UMZINYATHI DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2019

Umzinyathi District Municipality
Annual Financial Statements for the year ended 30 June 2019

General Information

Nature of Business and Principal Activities	The uMzinyathi District Municipality is a municipality that is operating within its constitutional mandate as a water service authority in the form of service delivery to the citizens of South Africa.
Mayoral Committee	
Mayor	Cllr Alderman PMS Ngubane
Deputy Mayor	Cllr NG Mdlalose
Speaker	Cllr FJ Sikhakhane
Executive Committee	Cllr LWS Ngubane
	Cllr LG Mabaso
	Cllr MS Yengwa
Chief Whips	Cllr BP Madondo
	Cllr RN Ngubane
MPAC Chairperson	Cllr XS Xaba
Councillors	Cllr LN Dladla
	Cllr NC Xaba
	Cllr BS Chambule
	Cllr CZ Mbatha
	Cllr BP Ngcobo
	Cllr B Mthethwa
	Cllr SK Radebe
	Cllr TM Mahaye
	Cllr TH Mchunu
	Cllr EM Mkwanazi
	Cllr PM Ngobese
	Cllr LC Moloi
	Cllr TJ Motloung
	Cllr FE Khumalo
	Cllr TC Ngubane
	Cllr IL Shabalala
	Cllr PS Hlophe
Grading of Local Authority	4
Accounting Officer	Mr LH Mthembu (Acting Municipal Manager)
Chief Financial Officer (CFO)	Mrs NT Mkhwanazi
Registered Office	39 Victoria Street Princess Magogo Building Dundee 3000
Business Address	39 Victoria Street Princess Magogo Building Dundee 3000
Postal Address	PO Box 1965 Dundee 3000
Telephone Number	034 219 1500
Website	www.umzinyathi.co.za
Email	rc3@umzinyathi.gov.za

General Information

Bankers	First National Bank
Auditors	Auditor General of South Africa

Index

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

Index

ABSA	Amalgamated Banks of South Africa
AG	Auditor General of South Africa
BTO	Budget and Treasury Office
COGTA	Cooperative Governance and Traditional Affairs
CPI	Consumer Price Index
DBSA	Development Bank of Southern Africa
DM	District Municipality
DORA	Division of Revenue Act
DPW	Department of Public Works
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMCMM	Financial Management Capability Maturity Model
FMG	Financial Management Grant
FNB	First National Bank
GRAP	Generally Recognised Accounting Practice
HIV	Human Immune-Deficiency Virus
IDP	Integrated Development Plan
JSE	Johannesburg Stock Exchange
KZN	KwaZulu-Natal
LED	Local Economic Development
LGSETA	Local Government Sector Education and Training Authority
LM	Local Municipality
MEC	Member of Executive Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
MSCOA	Municipal Standard Chart of Accounts
NRA	Normal Retirement Age
PAYE	Pay As You Earn
PFMA	Public Finance Management Act

Index

RMB	Rand Merchant Bank
RRAMS	Rural Road Asset Management Systems
SARS	South African Revenue Service
SCM	Supply Chain Management
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WTW	Water Treatment Works
WSDP	Water Services Development Plan

Accounting Officer's Responsibilities and Approval

The uMzinyathi District Municipality is situated at Princess Magogo Building, 39 Victoria Street, is a grade 4 Municipality established in terms of section 12 (1) of the Municipal Structures Act, No.117 and published in terms of Provincial Government Notice 346 on the 19 September 2000. The Local Government Operations of the Municipality are assigned by Section 156 and 229 of the South African Constitution and defined specifically in terms of section 83 of the Municipal Structures Act.

The accounting officer is required by the Municipal Finance Management Act (No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and were given unrestricted access to all financial records and related data. The financial statements have been prepared in accordance with Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based on 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 places 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 and effective accounting procedures. 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 minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer has reviewed the municipality's cash flow forecast for the year ending 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 municipality is largely dependent on the Provincial and National Government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Provincial and National Governments have neither the intention nor the need to liquidate or curtail materially the scale of funding of the municipality.

The annual financial statements set out on pages 7 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:

Mr LH Mthembu
Acting Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	11 519 178	1 227 505
Receivables from Non-Exchange Transactions	4	12 016 591	11 759 698
VAT Receivable	5	16 159 143	15 194 852
Receivables from Exchange Transactions	6	57 165 089	66 365 012
Cash and Cash Equivalents	7	57 405 607	150 841 372
		154 265 608	**245 388 439**
Non-Current Assets			
Infrastructure	8	2 009 047 592	1 798 883 347
Investment Property	9	771 725	810 393
Property, Plant and Equipment	10	105 967 910	100 991 464
Intangible Assets	11	4 124 965	2 465 371
Interest in Joint Venture	12	230 541 473	259 131 141
		2 350 453 665	**2 162 281 716**
Total Assets		**2 504 719 273**	**2 407 670 155**
Liabilities			
Current Liabilities			
Trade Payables	13	163 796 654	135 616 250
Consumer Deposits	14	451 514	459 131
Employee Benefit Obligation	17	506 729	-
Unspent Conditional Grants and Receipts	15	-	37 725 287
Provisions	16	14 107 522	11 992 076
		178 862 419	**185 792 744**
Non-Current Liabilities			
Employee Benefit Obligation	17	23 657 590	23 621 000
Long Term Liability	18	64 191 401	64 191 401
		87 848 991	**87 812 401**
Total Liabilities		**266 711 410**	**273 605 145**
Net Assets		**2 238 007 863**	**2 134 065 010**
Reserves			
Other Reserves		698 434 731	698 434 731
Accumulated Surplus		1 539 573 132	1 435 630 279
Total Net Assets		**2 238 007 863**	**2 134 065 010**

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue From Exchange Transactions			
Service Charges	19	62 418 462	59 364 617
Rental of Facilities and Equipment	20	468 857	411 174
Interest Earned on Outstanding Debtors	21	18 771 234	14 116 532
Other Income	22	1 227 862	669 232
Interest Earned on Investments	23	11 907 865	16 934 290
Total Revenue From Exchange Transactions		**94 794 280**	**91 495 845**
Revenue From Non-Exchange Transactions			
Gains and Donations Received			
Actuarial Gain from Post Retirement	17	2 827 681	4 718 000
Transfer Revenue			
Government Grants and Subsidies	24	630 275 701	599 145 561
Total Revenue From Non-Exchange Transactions		**633 103 382**	**603 863 561**
Total Revenue	25	**727 897 662**	**695 359 406**
Expenditure			
Employee Related Costs	26	(142 155 467)	(128 871 686)
Remuneration of Councillors	27	(6 566 913)	(5 259 653)
Depreciation and Amortisation	28	(94 331 424)	(90 764 887)
Finance Costs	29	(73 424)	(129 615)
Lease Rentals on Operating Lease	30	(619 326)	(806 165)
Provision for Debt Impairment	31	16 646 677	(72 771 638)
Bad Debts Written Off	32	(93 636 030)	-
Post Retirement Benefits	17	(3 371 000)	(4 117 000)
Bulk Purchases	33	(15 325 367)	(16 089 868)
Contracted Services	34	(104 633 803)	(202 736 198)
Loss on Disposal of Property, Plant and Equipment	10	(8 266)	(388 500)
Loss on Disposal of Intangible Assets	11	(1 899)	-
Share on Deficit from Joint Venture	12	(28 589 668)	(36 097 413)
General Expenditure	35	(151 288 902)	(53 987 741)
Total Expenditure		**(623 954 812)**	**(612 020 364)**
Surplus For The Year		**103 942 850**	**83 339 042**

Statement of Changes in Net Assets

Figures in Rand	Reserves	Accumulated Surplus	Total Net Assets
Opening Balance as previously reported	698 434 731	**1 483 774 148**	**2 182 208 879**
Adjustments			
Prior Year Adjustments	-	(131 482 911)	(131 482 911)
Balance at 01 July 2017 as restated*	**698 434 731**	**1 352 291 237**	**2 050 725 968**
Changes in Net Assets			
Restated Surplus for The Year	-	83 339 042	83 339 042
Total Changes	-	83 339 042	83 339 042
Restated Balance at 01 July 2018	**698 434 731**	**1 435 630 282**	**2 134 065 013**
Changes in Net Assets			
Surplus for The Year	-	103 942 850	103 942 850
Total Changes	-	103 942 850	103 942 850
Balance at 30 June 2019	**698 434 731**	**1 539 573 132**	**2 238 007 863**
Note(s) on Prior Year Adjustments		36	

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash Flows from Operating Activities			
Receipts			
Sale of Goods and Services		179 715 299	82 090 735
Government Grants		592 550 413	600 121 359
Interest Income		11 907 865	16 934 290
Other Receipts		1 704 336	1 088 514
		785 877 913	**700 234 898**
Payments			
Employee Cost		(146 375 010)	(132 419 993)
Suppliers		(421 762 040)	(234 593 217)
Finance Costs		(73 424)	(42 716)
		(568 210 474)	**(367 055 926)**
Net Cash flows from Operating Activities	38	**217 667 439**	**333 178 972**
Cash Flows from Investing Activities			
Purchase of Property, Plant and Equipment	10	(16 100 676)	(10 832 462)
Proceeds from Sale of Property, Plant and Equipment	10	-	465 581
Purchase of Intangible Assets	11	(1 893 456)	(374 626)
Purchase of Infrastructure Assets	8	(293 109 073)	(239 690 959)
Net Cash Flows from Investing Activities		**(311 103 205)**	**(250 432 466)**
Cash Flows from Financing Activities			
Repayment of Long Term Liabilities		-	(669 155)
Finance Costs		-	(86 899)
Net Cash flows from Financing Activities		**-**	**(756 054)**
Net increase in Cash and Cash Equivalents		**(93 435 766)**	**81 990 452**
Cash and cash equivalents at the beginning of the year		150 841 372	68 850 920
Cash and cash equivalents at the end of the year	7	**57 405 606**	**150 841 372**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service Charges	60 508 865	(7 600 411)	**52 908 454**	62 418 462	**9 510 008**	15% (a)
Rental of facilities and equipment	548 712	-	**548 712**	468 857	**(79 855)**	- 17% (b)
Interest earned- outstanding debtors	13 281 000	-	**13 281 000**	18 771 234	**5 490 234**	29% (c)
Other income	20 700	264 372	**285 072**	1 227 862	**942 790**	77% (d)
Interest received - investment	14 509 211	-	**14 509 211**	11 907 865	**(2 601 346)**	- 22% (e)
Total revenue from exchange transactions	**88 868 488**	**(7 336 039)**	**81 532 449**	**94 794 280**	**13 261 831**	
Revenue from non-exchange transactions						
Taxation revenue						
Actuarial Gain	-	-	**-**	2 827 681	**2 827 681**	100% (f)
Transfer revenue						
Government grants & subsidies	613 436 753	15 926 888	**629 363 641**	630 275 701	**912 060**	0%
Total revenue from non-exchange transactions	**613 436 753**	**15 926 888**	**629 363 641**	**633 103 382**	**3 739 741**	
Total revenue	**702 305 241**	**8 590 849**	**710 896 090**	**727 897 662**	**17 001 572**	
Expenditure						
Employee Related Costs	(156 369 040)	19 211 975	**(137 157 065)**	(142 155 467)	**(4 998 402)**	-4%
Remuneration of Councillors	(4 853 065)	(317 652)	**(5 170 717)**	(6 566 913)	**(1 396 196)**	-21% (g)
Depreciation and Amortisation	(41 373 608)	-	**(41 373 608)**	(94 331 424)	**(52 957 816)**	-56% (h)
Finance costs	-	-	**-**	(73 424)	**(73 424)**	-100% (i)
Lease rentals on Operating Lease	-	-	**-**	(619 326)	**(619 326)**	-100% (j)
Provision for Bad Debts	(12 606 172)	-	**(12 606 172)**	16 646 677	**29 252 849**	176% (k)
Bad debts written off	-	-	**-**	(93 636 030)	**(93 636 030)**	-100% (l)
Post Retirement Benefits	-	-	**-**	(3 371 000)	**(3 371 000)**	-100% (m)
Bulk Purchases	(18 400 000)	2 147 091	**(16 252 909)**	(15 325 367)	**927 542**	6%
Contracted Services	(86 922 736)	(13 740 612)	**(100 663 348)**	(104 633 803)	**(3 970 455)**	-4%
Share in Profit of Joint Venture	-	-	**-**	(28 589 668)	**(28 589 668)**	-100% (n)
Loss of Disposal of Property, Plant and Equipment	-	-	**-**	(8 266)	**(8 266)**	-100% (o)
Loss on disposal of Intangible Assets	-	-	**-**	(1 899)	**(1 899)**	- 100%(o)
General Expenses	(104 665 764)	(35 854 969)	**(140 520 733)**	(151 288 902)	**(10 768 169)**	-7%
Total Expenditure	**(425 190 385)**	**(28 554 167)**	**(453 744 552)**	**(623 954 812)**	**(170 210 260)**	
Surplus for the year	**277 114 856**	**(19 963 318)**	**257 151 538**	**103 942 850**	**(153 208 688)**	
Net Surplus for the Year	**277 114 856**	**(19 963 318)**	**257 151 538**	**103 942 850**	**(153 208 688)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

The budget variances are as a result of the following:

(a) The service charges increased due to improvement in collection rate that were directly linked to the municipalities intervention or strategies.

(b) Rental of Facilities is less than the budget due to one facility being left vacant. When the budget was done, the municipality anticipated on obtaining a tenant for the facility.

(c) Interest on Debtors is more than the budget due the debtors not paying in time. The price increases more than as anticipated affected the payment rate in the debtors.

(d) Other Income is more than the budget due unanticipated insurance receipts.

(e) Interest on Investments is less than the budget due to lower interest rates as there was no recent interest rate increase.

(f) Actuarial Gain is a valuation exercise that is subjective based on the valuation techniques applied by the valuer. This item was not budgeted for due to the lack of skill to properly estimate at the municipality.

(g) Remuneration of councillors are more than budget due to the increase as per the government gazzette.

(h) Depreciation and Amortisation is more than the budget due to the new asset register that was populated into the financial statements. In budget stage it was impractical to reasonably estimate these figures because the municipality did not have a reliable asset register.

(i) The municipality did not have a facility for financing where interest is incurred, therefore this item was not budgeted for. The finance cost incurred were purely due to late payment of creditors due to cashflow problems.

(j) Lease on Rentals were included in the total expenditure budget and were not split.

(k) Provision for bad debts is less than budget due to the increase in the collection rate of the municipality.

(l) The bad debt write off was as a result of a council resolution to write off old debts as these balances were overstating the assets. Further based on the municipality's attempts to improve collection rates, it was imperative to write off debts to ensure that the repayment of current debt by consumers is lmanageable.

(m) Post Retirement Benefits are less than budget due to the budget taking into account the actual payments based on past experiences whereas this figure is based on a valuation estimate by the valuer.

(n) Share in profit of joint venture was not budgeted for due to the fact that this figure is based on the entity's profit for the year. It is rather impractical for the municipality to reasonable estimate the financial performance of the joint venture.

(o) Loss on disposal of assets is less than budget because the asset disposal was not performed as per anticipated.

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in Note 1.7 Changes in accounting policy.

1.1 Going Concern Assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in Note 16 - Provisions.

Useful lives of waste and water network and other assets

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

Allowance for Doubtful Debts

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

Accounting Policies

1.3 Inventories

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

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

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

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

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

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

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

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

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

1.4 Leases

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

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

Operating Leases - Lessor

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

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

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

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

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

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.

1.5 Financial Instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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

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

Accounting Policies

1.5 Financial Instruments (continued)

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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.

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.

1.5 Financial Instruments (continued)

Initial measurement of financial assets and financial liabilities

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

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

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.

Fair value measurement considerations

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

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

Reclassification

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

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

Where the municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

1.5 Financial Instruments (continued)

Gains and Losses

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

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

Impairment and uncollectibility of financial assets

The municipality 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.

Derecognition

Financial Assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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.

1.5 Financial Instruments (continued)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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

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

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

Financial Liabilities

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

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 entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Trade and Other Receivables

Trade and other receivables are categorized as financial assets: loans and receivables and recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off.

1.6 Infrastructure

The entity recognises a infrastructure when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Infrastructure are measured at cost.

A gain or loss arising on initial recognition of infrastructure or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a infrastructure is included in surplus or deficit for the period in which it arises.

Depreciation is provided on infrastructure where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Other Infrastructure	20 - 40 years

1.7 Investment Property

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

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

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - buildings	30 years

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

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

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

Accounting Policies

1.8 Property, Plant and Equipment

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

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

Property, Plant and Equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	Depreciation method	Average useful life
Infrastructure	Straight line	10-100 years
Other property, plant and equipment	Straight line	4-15 years

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

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

1.8 Property, Plant and Equipment (continued)

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

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

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

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

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

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

1.9 Intangible Assets

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

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

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

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

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

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

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

1.9 Intangible Assets (continued)

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer Software	Straight line	5 years

1.10 Interest in Joint Venture

Interest in joint ventures are accounted for using the equity method. The carrying amount of the interest in joint venture is calculated at cost plus the entity’s subsequent share of the joint ventures comprehensive income. If at the end of a reporting period there is an indication that an interest in a joint venture may be impaired, the entire carrying amount of the joint venture is tested for impairment. If the carrying amount of the joint venture is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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.

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

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

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

1.11 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.

Accounting Policies

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.

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

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

1.12 Impairment of non-cash-generating assets (continued)

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

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

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.

Value in use

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

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

Depreciated replacement cost approach

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

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

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

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

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

1.12 Impairment of non-cash-generating assets (continued)

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.

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

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.

1.13 Employee Benefits

Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.13 Employee Benefits (continued)

Defined Benefit Plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

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 amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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.

1.14 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.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.15 Revenue from Non-Exchange Transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

1.15 Revenue from Non-Exchange Transactions (continued)

Government Grants

Government grants are recognised as revenue when:

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

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.16 Investment Income

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

1.17 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.

1.18 Provisions and Contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

1.18 Provisions and Contingencies (continued)

Provisions are not recognised for future operating surplus (deficit).

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.19 Comparative Figures

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

1.20 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

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

1.21 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.

1.22 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.

1.23 Irregular Expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

1.23 Irregular Expenditure (continued)

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

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

1.24 Budget Information

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

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

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

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

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

1.25 Related Parties

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

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

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

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

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

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

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

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

1.25 Related Parties (continued)

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

1.26 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.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

2. New standards and interpretations

2.1 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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Impact is currently being assessed
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Impact is currently being assessed
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 20: Related parties	01 April 2019	Not expected to impact results but may result in additional disclosure
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

3. Inventories

Water Inventory	120 734	107 447
Chemicals	11 398 444	1 120 058
	11 519 178	**1 227 505**

Inventory is valued at lower of cost or net realisable value. There is no inventory that was pledged as security.

4. Receivables from Non-Exchange Transactions

Supplier Over-payment	3 364 143	3 107 250
Sundry Debtors	4 267 946	4 267 946
Uthukela Receipting Debtor	4 384 502	4 384 502
	12 016 591	**11 759 698**

Uthukela Water (Pty) Ltd received consumer payments on the behalf of the municipality, after the municipality had taken over the function of the WSP agreement. Uthukela Water (Pty) Ltd then did not transfer the money received as Uthukela Water (Pty) Ltd claims to have deducted these receipts from invoices of bulk purchases. There is no substantiating evidence provided by Uthukela Water (Pty) Ltd to prove the deduction from the bulk purchases invoices.

5. VAT Receivable

VAT Receivable	16 159 143	15 194 852

VAT is prepared on a cash basis. This receivable is as a result of expenditure incurred.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from Exchange Transactions

Gross Balances		
Water	112 613 207	120 374 655
Sewerage	31 097 722	36 265 069
Consumer Debtor - VAT Payable	30 621 415	34 058 583
Consumer Debtor - Interest	53 713 616	63 194 253
Housing Rental	196 474	196 474
	228 242 434	**254 089 034**
Less: Allowance for Impairment		
Water	(84 481 100)	(81 652 083)
Sewerage	(23 329 144)	(27 402 567)
Consumer Debtor - VAT Payable	(22 971 826)	(26 793 301)
Consumer Debtor - Interest	(40 295 275)	(51 876 071)
	(171 077 345)	**(187 724 022)**
Net Balance		
Water	28 132 107	38 722 572
Sewerage	7 768 578	8 862 502
Consumer Debtor - VAT Payable	7 649 589	7 265 282
Consumer Debtor - Interest	13 418 341	11 318 182
Housing Rental	196 474	196 474
	57 165 089	**66 365 012**
Water		
Current (0 -30 days)	6 811 029	13 820 457
31 - 60 days	5 128 470	4 469 792
61 - 90 days	3 740 267	4 072 691
91 - 120 days	2 974 522	4 100 236
121 - 365 days	93 958 919	93 911 480
Less Allowance for Impairment	(84 481 100)	(81 652 084)
	28 132 107	**38 722 572**
Sewerage		
Current (0 -30 days)	1 505 954	3 184 206
31 - 60 days	1 080 040	1 165 173
61 - 90 days	962 811	1 032 277
91 - 120 days	745 114	1 135 695
121 - 365 days	26 803 803	29 747 718
Less: Allowance for Impairment	(23 329 144)	(27 402 567)
	7 768 578	**8 862 502**
VAT - Payable		
Current (0 -30 days)	1 252 236	2 539 929
31 - 60 days	1 072 209	825 418
61 - 90 days	885 017	758 142
91 - 120 days	742 151	716 729
121 - 365 days	26 669 801	29 218 365
Less: Allowance for Impairment	(22 971 825)	(26 793 301)
	7 649 589	**7 265 282**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from Exchange Transactions (continued)

Interest		
Current (0 -30 days)	1 337 709	1 429 101
31 - 60 days	1 260 222	1 387 441
61 - 90 days	1 223 013	1 339 246
91 - 120 days	1 192 131	1 286 229
121 - 365 days	48 700 541	57 752 237
Less: Allowance for Impairment	(40 295 275)	(51 876 072)
	13 418 341	**11 318 182**

Housing Rental		
Current (0 -30 days)	-	9 246
31 - 60 days	-	9 070
61 - 90 days	-	9 070
91 - 120 days	-	8 991
121 - 365 days	-	160 097
> 365 days	196 474	-
	196 474	**196 474**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from Exchange Transactions (continued)

Summary of receivables by customer classification

Consumers and Indigents		
Current (0 -30 days)	5 925 332	11 342 004
31 - 60 days	4 405 249	5 458 475
61 - 90 days	4 591 436	5 245 488
91 - 120 days	4 120 606	4 178 608
121 - 365 days	156 428 042	184 555 843
Payments in advance/ adjustments	-	(12 501)
	175 470 665	210 767 917
Less: Allowance for impairment	(131 488 596)	(188 139 380)
	43 982 069	**22 628 537**

Industrial/ Commercial		
Current (0 -30 days)	1 956 731	1 801 642
31 - 60 days	1 778 065	933 415
61 - 90 days	828 016	953 154
91 - 120 days	789 189	425 859
121 - 365 days	19 737 176	12 669 213
Less: Allowance for impairment	(18 821 600)	(178 710)
	6 267 577	**16 604 573**

National and Provincial Government		
Current (0 -30 days)	3 024 865	7 830 046
31 - 60 days	2 357 627	1 455 935
61 - 90 days	1 391 661	1 003 715
91 - 120 days	744 124	2 634 423
121 - 365 days	20 164 315	13 404 743
Less: Allowance for impairment	(20 767 149)	14 114
	6 915 443	**26 342 976**

Total		
Current (0 -30 days)	10 906 928	20 973 690
31 - 60 days	8 540 942	7 847 824
61 - 90 days	6 811 112	7 202 357
91 - 120 days	5 653 919	7 238 890
121 - 365 days	196 329 533	210 826 273
	228 242 434	**254 089 034**
Less: Allowance for impairment	(171 077 345)	(187 724 022)
	57 165 089	**66 365 012**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(187 724 022)	(114 952 384)
Contributions to allowance	16 646 677	(72 771 638)
	(171 077 345)	**(187 724 022)**

Credit quality of receivables

The credit quality of receivables (consumer debtors) 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.

Figures in Rand	2019	2018

6. Receivables from Exchange Transactions (continued)

Ageing of the receivables impaired

The ageing of these receivables impaired is as follows:

3 to 6 months	-	-
Over 6 months	171 077 345	187 724 022

7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on Hand	6 100	6 100
Bank Balances	21 836 008	51 342 453
Short-term deposits	35 563 498	99 492 819
	57 405 606	**150 841 372**

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 Cheque Account - (Main) 62358106279	15 104 897	50 135 046	4 002 332	21 826 008	51 322 453	3 996 250
FNB Water Account - 62358438044	10 000	10 000	10 000	10 000	10 000	10 000
FNB 7 Days Notice Account - 74321014438	14 352 510	49 861 471	11 101 077	14 352 510	48 591 190	11 101 077
FNB Investment Account - 6233578564	235 537	47 322	4 850 807	834 161	47 322	4 825 783
RMB Call Investment Account - 021900664	-	-	9 106	-	-	9 058
Nedbank Investment Account - 73370049	1 841 488	5 932 316	20 969	1 841 488	5 930 506	20 969
Investec Bank Investment Account - 1100461826502	13 180 286	40 106 646	44 585 972	13 180 286	40 106 646	44 585 972
Investec Bank Investment Account - 1100461826503	120	21 810	20 431	120	21 808	20 431
Standard Bank Account - 308632095-003	-	245 365	4 273 479	-	249 847	4 273 479
Standard Bank Account - 035517239	40	4 517 912	1 218	40	4 517 912	1 130
Standard Bank Account - 008632095-005	-	10 381	-	-	10 381	-
ABSA Investment Account - 9330621802	237	27 207	-	237	27 207	-
Petty Cash Account	-	-	-	6 100	6 100	6 100
Investec Bank Investment Account - 1100461826451	12 253 151	-	-	5 354 656	-	-
Total	**56 978 266**	**150 915 476**	**68 875 391**	**57 405 606**	**150 841 372**	**68 850 249**

8. Infrastructure

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Infrastructure Assets	1 343 533 651	(501 517 000)	842 016 651	1 241 220 733	(418 572 172)	822 648 561
Infrastructure - Work-in-Progress	1 167 030 941	-	1 167 030 941	976 234 786	-	976 234 786
Total	**2 510 564 592**	**(501 517 000)**	**2 009 047 592**	**2 217 455 519**	**(418 572 172)**	**1 798 883 347**

Reconciliation of Infrastructure - 2019

	Opening Balance	Additions	Transfers received	Transfers	Depreciation	Total
Infrastructure Assets	822 648 562	-	102 312 918	-	(82 944 829)	842 016 651
Infrastructure - Work- In-Progress	976 234 786	293 109 073	-	(102 312 918)	-	1 167 030 941
	1 798 883 348	**293 109 073**	**102 312 918**	**(102 312 918)**	**(82 944 829)**	**2 009 047 592**

Reconciliation of Infrastructure - 2018

	Opening Balance	Additions	Transfers Received	Transfers	Prior Year Adjustments	Depreciation	Total
Infrastructure Assets	919 020 732	-	61 610 236	-	(74 723 194)	(83 259 212)	822 648 562
Infrastructure - Work - in progress	869 758 584	239 690 959	-	(61 610 236)	(71 604 521)	-	976 234 786
	1 788 779 316	**239 690 959**	**61 610 236**	**(61 610 236)**	**(146 327 715)**	**(83 259 212)**	**1 798 883 348**

Figures in Rand	2019	2018

8. Infrastructure (continued)

Reconciliation of Work-in-Progress

Class of Asset	Infrastructure (2019)	Infrastructure (2018)
Opening Balance	976 234 786	798 154 063
Additions	293 109 073	239 690 959
Transfer to completed	(102 312 918)	(61 610 236)
	1 167 030 941	**976 234 786**

Projects taking significantly longer to complete		
The carrying value of the above mentioned is as follows	345 740 151	256 050 473

Reasons for projects taking a significantly longer period of time to complete as follows:

Years of Projects	Reason for Delays
Year 0-1	Most of these projects await additional funding
Year 1-3	Most of the projects are still on design stages
Year 3-6	Contractual disputes/ intended funding utilised on another project

The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting periods.

Financial year	Project description	Reason for delays	Impariment loss recognised	Carrying Value
Current year 2019	Nquthu North	Intended funding utilised on another project	No loss recognised	3 759 719
Current year 2019	Greytown Bulk	Intended funding utilised on another project	No loss recognised	341 980 432
Prior year 2018	Rudimentary/Tanker reduction	Intended funding utilised on another project	No loss recognised	24 463 955
Prior year 2018	Drought relief	Intended funding utilised on another project	No loss recognised	46 323 110

The municipality has incurred reapirs and maintenance costs on infrastructure assets disclosed under note 34.

Pledged as security

No infrastructure assets are pledged as security.

9. Investment Property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment Property	1 160 845	(389 120)	771 725	1 160 845	(350 452)	810 393

Reconciliation of Investment Property - 2019

	Opening Balance	Depreciation	Total
Investment Property	810 393	(38 668)	771 725

Reconciliation of Investment Property - 2018

	Opening Balance	Prior Year Adjustments	Depreciation	Total
Investment Property	855 808	(6 747)	(38 668)	810 393

Rental Income from Investment Property is disclosed on Note 20.

Notes to the Annual Financial Statements

Figures in Rand

10. Property, Plant and Equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	28 872 532	(9 969 107)	18 903 425	28 872 532	(9 007 347)	19 865 185
Buildings - WIP	34 645 020	-	34 645 020	34 645 019	-	34 645 019
Plant and Machinery	38 545 335	(15 910 190)	22 635 145	28 887 117	(10 726 737)	18 160 380
Motor Vehicles	34 395 051	(10 659 470)	23 735 581	29 226 383	(7 068 118)	22 158 265
Furniture and Office Equipment	11 597 464	(5 548 725)	6 048 739	10 774 488	(4 611 873)	6 162 615
Total	**148 055 402**	**(42 087 492)**	**105 967 910**	**132 405 539**	**(31 414 075)**	**100 991 464**

Reconciliation of Property, Plant and Equipment - 2019

	Opening Balance	Additions	Disposals	Depreciation	Total
Land	19 865 185	-	-	(961 759)	18 903 426
Buildings - Work In Progress	34 645 019	-	-	-	34 645 019
Plant and Machinery	18 160 380	9 661 018	-	(5 186 253)	22 635 145
Motor Vehicles	22 158 265	5 360 773	-	(3 783 457)	23 735 581
Furniture and Office Equipment	6 162 615	1 078 885	(8 266)	(1 184 495)	6 048 739
	100 991 464	**16 100 676**	**(8 266)**	**(11 115 964)**	**105 967 910**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, Plant and Equipment (continued)

Reconciliation of Property, Plant and Equipment - 2018

	Opening Balance	Additions	Disposals	Prior Year Adjustments	Depreciation	Total
Buildings	20 516 548	-	-	310 396	(961 759)	19 865 185
Buildings - Work In Progress	34 645 019	-	-	-	-	34 645 019
Plant and Machinery	10 388 639	5 654 300	-	4 725 239	(2 607 798)	18 160 380
Motor Vehicles	13 467 501	4 194 735	(271 841)	7 593 716	(2 825 846)	22 158 265
Furniture and Office Equipment	2 227 866	983 427	-	3 922 012	(970 690)	6 162 615
	81 245 573	**10 832 462**	**(271 841)**	**16 551 363**	**(7 366 093)**	**100 991 464**

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.

Transfer/Donations received from COGTA (Disaster Management) for fire service trucks amounting to the value disclosed above in 2016 /2017.

The municipality has incurred reapirs and maintenance costs on buildings and other asset facilities disclosed under note 34.

Pledged as security

No items of property, plant and equipment are pledged as security.

Compensation received for losses on property, plant and equipment – included in operating profit.

Office equipment	264 367	338 492

The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting periods is listed below.

10. Property, Plant and Equipment (continued)

Halted property, plant and equipment

Financial Year	Project Description	Reason for delays	Impariment loss recognised	Carrying Value
Current Year 2019	Disaster Centre	Contractual disputes	No loss recognised	34 645 019
Current Year 2018	Disaster Centre	Contractual disputes	No loss recognised	34 645 019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Property, Plant and Equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Buildings	Included within Infrastructure	Total
Opening Balance	34 645 019	976 234 786	1 010 879 805
Additions/capital expenditure	-	297 338 882	297 338 882
Transferred to completed items	-	(102 312 918)	(102 312 918)
	34 645 019	**1 171 260 750**	**1 205 905 769**

Reconciliation of Work-in-Progress 2018

	Included within Buildings	Included in Infrastructure	Total
Opening Balance	34 645 019	798 154 063	832 799 082
Additions/capital expenditure	-	239 690 959	239 690 959
Transferred to completed items	-	(61 610 236)	(61 610 236)
	34 645 019	**976 234 786**	**1 010 879 805**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Intangible Assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying Value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying Value
Computer Software	6 060 015	(1 935 050)	4 124 965	3 588 042	(1 122 671)	2 465 371

Reconciliation of Intangible Assets - 2019

	Opening Balance	Additions	Disposals	Amortisation	Total
Computer Software	2 465 371	1 893 456	(1 899)	(231 963)	4 124 965

Reconciliation of Intangible Assets - 2018

	Opening Balance	Additions	Prior Year Adjustments	Amortisation	Total
Computer Software	356 332	374 626	1 835 327	(100 914)	2 465 371

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Interest in Joint Venture

Name of Company	Carrying Amount 2019	Carrying Amount 2018
uThukela Water (Pty) Ltd	230 541 473	259 131 141

Reconciliation of Interest in Joint Venture		
Opening Balance	**259 131 141**	**295 228 554**
Share in Deficit of Joint Venture	(28 589 668)	(36 097 413)
Closing Balance	**230 541 473**	**259 131 141**

Principal activities and reporting dates of joint ventures

Name of entity	Principal activity	Reporting date	Percentage Share
Uthukela Water	Principal Provider of Water	2019/06/30	33.3%

The separate annual financial statements of the joint venture are available at the registered office of the entity.

Summary of economic entity's interest in joint venture

Summary of the entity's's interests in the joint venture.

Revenue	144 619 124	118 631 123
Expenses	(230 473 984)	(227 031 762)
Deficit for the Year	(85 854 860)	(108 400 639)
Percentage Share	33	33
Share in Deficit of Joint Venture	(28 589 668)	(36 097 413)
	-	-
Total Assets	1 048 094 994	1 065 287 724
Total Liabilities	(326 606 661)	(289 328 788)
Net Assets	721 488 332	775 958 936

13. Trade Payables

Trade Payables	37 396 135	67 083 044
Payments Received In Advance	14 539 286	2 202 959
Accrued Expense	59 370 005	24 211 357
Retentions	48 212 403	38 071 989
Bonus Accrual	4 278 825	4 046 901
	163 796 654	**135 616 250**

The fair value of trade and other payables approximates their carrying amounts.

14. Consumer Deposits

Water	451 514	459 131

The Consumer deposits relates to monies paid for connections before any services could be rendered.

These amounts relates to prior period deposits.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

15. Unspent Conditional Grants and Receipts

Unspent Conditional Grants and Receipts comprises of:

Rural Transportation Infrastructure Grant	-	749 954
Water Services Infrastructure Grant	-	36 548 450
Development Planning Shared Services Grant	-	126 883
District Growth and Development Summit Grant	-	300 000
	-	**37 725 287**

16. Provisions

Reconciliation of Provisions - 2019

	Opening Balance	Movement for the Year	Total
Leave Provision	11 992 076	2 115 446	14 107 522

Reconciliation of Provisions - 2018

	Opening Balance	Movement for the Year	Total
Leave Provision	10 792 492	1 199 584	11 992 076

17. Employee Benefit Obligations

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

Carrying Value		
Post Employment Medical Benefit	16 555 663	17 172 000
Long Service Award	7 608 656	6 449 000
	24 164 319	**23 621 000**
Non-Current Liabilities	23 657 590	23 621 000
Current Liabilities	506 729	-
	24 164 319	**23 621 000**

Changes in the present value of the defined post-employment medical aid benefit liability are as follows:

Opening Balance	17 172 000	18 661 000
Current Service Costs	972 000	1 409 000
Current Interest Costs	1 732 000	1 952 000
Benefit Paid	(446 000)	(325 000)
Actuarial Gain	(2 874 337)	(4 525 000)
	16 555 663	**17 172 000**

Changes in the present value of long service awards liability are as follows:

Opening balance	6 449 000	5 561 000
Current Service Costs	776 000	706 000
Interest Costs	669 000	569 000
Benefit Paid	(332 000)	(194 000)
Actuarial Gain/Loss	46 656	(193 000)
	7 608 656	**6 449 000**

Figures in Rand	2019	2018

17. Employee Benefit Obligations (continued)

Net expense recognised in the statement of financial performance

Medical Aid Post Retirement Benefit	972 000	1 409 000
-Current Service Costs		
-Interest Costs	1 732 000	1 952 000
- Benefit Paid	(446 000)	(325 000)
Total of Post Retirement Benefit	**2 258 000**	**3 036 000**
Long Service Award	-	-
Current Service Costs	776 000	706 000
Interest Cost	669 000	569 000
Benefit Cost	(332 000)	(194 000)
Total Long Service Award	**1 113 000**	**1 081 000**
	3 371 000	**4 117 000**

Calculation of actuarial gains and losses

Post Employment Benefit	(2 874 337)	(4 525 000)
Long Service Award	46 656	(193 000)
	(2 827 681)	**(4 718 000)**

Key assumptions used

Valuation assumptions used at the reporting date:

Financial Variable	Assumed Value 30-06-2019 (Current Valuation)	Assumed Value at 30-06-2018 (Preceding 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
Medical Aid Contribution Inflation	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield Curve Based**	Yield Curve Based**

The basis on which the rates has been determined is as follow:

Discount Rate- GRAP 25 defines the determination of the Discount rate assumption to be used as follows: The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. 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.

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 **2%** per annum over the foreseeable future.

Notes to the Annual Financial Statements

17. Employee Benefit Obligations (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. 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.

Financial Variables

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 were as follows:

Age Band	Promotional Increase
20	5%
25	4%
30	3%
35	2%
40	1%
45+	0%

The next salary increase was assumed to take place on 01 July 2020.

Withdrawal assumption

The table below shows the annual withdrawal rate for the current and previous valuation, differentiated by age

Age	2019 Withdrawal Rate Males %	2019 Withdrawal Rate Females %	2018 Withdrawal Rate Males %	2018 Withdrawal Rate Females %
20-24	16	24	16	24
25-29	12	18	12	18
30-34	10	15	10	15
35-39	8	10	8	8
40-44	6	6	6	6
45-49	4	4	4	4
50-54	2	2	2	2
55-59	1	1	1	1

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

17. Employee Benefit Obligations (continued)

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	4%	(10/250)*Annual Salary
15	8%	(20/250)*Annual Salary
20, 25, 30, 35, 40, and 45	12%	(30/250)*Annual Salary

Membership Data

Membership Data- The key features of the membership data used in the current and prior valuation are summarised below;

Current Employees	Males	Females
Number of active employees	102	60
Subsidy weighted average age	42,9	39.8
Subsidy weighted average past service	9,1	8,5
Number of spouses	34	34
Average annual salary in rands	1710	1710

18. Long-Term Liability

Long term liability - uThukela Water	64 191 401	64 191 401

There's a dispute between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that Umzinyathi municipality owes an amount of R110 734 609 for bulk water services provided but can only prove an amount of R64 191 401.

19. Service Charges

Water Re-connection Fee	357 308	57 671
Sewerage and Sanitation Charges	11 521 138	10 517 244
Sale of Water	51 855 813	57 507 776
Cost of Free Basic	(1 315 797)	(8 718 074)
	62 418 462	**59 364 617**

20. Rental of Facilities and Equipment

Premises		
Rental of Premises	399 657	341 974
Staff Houses	69 200	69 200
	468 857	**411 174**

The amount received on the investment property for rental of premises owned by the municipality totals to R 468 857.

21. Interest Earned on Outstanding Debtors

Interest earned on outstanding debtors	18 771 234	14 116 532

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. Other Income

Insurance claim refunds (assets)	264 367	338 492
Handling Fees	872 748	-
Sale of tender documents	90 747	330 740
	1 227 862	**669 232**

23. Interest Earned on Investments

Interest Revenue		
Bank	11 907 865	16 934 290

24. Government Grants and Subsidies

Operating Grants		
Equitable Share	325 056 404	291 518 056
LG SETA Grant	348 413	199 360
Operational Government Grants	7 305 884	3 897 549
	332 710 701	**295 614 965**
Capital Grants		
Capital Government Grants	297 565 000	303 530 596
	630 275 701	**599 145 561**

Equitable Share

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

All registered indigents receive a monthly subsidy of 6 kilo litres @ R 7.59 Excl of Vat, which is funded from the grant.

MIG

Current-year receipts	184 485 000	178 941 000
Conditions met - transferred to revenue	(184 485 000)	(178 941 000)
	-	-

Conditions

Municipalities must prioritise MIG for eligible beneficiaries and infrastructure that includes: basic residential infrastructure for the poor for water, sanitation, roads, waste management, streetlighting, community facilities as well as associated municipal bulk and connector infrastructure new or upgrading of municipal bulk, connector and reticulation infrastructure to support existing areas and the formalisation of settlements renewal of eligible infrastructure servicing the poor subject to the confirmation by the relevant sector department of the state of infrastructure and a commitment from the municipality of how on-going operations and maintenance of the renewed infrastructure will be funded and performed maintenance of roads infrastructure mainly servicing the poor.

Figures in Rand	2019	2018

24. Government Grants and Subsidies (continued)

Rural Transport Services Infrastructure Grant

Balance unspent at beginning of year	749 954	547 492
Current-year receipts	2 280 000	2 275 000
Conditions met - transferred to revenue	(2 280 000)	(1 525 046)
Adjustments through Equitable Share Allocation	(749 954)	(547 492)
	-	**749 954**

Conditions

District municipalities must provide local municipalities with validated information from the condition data collected to enable municipalities to identify and prioritise road maintenance requirements within their own budgets, to improve the condition and extend the lifespan of road infrastructure. District municipalities must participate in grant management structures, including attending quarterly rural RAMS meetings.

National Treasury did not approve the rollover of the unspent grant of R749 954, which was returned to the National Revenue fund in the current year.

Expanded Public Works Programme

Current-year receipts	5 109 000	2 444 000
Conditions met - transferred to revenue	(5 109 000)	(2 444 000)
	-	-

Conditions

EPWP projects must comply with the project selection criteria determined in the EPWP grant manual, the EPWP guidelines set by Department of Public Works (DPW) and the Ministerial Determination updated annually on 1 November each year Eligible municipalities must sign a funding agreement with the DPW before the first grant disbursement, with their final EPWP project list attached.Reports must be loaded on the EPWP reporting system within 15 days after the end of every quarter in order for progress to be assessed. Municipalities must maintain beneficiary and payroll records as specified in the audit requirements in the EPWP grant manual.The EPWP grant cannot be used to fund the costs of permanent municipal personnel; however, a maximum of five per cent of the grant can be used to fund contract based capacity required to manage data capturing and on-site management costs related to the use of labour intensive methods. The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list. To receive the first planned grant disbursement, eligible municipalities must submit a signed Incentive. Subsequent grant disbursements are conditional upon eligible municipalities reporting quarterly on EPWP performance within the required timeframes. Municipalities must implement their approved EPWP project list and meet agreed job creation targets. EPWP branding must be incorporated on any existing signage as per corporate identity manual.

Figures in Rand	2019	2018

24. Government Grants and Subsidies (continued)

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	-	29 536 792
Current-year receipts	40 000 000	80 920 000
Conditions met - transferred to revenue	(40 000 000)	(80 920 000)
Other	-	(29 536 792)
	-	**-**

<u>Conditions</u>

The Regional Bulk Infrastructure Grant (RBIG) is intended to fund the social component of regional bulk water and waste water projects approved by the Department of Water and Sanitation (DWS), unless arguments for exemption based on affordability are recommended by DWS and approved by National Treasury. This grant can be used to build enabling infrastructure required to connect or protect water resources over significant distances with bulk and reticulation systems. The need for a bulk infrastructure solution must be confirmed and accepted by DWS through the regional bulk master planning process. A financing plan with associated co-funding agreements must be in place prior to implementation of RBIG funded projects. All sources of funding for the full cost of the project must be outlined in the IRS and the funding agreement RBIG payments will be made (IA) based on invoices for work done. All projects must be aligned with and referenced to Integrated Development Plans (IDPs) and Water Services Development Plans (WSDPs) as well as a detailed plan which shows alignment of RBIG projects with those funded through the Municipal Infrastructure Grant, Municipal Water Infrastructure Grant and the Water Services Operating Subsidy Grant .A transfer plan must be developed and agreed to prior to the commencement of any new projects.

Water Services Infrastructure Grant

Balance unspent at beginning of year	36 548 450	6 634 773
Current-year receipts	70 800 000	78 693 000
Conditions met - transferred to revenue	(70 800 000)	(42 144 550)
Adjustment through Equitable Share Allocation	(36 548 450)	(6 634 773)
	-	**36 548 450**

<u>Conditions</u>

To facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation services that ensure provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes and on-site solutions.To support drought relief projects in affected municipalities.

National Treasury did not approve the rollover of the unspent grant of R 36 548 450, which was returned to the National Revenue fund in the current year.

Figures in Rand	2019	2018

24. Government Grants and Subsidies (continued)

Financial Management Grant

Current-year receipts	1 320 000	1 250 000
Conditions met - transferred to revenue	(1 320 000)	(1 250 000)
	-	-

Conditions

FMG funds can be used towards the following: establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel establishment of SCM capacity, an Internal Audit unit and Audit Committees, at least five interns appointed over a multi-year period on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts review and adoption of a delegation system support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007 preparation and timely submission of annual financial statements for audits support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions technical support in financial management to municipalities must include the transfer of skills to municipal officials, the preparation of a financial recovery plan and the implementation thereof, where appropriate, implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality, ensuring timely submission of the FMG support plan consistent with the conditions of the grant, Regular, timely submission of reports with completed information, Expenditure must be maintained at appropriate levels.

Shared Services Development Grant

Balance unspent at beginning of year	126 884	30 433
Current-year receipts	450 000	300 000
Conditions met - transferred to revenue	(576 884)	(203 549)
	-	**126 884**

Conditions

Optimise planning function and resources in the district to increase efficieny and to reduce cost of service. Create an environment of learning where jounior and inexperienced staff can be mentored by more senior officials. Promote continuity where the loss of one staff member should not disprut services. Promote integration and alignment (IDP-Spatials etc).

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

24. Government Grants and Subsidies (continued)

District Growth and Development Summit Grant

Balance unspent at beginning of year	300 000	-
Current-year receipts	-	300 000
Conditions met - transferred to revenue	(300 000)	-
	-	**300 000**

Conditions

The planned Summit is envisaged to strengthen the public private collaborative approach towards the achievement of the KZN Vision 2035 in an integrated, inclusive and sustainable manner. Furthermore, the summit will also inform the work of the District Development Agency including strengthening the corporate governance expectations. The planned Summit is envisaged to strengthen the public private collaborative approach towards the achievement of the KZN Vision 2035 in an integrated, inclusive and sustainable manner. Furthermore, the summit will also inform the work of the District Development Agency including strengthening the corporate governance expectations.

25. Revenue

Government Grants and Subsidies	630 275 701	599 145 561
Actuarial Gain from Post Retirement Benefit	2 827 681	4 718 000
Interest Earned- Outstanding Debtors	18 771 234	14 116 532
Interest Received - Investment	11 907 865	16 934 290
Other Income	1 227 862	669 232
Gain on disposal of assets	-	(388 500)
Rental of Facilities and Equipment	468 857	411 174
Service Charges	62 418 462	59 364 617
	727 897 662	**694 970 906**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service Charges	62 418 462	59 364 617
Rental of Facilities and Equipment	468 857	411 174
Gain on disposal of assets	-	(388 500)
Other Income	1 227 862	669 232
Interest Received on Investment	11 907 865	16 934 290
Interest Earned on Outstanding Debtors	18 771 234	14 116 532
	94 794 280	**91 107 345**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation Revenue		
Actuarial Gain Post Retirement Benefit	2 827 681	4 718 000
Transfer Revenue		
Government Grants and Subsidies	630 275 701	599 145 561

Figures in Rand	2019	2018

26. Employee Related Costs

Acting Allowances	2 440 422	1 952 883
Basic	94 025 363	85 114 548
Bonus	6 903 441	6 577 639
Defined Contribution Plans	385 636	320 684
Housing Benefits and Allowances	695 604	1 057 409
Leave Provision	3 444 514	2 824 902
Medical aid - company contributions	4 188 081	87 239
Pension Contributions	12 554 039	15 661 752
Telephone Allowances	421 412	466 899
Travel Allowances	2 500 247	2 854 246
Overtime	9 850 911	7 696 898
SDL	1 205 777	1 086 489
Bargaining Council and Other	52 360	45 467
Shift allowance	2 804 943	2 479 176
UIF	682 717	645 455
	142 155 467	**128 871 686**

Remuneration of Municipal Manager

Annual Remuneration	654 766	422 898
Acting Allowance	27 681	41 618
Car Allowance	259 627	129 100
Telephone	18 000	10 500
Housing	124 116	69 911
Other	43 109	-
	1 127 300	**674 027**

The Municipal Manager had been suspended and there had been an acting Municipal Manager appointed during the year.

Remuneration of Chief Financial Officer

Remuneration of Chief Finance Officer		
Annual Remuneration	150 075	1 030 304
Acting Allowances	44 609	36 663
Car Allowance	30 000	332 097
Housing Allowance	7 304	111 653
Telephone	4 500	27 277
Other	41 319	74 304
	277 807	**1 612 298**

The Chief Financial Officer position was appointed during the year.

Remuneration of Senior Manager Community Services

Acting Allowance	-	40 775
Telephone	-	-
	-	**40 775**

The position for Senior Manager Community is vacant and there is no official acting on the position.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Employee Related Costs (continued)

Remuneration of Senior Manager Technical Services

Annual Remuneration	704 474	615 135
Car Allowance	101 184	199 365
Housing Allowance	74 937	114 819
Telephone	21 000	14 007
Other	37 254	87 217
	938 849	**1 030 543**

Remuneration of Senior Manager Corporate Services

Annual Remuneration	471 281	537 485
Acting Allowance	-	61 161
Car Allowance	102 449	66 150
Housing Allowance	36 292	55 592
Telephone	13 500	13 500
Other	59 338	203 311
	682 860	**937 199**

Remuneration of Senior Manager Planning and Development

Annual Remuneration	821 656	822 459
Car Allowance	71 518	69 600
Housing Allowance	61 440	56 687
Telephone	18 000	18 000
Other	110 203	27 245
	1 082 817	**993 991**

27. Remuneration of Councillors

Mayor	839 193	1 007 283
Deputy Mayor	680 821	316 165
Mayoral Committee Members	861 718	864 215
Speaker	680 269	513 718
Councillors	3 504 912	2 558 272
	6 566 913	**5 259 653**

In-kind benefits

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

The Mayor, the Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor, the Deputy Mayor and Speaker have bodyguards.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

28. Depreciation and Amortisation

Total Depreciation and Amortisation	94 331 424	90 764 887

Depreciation and Amortisation by asset class		
Infrastructure	82 944 829	83 259 212
Investment Property	38 668	38 668
Buildings	961 759	961 759
Plant and Equipment	5 186 253	2 607 798
Motor Vehicles	3 783 457	2 825 846
Furniture and Equipment	1 184 495	970 690
Intangible Assets	231 963	100 914
	94 331 424	**90 764 887**

29. Finance Costs

Interest on Loan	-	86 899
Interest on Late Payment of Suppliers	73 424	42 716
	73 424	**129 615**

30. Lease Rentals on Operating Lease

Premises		
Contractual Amounts	141 230	128 390
Lease rentals on operating lease - Other		
Contractual amounts	478 096	677 775
	619 326	**806 165**

31. Provision for Debt Impairment

Contributions to debt impairment provision	(16 646 677)	72 771 638

32. Bad Debts Written Off

Bad Debts Written Off	93 636 030	-

Bad Debts were written off on on the households only

33. Bulk Purchases

Water	15 325 367	16 089 868

5 068 808 kilo litres of water was purchased @ R3.48 (incl VAT) per litre.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
34. Contracted Services		
Outsourced Services		
Business and Advisory	396 999	-
Security Services	8 582 106	6 357 161
Sewerage Services	1 792 084	-
Consultants and Professional Services		
Business and Advisory	2 231 678	183 426
Infrastructure and Planning	775 328	-
Legal Fees	6 257 212	3 025 876
Contractors		
Maintenance of Unspecified Assets	29 675 936	193 006 355
Maintenance of Machinery and Equipment	26 528 007	-
Maintenance of Water Tankers	28 255 779	-
Maintenance of Buildings and Facilities	10 124	163 380
Artists and Performers	128 550	-
	84 598 396	**193 169 735**
	104 633 803	**202 736 198**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

35. General Expenditure

Advertising	4 324 767	2 302 052
Auditors remuneration	3 238 182	3 279 952
Bank charges	96 417	108 865
Cleaning services	43 253	50 548
Bursaries	288 648	104 564
Consumables	71 277 132	-
Supplier Development Programme	1 837 908	7 063
Transport Costs	938 050	-
Entertainment	8 335	19 083
Travel and Subsistence	5 691 580	-
Catering	2 197 687	141 278
Hiring of vehicles	4 187 663	1 869 598
Commission	114 076	-
Personnel Labour	15 074 553	-
Conferences and seminars	-	43 007
IT expenses	5 174 017	3 231 047
Medical Services	170 221	-
Stage and Sound Crew	69 000	-
Hiring of new staff members	306 095	1 825 690
Research Expenses	147 500	-
Fuel and oil	-	3 305 461
IDP sector plans	-	627 104
Protective Clothing	1 776 166	-
Subscriptions and membership fees	-	1 507 289
Telephone and fax	1 539 482	781 020
Travel - local costs	-	4 476 294
Water and electricity costs	20 582 567	22 542 849
Utilities - Rates	-	988 538
Uniforms	-	92 436
Insurance costs	1 247 227	1 481 020
Sports and culture programmes	212 830	-
Event Promoters	357 027	-
Awards	72 200	-
Disaster relief	-	373 718
Subscription Fees	3 161 421	-
Mayoral Imbizo	-	2 422 829
Human Resources Development	-	558 581
Samples of water, milk and food	-	30 302
Leanerships	6 174 226	-
Other Expenses	200 000	274 574
Management Fee	572 476	-
Registration Costs	142 612	1 542 979
Specimen and Samples	49 979	-
Fire Services	15 605	-
	151 288 902	**53 987 741**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

36. Prior Period Errors

The municipality has restated the payables from exchange transactions (Trade payables) in the 2016/17 financial year due to an ommission of bonus accrual that was never included in the financial statements. The restatement to accumulated surplus amounts to R 3 535 139.

The municipality has restated the items of tangible assets and intangible assets such as Investment Property, Intangible Assets, Property, Plant and Equipment and Infrastructure due to not having an asset register that agree with the financial system. The municipality has restated the above items from 2016/17 year by restating the accumulated surplus, the depreciation and amortisation for 2018 to effectively correct the asset register.

The municipality has restated the debt impairment provision that was provided for in the prior year because there was an error in the calculation and the application of the debt impairment provsion policy. The municipality has corrected the error by restating the debt impairment and consequently the receivables from exchange transactions.

The municipality has restated the unspent grants for prior year due to a recognition of a sundry debtor based on a DORA Schedule. There has been a new DORA allocation schedule that was rolled out, as such the one used in the prior year has been phased out.

The municipality conducted an Internal Audit Review on supplier invoices to confirm whether the municipality was not over-charged. It was found that the municipality has been over charged. The recognition of a debtor was imperative as a result a prior period expense re-allocation was done.

The interest on late payments of suppliers was not re-allocated to finance costs in the prior year, the municipality has since reallocated the expense from general expenses to finance costs.

The municipality had understated the Actuarial Gain and the Post Retirement Expense in the prior year, as such these amounts could not be agreed directly to the actuary report. The understatement on the line items has since been corrected through a reclassification of the expense.

Legal Fees and Security expenses were allocated under general expenses in the prior year. These expenses have been re-allocated to contracted services due to their nature.

Adjustment for errors in the prior year is as follows:

Statement of Financial Position 2016/2017 FY		
Net Assets at 01 July 2017	-	1 483 774 148
Payables from Exchange Transactions (Bonus Accrual)	-	(3 535 139)
Correction of Infrastructure Assets	-	(146 327 715)
Correction of Intangible Assets	-	1 835 327
Correction of Property, Plant and Equipment	-	16 551 363
Correction of Investment Property	-	(6 747)
	-	**1 352 291 237**

Statement of Financial Performance - 2017/18 FY		
Surplus previously reported	-	113 761 971
Employee Related Costs	-	(511 762)
Depreciation and Amortisation	-	(22 874 078)
Cents	-	(2)
Contracted Services	-	3 012 578
Share in Deficit of Associate	-	(9 172 484)
Gain on Sale of Assets	-	(465 581)
General Expenditure	-	(23 100)
Loss on Sale of Assets	-	(388 500)
	-	**83 339 042**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

37. Reclassification of Expenditure

Expenditure items	Reason	Amount
Actuarial Gain	Reclassification of the expenditure based on the GRAP 25 report disclosure	(3 500 229)
Post Retirement Benefit Expense	Reclassification of the expenditure based on the GRAP 25 report disclosure	3 500 229
Finance Cost	Reclassification on the nature of the expenditure	42 716
General Expenditure	Reclassification on the nature of the expenditure	(42 716)
General Expenditure - Legal Costs	Reclassification on the nature of the expenditure	(3 025 876)
Contracted Services - Legal Cost	Reclassification on the nature of the expenditure	3 025 876
Contracted Services - Security	Reclassification on the nature of the expenditure	6 357 161
General Expenditure - Security	Reclassification on the nature of the expenditure	(6 357 161)
		-

Liabilities and Assets	Reason	Amount
Receivables on Non-Exchange Transactions	Reclassification due to phasing out of DORA	(18 013 000)
Unspent Grants Receipts and Grants	Reclassification due to phasing out of DORA	18 013 000
Receivables on Non-Exchange Transactions	Reclassification as a result on Internal Audit Findings	3 107 250
Contracted Services		(3 107 250)
		-

Figures in Rand	2019	2018

38. Cash Generated from Operations

Surplus	103 942 850	83 339 042
Adjustments for:		
Depreciation and Amortisation	94 331 424	90 764 887
Loss in Disposal of Property, Plant and Equipment	8 266	388 500
Loss in Disposal of Intangible Assets	1 899	-
Share in Deficit of Joint Venture	28 589 668	36 097 413
Debt Impairment	(16 646 677)	72 771 638
Movements in Employment Benefit Obligation	543 319	(601 000)
Movements in Provisions	2 115 446	1 199 584
Movement in Accruals	(19 353 961)	(22 982 276)
Bad Debts Written Off	93 636 030	-
Bonus Accrual Movement	231 924	511 762
Changes in working capital:		
Inventories	(10 291 673)	(530 174)
Receivables from Exchange Transactions	9 199 923	14 950 106
Receivables from Non-Exchange Transactions	(256 893)	(2 748 636)
Trade Payables	(29 686 910)	58 474 309
VAT	(964 291)	576 127
Unspent Conditional Grants and Receipts	(37 725 288)	975 798
Consumer Deposits	(7 617)	(8 108)
	217 667 439	**333 178 972**

39. Auditors' Remuneration

External Audit Fees - Auditor General (AG)	3 150 189	3 109 446
Audit Committee Costs	87 993	170 506
	3 238 182	**3 279 952**

40. MIG Expenditure

Douglas Water Supply	29 340 005	1 765 730
Makhabeleni Water Supply	-	277 442
Mbono Mkhuphula Sanitation	7 595 743	13 220 170
Mbono Water Supply	312 409	25 387 695
Mthembu Water Supply	3 188 056	1 838 403
Muden Water Supply	65 875 761	31 353 103
Ngubukazi Water Supply	-	443 660
Nquthu Sanitation	4 232 441	8 037 915
Ntinini Water Supply	35 900 800	2 941 813
Opathe Water Supply	6 587 422	2 831 516
PMU Support	-	7 700 970
Pomery Sanitation	-	1 747 889
Umsinga Water Supply	30 003 650	78 803 744
Umvoti Sanitation	1 448 713	2 590 950
	184 485 000	**178 941 000**

Figures in Rand	2019	2018

41. Commitments

Total Commitments

Total Commitments		
Authorised Capital Expenditure	238 670 050	275 894 798
Authorised Operational Expenditure	-	-
	238 670 050	**275 894 798**

This committed expenditure relates to capital commitments and will be financed by government grants.

Commitments are committed for more than a period of twelve months.

Capital Commitments

Operational Commitments		
Approved and contracted	23 367 242	27 742 258

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	360 122	545 835
- in second to fifth year inclusive	570 194	1 241 667
	930 316	**1 787 502**

42. Contingencies

Umvoti / uThukela Water (Pty) Ltd

Umvoti presented to the municipality an outstanding balance of R407 585 owing by uThukela Water (Pty) Ltd the water service authority whom was responsible for the water reticulation function within the district. Umvoti has liaised with uThukela Water (Pty) Ltd to pay the outstanding balance however uThukela Water (Pty) Ltd has advised Umvoti that the debt be settled by Umzinyathi, since uMzinyathi took over the reticulation function on the 1st of July 2013. The dispute arises because neither uThukela Water (Pty) Ltd or Umvoti has submitted proof of the liability or debt in a form an invoice or any relevant supporting documentation.

uThukela Water (Pty) Ltd

There's a dispute of an amount of R43 400 474 between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that the municipality owes an amount of R110 734 609 but can only prove an amount of R64 191 401.

Legal matters pending

There are 16 litigations and value of claims pending against the municipality

Umzinyathi District Municipality vs Consultant

Consultant claims payment arising from a contract . Matter is ongoing, to be set down for hearing for rescission application on 6 September 2018. Estimated liability cost R12 207 011.64

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is ongoing. Estimated liability R 423 396.71

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

42. Contingencies (continued)

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre trial stage. Estimated liability cost R557 589.96 Interest plus cost of suit

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre trial conference stage. Estimated liability cost R 10 074 107.36

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Estimated liability cost R 750 672.90

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre-trial conferencestage. Estimated liability cost R 2 915 048.91

Umzinyathi District Municipality vs Supplier

Supplier is claiming payment arising from a contract termination. Matter is ongoing, pleadings have closed, parties are to convene a pre-trial conference. Estimated liability cost R 329 600.00

Umzinyathi District Municipality vs Former Employee

Former employee claims payment arising from a contract .The matter is ongoing. Estimated liability cost R1 230 847.92.

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is ongoing. Estimated liability cost R 68 306.07.

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. The matter is ongoing. Estimated liability cost R 132 226.78.

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is ongoing. Estimated liability cost R1 466 364.90.

Umzinyathi District Municipality vs Former Employee

Former employee claims payment arising from a contract .The matter is ongoing. Estimated liability cost R 418 877.04.

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is ongoing. Estimated liability cost R1 138 607.00.

Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is ongoing. Estimated liability cost R10 854 744.24.

Umzinyathi District Municipality vs Former Employee

Former employee claims payment arising from a contract .The matter is ongoing. Estimated liability cost R100 000.00.

Umzinyathi District Municipality vs Supplier

Municipality has instituted civil proceedings against supplier. Claim amounting to R4 354 000.00.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

43. Related Parties

Related Party Balances

Amounts included in Trade receivable (Trade Payable) regarding related parties		
uThukela Water (Pty) Ltd - Consumer Receipting	4 384 502	4 384 502
uThukela Water (Pty) Ltd - Operations and Maintenance Outstanding Balance	(64 191 401)	(64 191 401)
uThukela Water (Pty) Ltd - Creditor's Balance	(1 356 735)	-

Related Party Transactions

Purchases from (sales to) related parties		
uThukela Water (Pty) Ltd - Bulk Water	15 338 653	16 122 160
uThukela Water (Pty) Ltd - Services on Tayside Project	-	6 531 186

43. Related Parties (continued)

Remuneration of management

Remuneration of Councillors

2019

	Member Allowance	Travel Allowance	Cellphone Allowance	Mobile Allowance	SDL	Medical Aid	Pension Fund	Seating Allowance	Total
Mayor	590 296	196 765	40 800	3 600	7 732	-	-	-	839 193
Deputy Mayor	453 962	157 412	40 800	3 600	6 227	18 820	-	-	680 821
Mayoral Committee Members	513 477	185 342	81 600	7 200	7 086	-	67 013	-	861 718
Speaker	472 235	157 412	40 800	3 600	6 222	-	-	-	680 269
Councillors	1 601 844	1 127 389	367 200	28 800	22 844	-	199 800	157 035	3 504 912
	3 631 814	**1 824 320**	**571 200**	**46 800**	**50 111**	**18 820**	**266 813**	**157 035**	**6 566 913**

2018

	Gross Payments	Total
Mayor	1 007 283	1 007 283
Deputy Mayor	316 165	316 165
Mayoral Committee Member	864 215	864 215
Speaker	513 718	513 718
Councillors	2 558 272	2 558 272
	5 259 653	**5 259 653**

The monies paid to councillors are disclosed in Note 27.

Executive management

2019

	Annual Remuneration	Acting Allowance	Car Allowance	Telephone Allowance	Housing Allowance	Other	Total

43. Related Parties (continued)

Name							
Municipal Manager	654 766	27 681	259 627	18 000	124 116	43 109	1 127 299
Chief Financial Officer	150 075	44 609	30 000	4 500	7 304	41 319	277 807
Community Services	-	-	-	-	-	-	-
Planning and Development	821 656	-	71 518	18 000	61 440	110 203	1 082 817
Technical Services	704 474	-	101 184	21 000	74 937	37 254	938 849
Corporate Services	471 281	-	102 449	13 500	36 292	59 338	682 860
	2 802 252	**72 290**	**564 778**	**75 000**	**304 089**	**291 223**	**4 109 632**

2018

Name	Annual Remuneration	Acting Allowance	Car Allowance	Telephone Allowance	Housing Allowance	Other		Total
Municipal Manager	422 898	41 618	129 100	10 500	69 911	-	-	674 027
Chief Financial Officer	1 030 304	36 663	332 097	27 277	111 653	74 304	-	1 612 298
Community Services	-	40 775	-	-	-	-	-	40 775
Technical Manager	615 135	-	199 365	14 007	114 819	87 217	-	1 030 543
Corporate Services	537 485	61 161	66 150	13 500	55 592	203 311	-	937 199
Planning and Development	822 459	-	69 600	18 000	56 687	27 245	-	993 991
	2 956 946	**132 556**	**785 754**	**273 095**	**353 070**	**188 766**	**-**	**4 351 634**

44. Risk Management

Liquidity Risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality’s 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 municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

44. Risk Management (continued)

Credit Risk

	2019	2018
Financial Assets		
Cash and Cash Equivalents	57 405 607	150 841 372
VAT Receivables	16 159 143	15 194 852
Receivables from Exchange Transactions	57 106 089	66 365 012
Receivables Non-Exchange Transactions	12 016 591	11 759 698
	142 687 430	**244 160 934**

	2019	2018
Financial Liabilities		
Long Term Liability	64 191 401	64 191 401
Payables From Exchange Transactions	163 796 654	135 616 251
Consumer Deposits	451 514	459 131
	228 439 569	**200 266 783**

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
Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

Cash and cash equivalents
The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

44. Risk Management (continued)

Market Risk

Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable costs do not have a material impact on surplus. All long-term debt are at fixed rates.

45. Irregular Expenditure

Opening Balance	1 010 460 339	742 692 011
Add: Irregular Expenditure - current year	355 665 449	267 768 328
	1 366 125 788	**1 010 460 339**

Expenditure under investigations

S106 Investigations in the current year	1 366 125 788	102 632 969
Amount recommended for write off by MPAC to council and a report for ractification to be tables to council	-	328 321 272

Irregular Expenditure on Employee Costs

Buthelezi S	340 556
Ntuli ZR	98 083
Manqele MA	158 244
Lembede MM	103 780
Mbatha SR	151 277
Zondi VD	345 709
Harrison VS	75 000
Ngema HMN	141 898
	1 414 547

An amount of irregular expenditure is excluvise of VAT. The municaplity is currently investigating the irregualr expenditure.

46. Fruitless and Wasteful Expenditure

Opening Balance	411 614	368 898
Fruitless and Wasteful Expenditure	73 424	42 716
	485 038	**411 614**

Late receipts on invoices by the municipality due to the mail being directed to UThukela Water instead of UDM after the take-over. The amount of fruitless and wasteful expenditure incurred in the current year is under investigation.

Cashflow constraints led to non-compliance of payments of creditors within 30 days.

47. Going Concern

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

48. Events after the Reporting Date

There were no events after reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

49. Additional disclosure in terms of Municipal Finance Management Act Section 125

Audit Fees

Current year subscription / fee	3 238 122	3 279 952
Amount paid - current year	(3 238 122)	(3 279 952)
	-	-

PAYE and UIF

Current year subscription / fee	22 798 409	20 117 463

Pension and Medical Aid Deductions

Current year subscription / fee	13 083 927	4 104 989

VAT

VAT Receivable	16 159 143	15 194 852

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

49. Additional disclosure in terms of Municipal Finance Management Act Section 125 (continued)

Councillors' and employees' arrear consumer accounts

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

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Yengwa MS - Councillor	560	11 878	12 438
Chambule BS - Councillor	993	1 326	2 319
Munessar Ardeep	326	-	326
Zulu Vd	5	1 489	1 494
Mncube T E	(539)	-	(539)
Bonga Edward	759	-	759
Buthelezi A F	1 100	1 613	2 713
Mlambo R K	256	-	256
Mazibuko L B	-	(1 914)	(1 914)
Zulu L B	1 212	6 612	7 824
Madonsela Tc	208	-	208
Duma Nompumelelo	-	(195)	(195)
Kubheka T S	(225)	(130)	(355)
Mvelase Zuzile	839	-	839
Shangase Cb	1 088	628	1 716
Mawila Mp	(394)	-	(394)
Twala Nb	66	-	66
Ntuli Ds	25	-	25
Mnguni N M	265	306	571
Moodley S	-	42	42
Zungu Zanele	501	-	501
Thungo B P	435	-	435
Mtshali T C	379	6 633	7 012
Ndlovu Nzt	-	(92)	(92)
Majola N P	776	-	776
Maphumulo Sm	250	-	250
Nzimakwe N	422	810	1 232

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mahaye TM & ML - Councillor	2 020	35 085	37 105
Yengwa MS - Councillor	409	9 929	10 338
Chambule BS - Councillor	412	1 020	1 432
Africa LM	1 255	8 729	9 984
Zulu VD	63	3 205	3 268
Mncube TE	571	1 288	1 859
Mkhwanazi SC	1 492	9 072	10 564
Madonsela TC	817	13	830
Shangase CB	184	110	294
Mawila MP	456	1 998	2 454
Mnguni NM	257	1 142	1 399
Moodley S	-	42	42
Zungu Z	635	463	1 098
Mtshali TC	2 360	5 282	7 642
Nzimakwe N	415	363	778
	11 346	**77 741**	**89 087**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

50. Deviation from Supply Chain Management Regulations

Quotations: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. Bids: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

SCM Regulations 36		
Expenditure Incurred	13 649 354	2 938 162

51. Water Loss Distribution

Water Produced per Water Treatment Plant		
Msinga Fabeni WTW	4 551	2 210
Msinga Keats Drift WTW	238 617	180 334
Msinga Sampofu (Tugela Ferry) WTW	1 246 252	1 295 883
Msinga Sampofu Weir (Pomeroy) WTW	33 308	47 190
Umvoti Makhabeleni WTW Meter	414 396	431 205
Umvoti Greytown WTW	879 636	561 085
Umvoti Muden WTW	815 456	776 176
Umvoti Kranskop WTW	177 501	163 993
Nquthu Isandlwana WTW	93 006	109 895
Nquthu Nonqweni WTW	408 297	495 816
Nquthu /Vant's Drift WTW	2 672 848	2 875 650
Nquthu Qudeni WTW	108 847	96 268
Endumeni Biggarsberg WTW	5 062 261	5 360 503
	12 154 976	**12 396 208**

Total Water Loss		
Total Water Produced	(12 154 976)	(12 396 208)
Total Water Sold	4 630 872	5 502 097
	(7 524 104)	**(6 894 111)**

The monetary value of water loss is R26 183 881.92 (2018 R 21 716 449.65).

The water loss percentage is 62% (2018, 56%).

- Umzinyathi District Municipality is mostly dominated with rural arears
- Most of our rural arears have stand pipes per standards set by Water Affairs
- Other rural areas have no water infrastructure thus water tankers are delivering water to them and these tankers are getting water from our plants and collection point sets in our water network
- The municipality experienced a lot of burst pipes in our reticulation line due to aging infrastructure.
- Illegal connections in most of our rural areas have huge impact in unaccounted water as they are most metered.
- The municipality has experienced a lot of internal leaks from domestic consumers and there's a programme that the municipality will be running to fix these leaks.

52. Transfer of functions Between entities not under common control

Uthukela Water (Pty) Ltd is an entity of three WSA's, namely Amajuba DM, Newcastle LM and Umzinyathi DM. The interest in this joint venture is at 33,3%, 33,4% and 33,3% respectively.

The voting rights are represented by the percentage shareholding in the entity. The transfer of function was initiated by the directive from the MEC: COGTA.

It stipulated that the function, including the infrastructure assets must be transferred back to the WSA's. The process was started and completed by the 30 June 2014, This arrangement is currently in place. Refer to Note 12 for further details.