M.	942	147	1 089
Nanyane L.B.	10 948	46 961	57 909
Ngece T.F.	1 895	279	2 174
Ntseki M.L.	1 392	17 636	19 028
Reed D.	2 855	-	2 855
Sebate R.A.	669	-	669
Tau R.T.	2 970	104 248	107 218
Mtombeni J.	740	-	740
Jika N.E.	52	-	52
Mabeleng M.P.	1 279	10 497	11 776
Botma J.A.	2 079	-	2 079

Figures in Rand		2019	2018

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

	44 371	**194 114**	**238 485**

43. 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 annual financial statements.

	2019	2018
The following expenses relate to deviations that the accounting officer approved		
Emergencies	2 640 508	1 256 784
Sole suppliers	40 912	149 081
	2 681 420	**1 405 865**

44. Distribution Losses

	2019	2018
Electricity - Rand		
Sold	93 868 218	88 187 360
Purchased	73 908 516	68 345 518
Electricity - Units		
Sold	69 577 003	70 852 931
Purchased	75 675 109	75 464 275
Electricity - Tariffs		
Sold	1.35	1.24
Purchased	0.98	0.91
Electricity - Losses		
Units	6 098 106	4 611 344
Rand value	5 955 749	4 176 343
Percentage	8.06%	6.11%
Water - Rand		
Sold	48 069 805	48 917 151
Purchased	47 332 295	43 649 046
Water - Units		
Sold	2 516 614	2 692 459
Purchased	4 078 290	4 263 570
Water - Tariffs		
Sold	19.10	18.17
Purchased	11.61	10.24
Water - Losses		
Units	1 561 676	1 571 111
Rand value	18 124 682	16 084 525
Percentage	38.29%	36.85%

Notes to the Annual Financial Statements

45. New standards and interpretations

45.1 Standards and interpretations effective and adopted in the current year

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

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

GRAP 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 2019.

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

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 2019.

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)
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.

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 2019.

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

GRAP 31 (as amended 2016): Intangible Assets

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

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

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

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

45.2 Standards and interpretations issued, but not yet effective

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

GRAP 20: Related parties

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

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

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

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual 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 not yet set by the Minister of Finance.

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

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 2019.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

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 2019.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

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

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

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

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

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

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

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

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

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

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

GRAP 109: Accounting by Principals and Agents

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

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

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

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

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

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

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 2020.

The municipality expects to adopt the interpretation for the first time in the 2020 annual financial statements.

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

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

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

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

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

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government’s housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

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

The municipality 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 municipality's annual financial statements.

45.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2019 or later periods but are not relevant to its operations:

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:
- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

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

The municipality 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 municipality's 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 not yet set by the Minister of Finance.

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

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

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

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

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

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

GRAP 37: Joint Arrangements

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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

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

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

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

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

It is unlikely that the standard will have a material impact on the municipality's 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 not yet set by the Minister of Finance.

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

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

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

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

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

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

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

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

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources 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.

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; 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

Notes to the Annual Financial Statements

45. New standards and interpretations (continued)

- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, 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 2020.

The municipality expects to adopt the amendment for the first time in the 2020 annual financial statements.

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

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

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

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

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

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

To meet this objective, the Standard:

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

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

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

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

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

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

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

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

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

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