LETSEMENG LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Auditor-General of South Africa

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.
Members of Council	
Mayor	Mrs TI Reachable
Councillors	Mr SJ Bahumi
	Mr JDJ Barnes (appointment: 1 December 2017)
	Miss C Burger (resignation: 30 November 2017)
	Mr MA Lebaka
	Mr MJ Phaliso
	Mr MT Rens (resignation: 28 February 2018)
	Mr TS Moqhoishi
	Miss AN November
	Mr XW Nqelani
	Mr MC Ntemane
	Mr TV Nthapo
Grading of local authority	Grade 2
Accounting Officer	Mr TL Mkhwane (appointment: 1 December 2017)
	Mr BA Mnguni (resignation: 31 October 2017)
Chief Finance Officer (CFO)	Mr SJ Tooi (appointment: 1 April 2018)
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA
Auditors	Auditor-General of South Africa

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

Abbreviations

AGSA	Auditor-General of South Africa
CRR	Capital Replacement Reserve
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act, 2003 (Act No. 56 of 2003)
MIG	Municipal Infrastructure Grant
Mscoa	Municipal Standard Chart of Accounts
SA GAAP	South African Statements of Generally Accepted Accounting Practice

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and are given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 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 external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented separately.

The annual financial statements set out on pages 4 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

Letsemeng Local Municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the municipal area.

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

Net surplus of the municipality was R 4 394 000 (2017: surplus R 18 506 728).

2. Going concern

Management experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern:

- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements on the going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cashflow of the municipality and where necessary procure funding for the ongoing operations for the municipality.

3. Subsequent events

After the financial yearend, the community members in Koffiefontein took part in protest action. This action resulted in a number of buildings being damaged, which included the Municipal Offices, the "War Room", the Caretaker room at the Dithake Stadium and the building at the cemetery in Koffiefontein. The Community Hall in Petrusburg also incurred fire damage due to protest action. The financial implication of the damages could not yet be determined.

During the council meeting held on 28 August 2018, it was decided that all interest owed to the municipality on overdue debtor accounts pertaining to the 2018 financial year will be written off during the 2019 financial period at such date determined by the council.

In November 2018, the municipality received correspondence from National Treasury that Equitable Share will be withheld as the Unspent Conditional Grants as at 30 June 2018 is not cash-backed. The correspondence indicated that the following amounts will be withheld:

- March 2019: R8 000 000
- July 2019: R12 000 000
- November 2019: R10 200 000

After yearend, Senwes indicated that it will donate a piece of land to the municipality for urban development. Although the donation has not been made, management is of the opinion that it will be made before 30 June 2019

Accounting Officer's Report

4. Accounting officer's interest in contracts

The accounting officer had no interest in any contracts.

5. Accounting policies

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

6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

7. Accounting Officer

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

Name	Nationality	Changes
Mr TL Mkhwane	South African	Appointment date: 1 December 2017
Mr BA Mnguni (previous)	South African	Resignation date: 31 October 2017

8. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Management meetings

The accounting officer meets the section 56 managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

9. Bankers

The municipality's bankers did not change during the year.

10. Auditors

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

11. Non compliance with applicable legislation

Significant non-compliance with various legislation have been properly disclosed in the notes to the financial statements.

12. Retirement benefit obligation

Management performed an actuarial valuation of the council's liability arising from the post-retirement healthcare subsidy ("PHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	2 677 159	2 792 591
Receivables from exchange transactions	4	60 779 193	33 015 715
Receivables from non-exchange transactions	5	27 849 374	13 927 670
Other receivables from exchange transactions	6	376 848	-
VAT receivable	7	14 749 646	18 933 749
Cash and cash equivalents	8	2 646 779	512 819
		109 078 999	**69 182 544**
Non-Current Assets			
Investment property	9	237 277 795	227 481 796
Property, plant and equipment	10	737 871 661	757 768 361
Intangible assets	11	781 304	982 700
Heritage assets	12	15 000	15 000
Other financial assets	13	119 855	120 550
		976 065 615	**986 368 407**
Total Assets		**1 085 144 614**	**1 055 550 951**
Liabilities			
Current Liabilities			
Finance lease obligation	14	492 155	485 852
Payables from exchange transactions	15	52 893 322	37 958 142
Consumer deposits	16	781 696	799 295
Employee benefit obligation	17	493 000	773 473
Unspent conditional grants and receipts	18	40 930 853	26 777 283
		95 591 026	**66 794 045**
Non-Current Liabilities			
Finance lease obligation	14	590 466	3 002 697
Employee benefit obligation	17	3 962 000	5 971 608
Provisions	19	8 252 619	7 428 100
		12 805 085	**16 402 405**
Total Liabilities		**108 396 111**	**83 196 450**
Net Assets		**976 748 503**	**972 354 501**
Accumulated surplus		976 748 505	972 354 500

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	20	46 120 924	48 932 367
Dividends received	21	3 569	1 369
Interest earned - external investments	21	512 557	578 992
Interest earned - outstanding debtors	21	14 861 585	7 807 563
Rental of facilities and equipment	22	584 638	2 208 897
Other income	23	433 537	544 711
Total revenue from exchange transactions		**62 516 810**	**60 073 899**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	14 677 646	14 917 157
Interest earned - outstanding debtors	21	4 493 959	2 718 217
Transfer revenue			
Government grants and subsidies	25	79 495 430	105 666 859
Public contributions and donations	26	-	17 118 202
Fines, penalties and forfeits		1 970	7 550
Total revenue from non-exchange transactions		**98 669 005**	**140 427 985**
Total revenue	27	**161 185 815**	**200 501 884**
EXPENDITURE			
Employee related costs	28	(49 073 459)	(46 772 325)
Remuneration of councillors	29	(3 745 791)	(3 348 214)
Depreciation and amortisation	30	(44 090 400)	(42 692 280)
Impairment loss	31	(10 913)	-
Finance costs	32	(2 232 073)	(2 115 155)
Debt impairment	33	(12 259 706)	(34 323 563)
Repairs and maintenance		(420 847)	(2 615 338)
Bulk purchases	34	(26 469 170)	(27 270 262)
Professional and consulting fees	35	(12 201 268)	(6 521 134)
General expenses	36	(17 679 823)	(22 686 025)
Total expenditure		**(168 183 450)**	**(188 344 296)**
Operating (deficit) surplus		**(6 997 635)**	**12 157 588**
Gain (loss) on disposal of assets and liabilities		451 538	(601 099)
Fair value adjustments	37	9 378 877	8 595 921
Actuarial gains	17	2 695 073	(264 772)
Inventories losses/write-downs		(1 133 853)	(1 380 910)
		11 391 635	**6 349 140**
Surplus for the year		**4 394 000**	**18 506 728**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	590 934 861	590 934 861
Adjustments		
Prior year adjustments	362 912 911	362 912 911
Balance at 01 July 2016 as restated*	**953 847 772**	**953 847 772**
Changes in net assets		
Surplus for the year	18 506 728	18 506 728
Total changes	18 506 728	18 506 728
Restated* Balance at 01 July 2017	**972 354 505**	**972 354 505**
Changes in net assets		
Surplus for the year	4 394 000	4 394 000
Total changes	4 394 000	4 394 000
Balance at 30 June 2018	**976 748 505**	**976 748 505**

Letsemeng Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		33 888 959	23 237 234
Grants and subsidies received		93 649 000	125 755 002
Interest income		512 557	578 992
Dividends received		3 569	1 369
		128 054 085	149 572 597
Payments			
Employee costs		(51 297 621)	(48 737 508)
Suppliers and other payments		(48 248 474)	(35 956 049)
Finance costs		-	(1 290 767)
		(99 546 095)	(85 984 324)
Net cash flows from operating activities	39	**28 507 990**	**63 588 273**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	(25 376 911)	(62 526 667)
Purchase of investment property	9	(417 795)	-
Purchase of other intangible assets	11	-	(1 006 977)
Proceeds from sale of financial assets		1 368	115 447
Net cash flows from investing activities		**(25 793 338)**	**(63 418 197)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(1 781 491)	(286 891)
Finance lease receipts		1 200 795	-
Net cash flows from financing activities		**(580 696)**	**(286 891)**
Net decrease in cash and cash equivalents		**2 133 956**	**(116 815)**
Cash and cash equivalents at the beginning of the year		512 819	729 726
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	**2 646 775**	**612 911**

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	50 754 952	(1 709 117)	**49 045 835**	46 120 924	**(2 924 911)**	
Dividends received	31 920	(26 920)	**5 000**	3 569	**(1 431)**	Note 53
Interest earned - investments	796 936	(696 936)	**100 000**	512 557	**412 557**	Note 53
Interest earned - debtors	7 949 521	-	**7 949 521**	14 861 585	**6 912 064**	Note 53
Rental of facilities and equipment	600 000	(300 000)	**300 000**	584 638	**284 638**	Note 53
Licences and permits	4 256	-	**4 256**	-	**(4 256)**	Note 53
Other income	2 844 597	(574 000)	**2 270 597**	433 537	**(1 837 060)**	Note 53
Total revenue from exchange transactions	**62 982 182**	**(3 306 973)**	**59 675 209**	**62 516 810**	**2 841 601**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	18 225 256	-	**18 225 256**	14 677 646	**(3 547 610)**	Note 53
Interest earned - debtors	-	-	**-**	4 493 959	**4 493 959**	Note 53
Transfer revenue						
Government grants and subsidies	98 966 000	(3 830 000)	**95 136 000**	79 495 430	**(15 640 570)**	Note 53
Fines	34 048	(19 048)	**15 000**	1 970	**(13 030)**	
Total revenue from non-exchange transactions	**117 225 304**	**(3 849 048)**	**113 376 256**	**98 669 005**	**(14 707 251)**	
Total revenue	**180 207 486**	**(7 156 021)**	**173 051 465**	**161 185 815**	**(11 865 650)**	
Expenditure						
Employee costs	(49 220 346)	(945 950)	**(50 166 296)**	(49 073 459)	**1 092 837**	
Remuneration of councillors	(3 500 002)	(359 400)	**(3 859 402)**	(3 745 791)	**113 611**	
Debt impairment	(21 758 000)	-	**(21 758 000)**	-	**21 758 000**	Note 53
Depreciation and amortisation	(31 920 000)	(5 865 353)	**(37 785 353)**	(44 090 400)	**(6 305 047)**	Note 53
Impairment loss	-	-	**-**	(10 913)	**(10 913)**	Note 53
Finance costs	(50 000)	(350 000)	**(400 000)**	(2 232 073)	**(1 832 073)**	Note 53
Debt impairment	-	-	**-**	(12 259 706)	**(12 259 706)**	
Repairs and maintenance	-	-	**-**	(420 847)	**(420 847)**	Note 53
Bulk purchases	(27 354 142)	(833 954)	**(28 188 096)**	(26 469 170)	**1 718 926**	
Contracted Services	(9 050 000)	(1 082 114)	**(10 132 114)**	(12 201 268)	**(2 069 154)**	Note 53
General expenses	(21 538 487)	3 775 870	**(17 762 617)**	(17 679 823)	**82 794**	Note 53
Total expenditure	**(164 390 977)**	**(5 660 901)**	**(170 051 878)**	**(168 183 450)**	**1 868 428**	
Operating deficit	**15 816 509**	**(12 816 922)**	**2 999 587**	**(6 997 635)**	**(9 997 222)**	
Gain on disposal of assets	-	-	**-**	451 538	**451 538**	Note 53
Fair value adjustments	-	-	**-**	9 378 877	**9 378 877**	Note 53
Actuarial gains	-	-	**-**	2 695 073	**2 695 073**	
Inventories losses/write-downs	-	-	**-**	(1 133 853)	**(1 133 853)**	Note 53
	-	**-**	**-**	**11 391 635**	**11 391 635**	
Surplus/(Deficit) for the year	**15 816 509**	**(12 816 922)**	**2 999 587**	**4 394 000**	**1 394 413**	
	15 816 509	**(12 816 922)**	**2 999 587**	**4 394 000**	**1 394 413**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	4 722 000	-	**4 722 000**	2 677 159	**(2 044 841)**	Note 53
Receivables from exchange transactions	23 077 096	-	**23 077 096**	60 779 193	**37 702 097**	Note 53
Receivables from non-exchange transactions	32 077 000	-	**32 077 000**	27 849 374	**(4 227 626)**	Note 53
Other receivables from exchange transactions	2 950 815	-	**2 950 815**	376 848	**(2 573 967)**	Note 53
VAT receivable	(1 119)	-	**(1 119)**	14 749 646	**14 750 765**	Note 53
Cash and cash equivalents	43 872 800	-	**43 872 800**	2 646 779	**(41 226 021)**	Note 53
	106 698 592	**-**	**106 698 592**	**109 078 999**	**2 380 407**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	170 000	(170 000)	**-**	-	**-**	
Investment property	20 802 000	-	**20 802 000**	237 277 795	**216 475 795**	Note 53
Property, plant and equipment	606 480 000	-	**606 480 000**	737 871 661	**131 391 661**	Note 53
Intangible assets	450 000	-	**450 000**	781 304	**331 304**	Note 53
Heritage assets	-	-	**-**	15 000	**15 000**	Note 53
Other financial assets	-	170 000	**170 000**	119 855	**(50 145)**	Note 53
	627 902 000	**-**	**627 902 000**	**976 065 615**	**348 163 615**	
Total Assets	**734 600 592**	**-**	**734 600 592**	**1 085 144 614**	**350 544 022**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	492 155	**492 155**	Note 53
Payables from exchange transactions	10 947 858	-	**10 947 858**	52 893 322	**41 945 464**	Note 53
Consumer deposits	842 000	-	**842 000**	781 696	**(60 304)**	
Employee benefit obligation	755 000	-	**755 000**	-	**(755 000)**	Note 53
Unspent conditional grants and receipts	-	-	**-**	40 930 853	**40 930 853**	Note 53
	12 544 858	**-**	**12 544 858**	**95 098 026**	**82 553 168**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	590 466	**590 466**	Note 53
Employee benefit obligation	-	-	**-**	4 455 000	**4 455 000**	Note 53
Provisions	11 456 734	-	**11 456 734**	8 252 619	**(3 204 115)**	Note 53
	11 456 734	**-**	**11 456 734**	**13 298 085**	**1 841 351**	
Total Liabilities	**24 001 592**	**-**	**24 001 592**	**108 396 111**	**84 394 519**	
Net Assets	**710 599 000**	**-**	**710 599 000**	**976 748 503**	**266 149 503**	
Net Assets						
Accumulated surplus	710 599 000	-	**710 599 000**	976 748 503	**266 149 503**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Original budget	Adjustments	Adjusted budget	Actual amounts	Variance	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	48 286 000	-	**48 286 000**	33 888 959	**(14 397 041)**	Note 53
Grants	98 966 000	-	**98 966 000**	93 649 000	**(5 317 000)**	Note 53
Interest income	6 361 601	-	**6 361 601**	512 557	**(5 849 044)**	Note 53
Dividends received	31 920	-	**31 920**	3 569	**(28 351)**	Note 53
Other receipts	2 427 642	-	**2 427 642**	-	**(2 427 642)**	Note 53
	156 073 163	**-**	**156 073 163**	**128 054 085**	**(28 019 078)**	
Payments						
Employees and suppliers	(110 662 464)	-	**(110 662 464)**	(99 546 095)	**11 116 369**	Note 53
Finance costs	(50 000)	(350 000)	**(400 000)**	-	**400 000**	Note 53
	(110 712 464)	**(350 000)**	**(111 062 464)**	**(99 546 095)**	**11 516 369**	
Net cash flows from operating activities	**45 360 699**	**(350 000)**	**45 010 699**	**28 507 990**	**(16 502 709)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(46 877 000)	-	**(46 877 000)**	(25 794 706)	**21 082 294**	Note 53
Proceeds from sale of financial assets	-	-	**-**	1 368	**1 368**	Note 53
Net cash flows from investing activities	**(46 877 000)**	**-**	**(46 877 000)**	**(25 793 338)**	**21 083 662**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(1 781 491)	**(1 781 491)**	Note 53
Finance lease receipts	-	-	**-**	1 200 795	**1 200 795**	Note 53
Net cash flows from financing activities	**-**	**-**	**-**	**(580 696)**	**(580 696)**	
Net increase/(decrease) in cash and cash equivalents	(1 516 301)	(350 000)	**(1 866 301)**	2 133 956	**4 000 257**	Note 53
Cash and cash equivalents at the beginning of the year	729 726	-	**729 726**	512 819	**(216 907)**	Note 53
Cash and cash equivalents at the end of the year	**(786 575)**	**(350 000)**	**(1 136 575)**	**2 646 775**	**3 783 350**	

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, 2003 (Act No. 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.

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

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

These accounting policies are consistent with the previous period, unless specifically stated.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and / or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

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 the estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

This accounting policy has been changed from the previous period and the effect has been disclosed in the notes to the annual financial statements.

1.3 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24: Presentation of budget information

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis.

1.4 Investment property

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

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

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

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

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

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

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

Fair value

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

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

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

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

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

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

1.4 Investment property (continued)

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.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
• Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fittings	Straight line	3 - 10 years
Vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure assets		
• Electricity	Straight line	7 - 50 years
• Roads	Straight line	8 - 50 years
• Sewerage and solid waste	Straight line	5 - 50 years
• Stormwater	Straight line	30 - 50 years
• Water	Straight line	5 - 50 years
Community assets		
• Buildings	Straight line	20 - 50 years
• Recreational facilities	Straight line	7 - 50 years
• Security measures	Straight line	3 - 5 years
Other property, plant and equipment		
• Other equipment	Straight line	2 - 10 years
• Fences and gates	Straight line	15 - 25 years
• Paving	Straight line	3 - 10 years
Other equipment	Straight line	3 - 10 years
Leased assets (computer equipment, copies and cellphones)	Straight line	2 - 3 years

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

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the 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.

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

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

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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	2 - 6 years

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

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

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

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

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

1.8 Financial instruments

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

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

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

1.8 Financial instruments (continued)

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 liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or

- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

1.8 Financial instruments (continued)

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.

1.8 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity 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 entity measures all financial assets and financial liabilities after initial recognition using the following categories:

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

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

1.8 Financial instruments (continued)

Fair value measurement considerations

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

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

Reclassification

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

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

Where the entity 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 entity 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.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

1.8 Financial instruments (continued)

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.

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.

1.8 Financial instruments (continued)

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).

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

1.9 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

1.9 Leases (continued)

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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 weighted average cost 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.

This accounting policy has been changed from the previous period and the effect has been disclosed in the notes to the annual financial statements.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

- 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.

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.

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.

1.11 Impairment of cash-generating assets (continued)

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.

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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:

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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.

1.13 Employee benefits

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

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

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

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

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

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

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

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

1.13 Employee benefits (continued)

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

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

1.13 Employee benefits (continued)

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

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

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

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

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

Post-employment benefits: Defined contribution plans

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

Post-employment benefits: Defined benefit plans

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

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

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

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or

- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

1.13 Employee benefits (continued)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

1.13 Employee benefits (continued)

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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.

1.14 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

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 53.

1.15 Commitments

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

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

1.16 Revenue from exchange transactions (continued)

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

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

1.17 Revenue from non-exchange transactions (continued)

Measurement

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

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

Transfers

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

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

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

Fines

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

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public prosecutor can decide whether to waive the revenue amount collected from the spot fines and summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

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

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

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

1.17 Revenue from non-exchange transactions (continued)

The municipality needs to assess 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 transactions 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 program 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 Division of Revenue Act becomes effective, whichever 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.

Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Gifts and donations, including goods in-kind

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

Assessment rates

Revenue from rates, including collection charges and penalty interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims, are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

1.18 Investment income

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

1.19 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.

1.20 Comparative figures

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

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

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant 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, 2000 (Act No. 32 of 2000), and the Public Office Bearers Act, 1998 (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use of estimates

The preparation of financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in the relevant section of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Value added tax

The municipality is registered with the South African Revenue Services for VAT on the payment basis, in accordance with section 15(2) of the Value Added Tax Act, 1991 (Act No. 89 of 1991).

1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.27 Related parties

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

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

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

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

1.28 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.

Figures in Rand	2018	2017

2. New standards and interpretations

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published, but as the Minister of Finance has not yet determined the effective date, the municipality is not required to apply the Standard:

- GRAP 18: Segment Reporting

It has been determined by management that the application of the aforementioned Standard will unlikely have a material impact.

3. Inventories

Maintenance materials	2 291 350	2 773 569
Spare parts	376 536	-
Water	9 273	19 022
	2 677 159	**2 792 591**

Inventories are held for own use and measured at the lower of cost or current replacement value. Inventory amounting to R1 133 853 (2017: R1 380 910) was written off during the year.

Inventory pledged as security

No Inventory was pledged as security for overdraft facilities of the municipality.

4. Receivables from exchange transactions

Gross balances		
Electricity	5 703 567	4 354 416
Water	52 775 368	33 628 868
Sewerage	42 352 188	30 927 672
Refuse	41 209 244	30 001 820
Housing rental	3 372 468	2 950 879
Other	142 611	74 615
	145 555 446	**101 938 270**
Less: Allowance for impairment		
Electricity	(3 136 945)	(1 811 909)
Water	(30 517 671)	(23 058 265)
Sewerage	(24 702 803)	(21 363 570)
Refuse	(24 043 893)	(20 798 539)
Housing rental	(2 293 822)	(1 846 177)
Other	(81 119)	(44 095)
	(84 776 253)	**(68 922 555)**
Net balance		
Electricity	2 566 622	2 542 507
Water	22 257 697	10 570 603
Sewerage	17 649 385	9 564 102
Refuse	17 165 351	9 203 281
Housing rental	1 078 646	1 104 702
Other	61 492	30 520
	60 779 193	**33 015 715**

Notes to the Annual Financial Statements

4. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	483 356	329 812
31 - 60 days	49 092	159 902
61 - 90 days	190 359	104 641
91 - 120 days	98 474	172 951
121 + days	1 745 341	1 775 201
	2 566 622	**2 542 507**
Water		
Current (0 -30 days)	739 144	883 571
31 - 60 days	467 804	1 056 340
61 - 90 days	1 466 255	794 074
91 - 120 days	596 378	272 628
121 + days	18 988 116	7 563 990
	22 257 697	**10 570 603**
Sewerage		
Current (0 -30 days)	813 982	460 385
31 - 60 days	365 981	330 589
61 - 90 days	454 490	311 126
91 - 120 days	442 057	297 950
121 + days	15 572 875	8 164 052
	17 649 385	**9 564 102**
Refuse		
Current (0 -30 days)	760 305	418 825
31 - 60 days	356 660	311 974
61 - 90 days	506 033	293 061
91 - 120 days	424 838	280 576
121 + days	15 117 515	7 898 845
	17 165 351	**9 203 281**
Housing rental		
Current (0 -30 days)	22 307	24 247
31 - 60 days	30 421	20 035
61 - 90 days	25 003	19 160
91 - 120 days	14 723	35 417
121 - 365 days	986 192	1 005 843
	1 078 646	**1 104 702**
Other		
Current (0 -30 days)	16 337	22 566
31 - 60 days	-	12 623
61 - 90 days	(5 409)	4 139
91 - 120 days	13 930	3 228
121 + days	36 634	(12 036)
	61 492	**30 520**

Receivables from exchange transactions: other include outstanding debtors for various other services, e.g. arrangements, deposits, housing, interest, rentals and sundry services like garden refuse, sanitation bags, etc.

Notes to the Annual Financial Statements

4. Receivables from exchange transactions (continued)

Consumer debtors pledged as security

None of the receivable from exchange transaction debtors have been pledged as security for the municipality's financial liabilities.

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 5 426 944 (2017: R 4 464 103) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1 239 537	1 891 463
2 months past due	2 611 730	1 526 891
3 months past due	1 575 677	1 045 749

Reconciliation of allowance for impairment of receivables from exchange transactions

Opening balance	68 922 555	39 242 862
Allowance for impairment	18 540 880	29 679 693
	87 463 435	**68 922 555**

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

5. Receivables from non-exchange transactions

Assessment rates	44 362 882	32 898 594
Provision for impairment	(16 513 508)	(18 970 924)
	27 849 374	**13 927 670**

None of the receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

Net balances

The ageing of receivables from assessment rates are as follows:

Rates		
Current (0 - 30 days)	1 386 221	787 404
31 - 60 days	521 219	628 736
61 - 90 days	818 348	502 175
91 - 120 days	866 168	455 415
121+ days	24 257 417	11 553 960
	27 849 373	**13 927 690**

Notes to the Annual Financial Statements

5. Receivables from non-exchange transactions (continued)

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

Opening balance	18 970 924	15 041 517
Provision for impairment	-	3 929 407
Unused amounts reversed	(5 144 599)	-
	13 826 325	**18 970 924**

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of the receivables from non-exchange transactions, the municipality considers any change in the credit quality of the assessment rate debtors from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

Receivables from non-exchange transactions past due but not impaired

At 30 June 2018, R2 205 735 (2017: R 64 955) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	521 219	628 736
2 months past due	818 348	502 175
3 months past due	866 168	12 009 375

6. Other receivables from exchange transactions

Sundry deposits	376 848	-

7. VAT receivable

VAT	14 749 646	18 933 749

VAT is payable on a receipt basis. Once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 646 515	512 639
Short-term deposits	264	180
	2 646 779	**512 819**

Notes to the Annual Financial Statements

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
First National Bank - Current account - 527115689918	1 785 284	386 546	2 209 782	414 124
ABSA Bank - Current account - 4078034774	338 218	98 515	436 733	98 515
First National Bank - Call account - 62711355132	83	-	84	-
First National Bank - Call account - 6269415415	180	180	180	180
Total	**2 123 765**	**485 241**	**2 646 779**	**512 819**

9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	237 277 795	-	237 277 795	227 481 796	-	227 481 796

Reconciliation of investment property - 2018

	Opening balance	Additions	Fair value adjustments	Total
Investment property	227 481 796	417 795	9 378 204	237 277 795

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	218 884 715	8 597 081	227 481 796

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 388 688	-	13 388 688	13 388 688	-	13 388 688
Buildings	129 671 957	(45 267 513)	84 404 444	146 101 527	(58 079 134)	88 022 393
Infrastructure	1 265 609 363	(631 591 306)	634 018 057	1 240 872 565	(593 817 373)	647 055 192
Other property, plant and equipment	11 158 185	(6 151 065)	5 007 120	13 371 895	(7 199 898)	6 171 997
Leased assets	1 285 414	(232 062)	1 053 352	4 104 525	(974 434)	3 130 091
Total	**1 421 113 607**	**(683 241 946)**	**737 871 661**	**1 417 839 200**	**(660 070 839)**	**757 768 361**

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Impairment loss	Depreciation	Total
Land	13 388 688	-	-	-	-	13 388 688
Buildings	88 022 393	93 837	-	-	(3 711 786)	84 404 444
Infrastructure	647 055 192	24 736 799	-	-	(37 773 934)	634 018 057
Other property, plant and equipment	6 171 997	996 659	(877 078)	(10 910)	(1 273 548)	5 007 120
Leased assets	3 130 091	1 200 796	(2 148 949)	-	(1 128 586)	1 053 352
	757 768 361	**27 028 091**	**(3 026 027)**	**(10 910)**	**(43 887 854)**	**737 871 661**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Land	13 342 537	46 151	-	-	13 388 688
Buildings	73 225 181	18 211 442	-	(3 414 230)	88 022 393
Infrastructure	629 457 652	54 831 369	-	(37 233 829)	647 055 192
Other property, plant and equipment	7 827 039	472 711	(875 218)	(1 252 535)	6 171 997
Leased assets	118 474	3 779 025	-	(767 408)	3 130 091
	723 970 883	**77 340 698**	**(875 218)**	**(42 668 002)**	**757 768 361**

Pledged as security

None of the tangible assets were pledged as security during the current year and previous financial years.

Notes to the Annual Financial Statements

10. Property, plant and equipment (continued)

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

Furniture and fixtures	1 875	-
IT equipment	256 887	-
	258 762	**-**

Assets subject to finance lease (Net carrying amount)

Computer equipment	1 053 352	3 130 091

Other information

Expenditure incurred on repairs and maintenance of property, plant and equipment		
Buildings	-	46 675
Infrastructure	-	1 777 204
Other property, plant and equipment	465 482	827 031
	465 482	**2 650 910**

Reconciliation of work-in-progress 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	48 571 358	3 704 827	52 276 185
Additions/capital expenditure	25 139 579	93 836	25 233 415
Transferred to completed items	(15 984 827)	(93 836)	(16 078 663)
	57 726 110	**3 704 827**	**61 430 937**

Reconciliation of work-in-progress 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	26 402 441	3 016 194	29 418 635
Additions/capital expenditure	54 831 369	18 257 594	73 088 963
Transferred to completed items	(32 662 453)	(17 568 962)	(50 231 415)
	48 571 357	**3 704 826**	**52 276 183**

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Slow-moving projects

Koffiefontein: Upgrading of existing solid waste disposal site	842 352	842 352
Koffiefontein / Sonwabile: Construction of new sports facility	688 632	688 832
Jacobsdal: Upgrading of waste water treatment works	4 814 568	4 814 568
Koffiefontein: Upgrading of sports complex	3 016 194	3 016 194
Luckhof: Construction of water treatment plan	6 112 602	6 112 602

The aforementioned projects represent the slow-moving projects which are included in work-in-progress balance. These projects are slow-moving due to the fact that the contractors were not performing and these projects were therefore placed on hold and/or terminated.

Notes to the Annual Financial Statements

11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 006 977	(225 673)	781 304	1 006 977	(24 277)	982 700

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	982 700	(201 396)	781 304

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	-	1 006 977	(24 277)	982 700

Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

12. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	15 000	-	15 000	15 000	-	15 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayorial chain	15 000	15 000

Reconciliation of heritage assets 2017

	Opening balance	Total
Mayorial chain	15 000	15 000

Notes to the Annual Financial Statements

13. Other financial assets

Designated at fair value		
Unlisted shares	119 855	120 550

The municipality holds the following non-controlling interests:

Senwes Limited:	3 600 (2017: 3 600) shares
Senwesbel Limited:	4 990 (2017: 4 990) shares
OVK:	4 000 (2017: 4 000) shares

Non-current assets		
Designated at fair value	119 855	120 550

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Class 1: OVK	59 600	52 800
These shares are valued as per valuation obtained from the OVK Transfer Secretaries and represents the fair value as at 30 June.		
Class 2: Senwes Limited	37 800	37 440
These shares are valued as per valuation obtained from the Senwes Limited Transfer Secretaries and represents the fair value as at 30 June.		
Class 3: Senwesbel Limited	22 455	28 942
These shares are valued as per valuation obtained from the Senwesbel Limited Transfer Secretaries and represents the fair value as at 30 June.		
	119 855	**119 182**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

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

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Class 1 (OVK)	59 600	52 800
Class 2 (Senwes Limited)	37 800	37 440
Class 3 (Senwesbel Limited)	22 455	28 942
	119 855	**119 182**

Notes to the Annual Financial Statements

14. Finance lease obligation

Minimum lease payments due		
- within one year	673 237	921 194
- in second to fifth year inclusive	552 569	3 779 553
	1 225 806	4 700 747
less: future finance charges	(143 184)	(1 212 198)
Present value of minimum lease payments	**1 082 622**	**3 488 549**
Present value of minimum lease payments due		
- within one year	492 155	485 852
- in second to fifth year inclusive	590 467	3 002 697
	1 082 622	**3 488 549**
Non-current liabilities	590 466	3 002 697
Current liabilities	492 155	485 852
	1 082 621	**3 488 549**

It is municipality policy to lease certain copiers and cellphones under finance leases.

The average lease term was 3 years for copiers, 2 years for cellphones and the average effective borrowing rate was 10% (2017: 10%).

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

15. Payables from exchange transactions

Trade payables	6 929 805	2 896 206
Eskom	12 200 916	4 232 427
Sedibeng Water	15 681 027	19 293 598
Oranje-Riet	2 613 570	707 425
Kalkfontein	366 453	344 701
Payments received in advanced	3 677 425	825 091
Employee related liabilities	1 036 220	-
Accrued leave pay	4 149 852	3 775 588
Accrued bonus	942 941	1 236 788
Sundry deposits	-	30 796
Retention monies	5 295 113	4 615 522
	52 893 322	**37 958 142**

16. Consumer deposits

Electricity and water	781 696	799 295

Notes to the Annual Financial Statements

17. Employee benefit obligations

Defined benefit plan

Post-employment medical aid benefit liability

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health medical aid schemes.

The members of the post-employment health care benefit plan are made up as follows:

- In-service members (employees): 0 (2017: 2)
- In-service non-members (employees): 0 (2017: 1)
- Continuation members (retirees, widowers and orphans): 8 (2017: 13)

Long service award liability

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

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2018. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The current-service cost for the year ending 30 June 2018 is estimated to be R250 000, whereas the cost for the ensuing year is estimated to be R238 000 (R427 355 and R395 721 respective).

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

Carrying value		
Present value of the post-employment medical aid benefit liability	(1 996 000)	(4 293 667)
Present value of the long service award liability	(2 459 000)	(2 451 414)
	(4 455 000)	**(6 745 081)**
Non-current liabilities	(3 962 000)	(5 971 608)
Current liabilities	(493 000)	(773 473)
	(4 455 000)	**(6 745 081)**

The municipality expects to make a contribution of R250 000 (2017: R430 564) and R243 000 (2017: R342 909) in the next financial year to the post-employment medical aid benefit and long service award liabilities, respectively.

Notes to the Annual Financial Statements

17. Employee benefit obligations (continued)

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

Opening balance	4 293 667	4 136 780
Net expense recognised in the statement of financial performance	(2 297 667)	156 887
	1 996 000	**4 293 667**

Net expense recognised in the statement of financial performance: Post-employment medical aid benefit liability

Current service cost	1 720	19 287
Interest cost	354 173	346 557
Actuarial (gains) losses	(2 408 560)	325 326
Benefits paid	(245 000)	(534 283)
	(2 297 667)	**156 887**

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

Opening balance	2 451 414	2 010 937
Net expense recognised in the statement of financial performance	7 586	440 477
	2 459 000	**2 451 414**

Net expenses recognised in the statement of financial performance: Long service award liability

Current service cost	414 792	408 068
Interest cost	193 307	164 224
Actuarial gains (losses)	(286 513)	(60 554)
Benefits paid	(314 000)	(71 261)
	7 586	**440 477**

Key assumptions used

Assumptions used at the reporting date:

The current year actuaries used point estimates as the interest rates for discounting purposes. This yield curve is a series of more than 1 000 different interest rates, depending on the duration. The main characteristics of using the yield curve as opposed to the point estimates as was used in the past, is that payments which occur at different time periods, will be discounted at different time rates.

Discount rate: Post-employment medial aid benefit liability	8,67 %	8,67 %
Discount rate: Long service award liability	8,47 %	8,47 %
Health care cost inflation rate	6,98 %	6,98 %
General salary inflation	6,29 %	6,29 %
Net discount rate: Post-employment medial aid benefit liability	1,59 %	1,59 %
Net discount rate: Long service award liability	2,05 %	2,05 %
Maximum subsidy inflation rate	4,86 %	4,86 %
Net discount rate: Maximum subsidy inflation rate	3,64 %	3,64 %

Notes to the Annual Financial Statements

17. Employee benefit obligations (continued)

Other assumptions

The effect of a 1% movement in the assumed rate of post-employment health care benefit inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	362 893	390 100
Effect on the defined benefit obligation	2 066 000	4 520 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	347 893	341 300
Effect on the defined benefit obligation	1 917 000	4 050 000
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service cost and the interest cost	639 000	622 100
Effect on the defined benefit obligation	2 630 000	2 629 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	554 000	528 300
Effect on the defined benefit obligation	2 305 000	2 294 000

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

	2018 R	2017 R	2016 R	2015 R	2014 R
Post-employment medical aid benefit liability	1 996 000	4 293 667	4 136 780	4 303 000	4 162 000
Long service award liability	2 459 000	2 451 414	2 010 937	1 644 482	1 789 537

Actuarial gains		
Post employment medical aid benefit liability	(2 408 560)	325 326
Long service award liability	(286 513)	(60 554)
	(2 695 073)	**264 772**

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	6 031 554	4 564 885
Department of Roads and Transport Grant	1 416 404	1 416 404
Department of Water Affairs Grant	32 998 842	20 680 994
Department of Health Grant	115 000	115 000
Integrated National Electrification Programme (INEP)	369 053	-
	40 930 853	**26 777 283**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National / Provincial Government.

Due to the adverse economic environment, a significant portion of amounts due to the municipality in respect of services rendered, property rates and taxes are tied up in receivables. This resulted in amounts earmarked for conditional projects being utilised to ensure smooth running of the municipality. Management is actively following up on outstanding receivables to ensure that projects are completed.

Notes to the Annual Financial Statements

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	7 428 100	824 519	8 252 619

Reconciliation of provisions - 2017

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	6 685 959	742 141	7 428 100

The provision was based on 100% of the landfill site areas as the total area is used for dumping of waste. Dumping is not limited to a certain portion of landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on 100%.

Jacobsdal	2 483 143	2 235 052
Koffiefontein	2 699 614	2 429 895
Luckhoff	1 294 105	1 164 811
Oppermansgronde	502 091	451 927
Petrusburg	1 273 667	1 146 415
	8 252 620	**7 428 100**

20. Service charges

Sale of electricity	13 876 037	18 298 519
Sale of water	15 947 984	12 988 647
Sewerage and sanitation charges	8 312 241	9 103 940
Refuse removal	7 984 662	8 541 261
	46 120 924	**48 932 367**

21. Investment revenue

Dividend revenue		
Other financial assets	3 569	1 369
Interest revenue		
Interest earned - external investments	512 557	578 992
Interest earned - outstanding exchange debtors	14 861 585	7 807 563
Interest earned - outstanding non-exchange debtors	4 493 959	2 718 217
	19 868 101	**11 104 772**
	19 871 670	**11 106 141**

Notes to the Annual Financial Statements

22. Rental of facilities and equipment

Premises		
Premises	331 295	2 181 012
Venue hire	253 343	26 846
	584 638	**2 207 858**
Facilities and equipment		
Rental of crockery	-	600
Rental of equipment	-	439
	-	**1 039**
	584 638	**2 208 897**

23. Other income

Administration fees	330	22 915
Building plan fees	1 806	6 516
Connection and reconnection fees	55 898	123 063
Grave sales	25 369	45 954
Insurance refunds	258 762	-
Licenses and permits	620	-
Photocopies	307	657
Sundry income	29 970	274 988
Tax certificates	57 825	21 583
Tender documents	2 650	49 035
	433 537	**544 711**

24. Property rates

Rates charged

Property rates	14 677 646	14 917 157

Valuations

Residential	810 718 877	810 718 877
Commercial	177 231 140	177 231 140
State	60 569 875	60 569 875
Municipal	23 457 915	23 457 915
Small holdings and farms	1 966 486 424	1 966 486 424
Other	97 407 041	97 407 041
	3 135 871 272	**3 135 871 272**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions and any significant changes in the property valuations.

Notes to the Annual Financial Statements

25. Government grants and subsidies

Operating grants		
Equitable Share	49 189 000	47 402 000
Financial Management Grant (FMG)	1 900 000	1 945 000
	51 089 000	**49 347 000**
Capital grants		
Department of Water Affairs (DWA)	17 260 037	39 459 007
Expanded Public Works Programme (EPWP)	1 000 000	1 000 000
Integrated National Electrification Programme (INEP)	300 947	-
Municipal Infrastructure Grant (MIG)	9 845 446	15 860 852
	28 406 430	**56 319 859**
	79 495 430	**105 666 859**

Conditional and unconditional grants

Included in above are the following grants and subsidies received:

Conditional grants received	1 000 000	105 755 753
Unconditional grants received	34 871 000	47 402 000
	35 871 000	**153 157 753**

Equitable Share

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

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	4 564 885	5 246 631
Current-year receipts	15 877 000	20 635 000
Conditions met - transferred to revenue	(9 845 446)	(16 069 746)
Repayment of funds (withheld from Equitable Share allocation)	(4 564 885)	(5 247 000)
	6 031 554	**4 564 885**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions. To provide for new, rehabilitation and upgrading of municipal infrastructure.

Provincial : Department of Roads and Transport

Balance unspent at beginning of year	1 416 404	1 416 404

Conditions still to be met - remain liabilities (see note 18).

The grant is used to finance the upgrading and construction of the street network within the municipal boundaries.

Notes to the Annual Financial Statements

25. Government grants and subsidies (continued)

National: Municipal Water Infrastructure Grant (MWIG)

Balance unspent at beginning of year	20 680 993	-
Current-year receipts	41 231 000	60 140 000
Conditions met - transferred to revenue	(17 260 037)	(39 459 007)
Repayment of funds (withheld from Equitable Share allocation)	(11 653 115)	-
	32 998 841	**20 680 993**

Conditions still to be met - remain liabilities (see note 18).

The grant is used to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

Provincial: Department of Health

Balance unspent at beginning of year	115 000	115 000

Conditions still to be met - remain liabilities (see note 18).

This grant is used to fund environmental health care services, which services are in a process of being transferred to Provincial Government.

National: Financial Management Grant (FMG)

Balance unspent at beginning of year	-	-
Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
	-	**-**

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). All conditions attached to the grant were met and no funds were withheld.

National: Integrated National Electrification Programme (INEP)

Current-year receipts	670 000	-
Conditions met - transferred to revenue	(300 947)	-
	369 053	**-**

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated to municipalities to improve and upgrade the electricity infrastructure and enhance the electricity capacity within the municipality.

National: Expanded Public Works Programme (EPWP)

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

The Expanded Public Works Programme (EPWP) Grant is allocated to incentives municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas in compliance with the EPWP guidelines. All conditions attached to the grant were met and no funds were withheld.

Notes to the Annual Financial Statements

25. Government grants and subsidies (continued)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act (DoRA), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

26. Public contributions and donations

Donated assets	-	17 118 202

The municipality received community halls, located in Petrusburg and Jacobsdal, as public contribution and donations from the Free State Department Public Works and Infrastructure. No funds were withheld and the donated buildings were included in Property, plant and equipment.

27. Revenue

Service charges	46 120 924	48 932 367
Rental of facilities and equipment	584 638	2 208 897
Interest received - outstanding debtors (exchange)	14 861 585	7 807 563
Other income	433 537	544 711
Interest earned - external investments	512 557	578 992
Dividends received	3 569	1 369
Property rates	14 677 646	14 917 157
Interest received - outstanding debtors (non-exchange)	4 493 959	2 718 217
Government grants and subsidies	79 495 430	105 666 859
Public contributions and donations	-	17 118 202
Fines, penalties and forfeits	1 970	7 550
	161 185 815	**200 501 884**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	46 120 924	48 932 367
Rental of facilities and equipment	584 638	2 208 897
Interest received - outstanding debtors	14 861 585	7 807 563
Other income	433 537	544 711
Interest earned - external investments	512 557	578 992
Dividends received	3 569	1 369
	62 516 810	**60 073 899**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	14 677 646	14 917 157
Interest received - outstanding debtors	4 493 959	2 718 217
Transfer revenue		
Government grants and subsidies	79 495 430	105 666 859
Public contributions and donations	-	17 118 202
Fines, penalties and forfeits	1 970	7 550
	98 669 005	**140 427 985**

Notes to the Annual Financial Statements

28. Employee related costs

Basic salaries and wages	30 672 734	27 325 713
Bonus	1 700 685	1 941 659
Overtime payments	3 516 210	4 749 840
Performance bonus	-	71 261
Housing benefits and allowances	112 597	595 031
Other allowances	4 999 823	3 832 842
Telephone allowance	84 485	42 596
Pension funds - council contributions	4 061 152	3 680 427
Medical aid funds - council contributions	1 928 521	1 961 851
Industrial council	18 263	17 073
UIF	302 972	289 395
Workmens compensation contributions	439 701	644 250
Skills development levy	-	365 401
Defined contribution plans	110 893	(189 670)
Long service awards	403 417	276 253
Leave pay provision charge	722 006	1 013 729
Other short term costs	-	154 674
	49 073 459	**46 772 325**

Remuneration of the Municipal Manager

Annual remuneration	815 696	748 986
Car allowance	252 611	245 838
Contributions to UIF, medical aid and pension funds	24 929	1 785
Other allowances	27 286	51 062
	1 120 522	**1 047 671**

The post was vacant for the period 1 November to 30 November 2017, during which time an acting allowance of R6 052 was paid.

Remuneration of the Chief Finance Officer

Annual remuneration	178 362	524 434
Car allowance	30 000	80 000
Contributions to UIF, medical aid and pension funds	10 600	1 190
Other allowances	8 650	56 496
Other	-	121 216
	227 612	**783 336**

The post was vacant for the period 1 July 2017 to 31 March 2018, during which time an acting allowance of R200 367 was paid.

Remuneration of the Director: Community Services

Annual remuneration	925 979	714 082
Car allowance	129 312	102 000
Contributions to UIF, medical aid and pension funds	10 933	1 785
Other allowances	23 721	37 875
	1 089 945	**855 742**

Notes to the Annual Financial Statements

28. Employee related costs (continued)

Remuneration of the Director: Technical Services

Annual remuneration	162 461	-
Car allowance	30 000	-
Contributions to UIF, medical aid and pension funds	2 413	-
Other allowance	7 698	220 869
	202 572	**220 869**

The post was vacant for the period 1 July 2017 to 31 March 2018, during which time an acting allowance of R130 738 was paid.

Remuneration of the Director: Corporate Services

Annual remuneration	768 781	696 082
Car allowance	120 000	120 000
Contributions to UIF, medical aid and pension funds	10 678	1 785
Other allowances	21 601	33 103
	921 060	**850 970**

29. Remuneration of councillors

Major	789 653	736 384
Councillors	2 956 138	2 611 830
	3 745 791	**3 348 214**

In-kind benefits

The Executive Mayor is full-time. She is provided with an office, secretarial support and a full-time driver at the cost of the Council.

The salaries, allowances and benefits were paid within the upper limits of the framework envisaged in section 219 of the Constitution.

30. Depreciation and amortisation

Property, plant and equipment	43 889 005	42 668 002
Intangible assets	201 395	24 278
	44 090 400	**42 692 280**

31. Impairment of assets

Impairments		
Property, plant and equipment	10 913	-

Property, plant and equipment (movable assets) have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment.

32. Finance costs

Trade and other payables	1 367 260	1 373 014
Finance leases	40 294	-
Rehabilitation of landfill site	824 519	742 141
	2 232 073	**2 115 155**

Notes to the Annual Financial Statements

33. Debt impairment

Contributions to debt impairment provision	12 259 706	34 323 563

34. Bulk purchases

Electricity	22 755 733	23 712 850
Water	3 713 437	3 557 412
	26 469 170	**27 270 262**

35. Professional and consulting fees

Other contractors	12 201 268	6 521 134

36. General expenses

Accommodation	518 149	964 585
Administration fees	-	15 118
Advertising	80 150	348 063
Auditors remuneration	2 868 402	2 721 346
Bank charges	672 669	185 067
Chemicals	1 502 179	1 606 756
Commission paid	533 633	104 380
Conferences and seminars	247 028	-
Consumables	-	526 732
Donations	3 128	2 000
Electricity	3 885 251	4 287 730
Entertainment	461 144	77 965
Fuel and oil	366 515	715 197
Funeral cost	11 582	28 115
Hire	347 794	3 875 609
IT expenses	-	21 636
Insurance	1 301 483	750 803
License fees	15 948	365 446
Other expenses	197 469	214 812
Postage and courier	14 614	11 154
Printing and stationery	-	402 706
SMME projects	-	991 050
Special events and programs	45 044	775 702
Staff welfare	29 643	-
Subscriptions and membership fees	544 859	509 670
Telephone and fax	1 479 441	2 036 379
Title deed search fees	46 526	-
Training	225 282	220 169
Travel - local	959 079	353 793
Uniforms	5 015	496 366
Ward committee expense	267 813	76 117
Water tests	1 049 983	1 559
	17 679 823	**22 686 025**

The amounts disclosed above for other expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental charges are charged to other trading and economic services for support services rendered.

Notes to the Annual Financial Statements

37. Fair value adjustments

Investment property (Fair value model)	9 378 877	8 597 081
Other financial assets		
• Other financial assets	-	(1 160)
	9 378 877	**8 595 921**

38. Auditors' remuneration

Fees	2 868 402	2 721 346

39. Cash generated from operations

Surplus	4 394 000	18 506 728
Adjustments for:		
Depreciation and amortisation	44 090 400	42 692 280
(Loss) gain on sale of assets and liabilities	(451 538)	601 099
Fair value adjustments	(9 378 877)	(8 595 921)
Impairment loss	10 913	-
Movements in retirement benefit assets and liabilities	(2 290 081)	597 364
Movements in provisions	824 519	842 234
Donations received	-	(17 118 202)
Changes in working capital:		
Inventories	115 432	1 371 453
Receivables from exchange transactions	(27 763 479)	(3 279 092)
Receivables from non-exchange transactions	(13 921 704)	(4 377 803)
Other receivables from exchange transactions	(376 848)	-
Payables from exchange transactions	14 935 178	23 309 243
VAT receivable	4 184 103	(11 216 846)
Unspent conditional grants and receipts	14 153 571	20 208 143
Consumer deposits	(17 599)	47 593
	28 507 990	**63 588 273**

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	30 753 122	52 539 061
Total capital commitments		
Already contracted for but not provided for	30 753 122	52 539 061

Total commitments

Total commitments		
Authorised capital expenditure	30 753 122	52 539 061

This committed expenditure relates to property, plant and equipment and will be financed from government grants.

Notes to the Annual Financial Statements

41. Related parties

These include the total remuneration per councillor, in aggregate for the entire financial year.

Remuneration of councillors

Mrs TI Reachable	789 653	736 384
Mr SJ Bahumi	347 368	274 298
Mr JDJ Barnes (appointment: 1 December 2017)	158 059	-
Miss C Burger (resignation: 30 November 2017)	102 902	221 609
Mr MA Lebaka	300 647	235 547
Mr TS Moqhoishi	280 246	221 609
Miss AN November	280 246	221 609
Mr XW Nqelani	347 068	274 298
Mr MC Ntemane	349 046	274 298
Mr TV Nthapo	280 246	221 609
Mr MJ Phaliso	280 246	221 609
Mr MT Rens (resignation: 28 February 2018)	231 379	274 298
Mr VA Coetzee (resignation: 31 August 2017)	-	27 761
Mr PM Dibe (resignation: 31 August 2017)	-	34 798
Mr LJ Greeff (resignation: 31 August 2017)	-	27 744
Mr MJ Jantjies (resignation: 31 August 2017)	-	34 802
Mr PJ Louw (resignation: 31 August 2017)	-	34 830
Mr VA Mona (resignation: 31 August 2017)	-	25 319
Mr MA Mpatshehla (resignation: 31 August 2017)	-	34 796
Mr PS Musa (resignation: 31 August 2017)	-	27 746
Mr KW Nel (resignation: 31 August 2017)	-	27 761
Mr MM Tsiloana (resignation: 31 August 2017)	-	34 802
	3 747 106	**3 487 527**

Related party transactions

No related party transactions were identified during the year.

Compensation of councillors		
Basic remuneration	3 161 629	3 114 295
Telephone allowance	464 736	267 236
Car allowance	109 500	86 760
Skills development levy	-	6 947
Travel and subsistence (re-imbursement)	11 241	12 289
	3 747 106	**3 487 527**

42. Accounting Officer's and prescribed officer's remunerations

The remuneration of key management is disclosed in Appendix G.

Notes to the Annual Financial Statements

43. Prior period errors

During the year under review, the following errors, as defined in GRAP 3 were identified:

Deposit not verified and does not exist:

In prior financial years, the municipality disclosed a deposit of R64 021 receivable. No evidence of such a deposit could be identified for the years presented and this was corrected retrospectively. The effect is as follows:

- (Decrease) in Other receivables from exchange transactions amounting to R64 021
- Decrease in Accumulated surplus (opening balance) amounting to R64 021

Provision for the rehabilitation of landfill sites:

Management reviewed the Provision for the rehabilitation of the landfill sites, based on the guidance issued during the year. The recalculation resulted in the following retrospective adjustments:

- Decrease in the Provisions amounting to R5 335 886
- (Decrease) in the Finance cost amounting to R877 151
- (Increase) in Accumulated surplus (opening balance) amounting to R4 458 735

Correction made to the finance lease assets and liabilities based on detailed review:

During the recalculation and review of the amortisation tables of the finance leases, it was found that a balance of R251 200 was unsupported. The balances were adjusted retrospectively and the effect was as follow:

- (Decrease) in Property, plant and equipment amounting to R43 458
- Decrease in the Finance lease liability amounting to R292 438
- (Decrease) in Finance cost amounting to R15 178
- (Decrease) in General expenses amounting to R5 802

  (Increase) in Accumulated surplus (opening balance) amounting to R228 002

Building purchases during 2017 not recognised:

During the 2017-financial year, the municipality purchased a building. The addition was however incorrectly expensed as advertising cost. During management's review of all assets the error was identified and the following retrospective adjustment was made:

- Increase in Property, plant and equipment with R450 760
- (Decrease) in General expenses with R450 760

Notes to the Annual Financial Statements

43. Prior period errors (continued)

Review of all creditors for the current and preceding periods:

Management revisited all creditors to identify creditors that were not provided for at 30 June 2016 and 30 June 2017, in accordance with the accrual basis of accounting. A number of errors were identified and these were corrected retrospective. The effect of the Statement of financial position and Statement of financial performance is as follows:

- (Decrease) in VAT receivable amounting to R426 006
- (Increase) in Payables from exchange transactions amounting to R728 178
- (Decrease) in Finance cost amounting to R2 667
- Increase in Bulk purchases with R10 826
- (Decrease) in General expenses with R1 922 351
- Decrease in Grants and subsidies received amounting to R208 894
- Decrease in Other income amounting to R236
- Decrease in Accumulated surplus with R2 913 246

Debtors with credit balances not previously reversed and / or recognised:

During the aforementioned investigation, it was found that debtors with credit balances amounting to R537 851 were not reversed in the 2016 financial year and that the difference was corrected to the Accumulated surplus account. Management furthermore reclassified the 2017 debtors with credit balances. The error was corrected retrospectively and the effect is as follows:

- (Increase) in Payables from exchange transactions amounting to R287 240
- Increase in Receivables from exchange transactions amounting to R450 867
- Increase in Receivables from non-exchange transactions amounting to R374 224
- (Increase) in Accumulated surplus amounting to R537 851

VAT review and reconciliation conducted:

The prior year provision for debt impairment movement, as disclosed in the Statement of financial performance, incorrectly included VAT. A detailed reconciliation of the VAT balances were furthermore performed and the necessary adjustments were made to correct the balance at the earliest period presented. This was corrected retrospectively and the effect was as follows:

- (Decrease) in the VAT receivable with R2 161 564
- (Decrease) in the Debt impairment with R2 411 042
- Decrease in the Accumulated surplus with R4 572 607

Notes to the Annual Financial Statements

43. Prior period errors (continued)

Physical verification of all assets within the control of the municipality:

Management embarked on a process to physical verify all assets under its control and registered in the council's name, based on the number of issues raised by the AGSA in the preceding external audits conducted. Based on the results, the following retrospective adjustments were required to ensure the supporting asset register is valid, complete and accurate:

- Increase in the Investment properties amounting to R227 481 796
- Increase in Property, plant and equipment amounting to R163 836 116
- (Decrease) in Intangible assets amounting to R96 374
- (Decrease) in Heritage assets amounting to R196 000
- (Increase) in Payables with exchange transactions amounting to R9 545 056
- Increase in VAT receivable with R1 104 756
- (Increase) in Public contributions and donations received with R17 118 202
- Increase in the Depreciation and amortisation expense amounting to R9 826 645
- Decrease in Repairs and maintenance expense amounting to R26 272
- (Decrease) in the General expenses with R469 592
- (Decrease) in the Loss with disposal of assets with R937 653
- (Increase) in the Fair value adjustment amounting to R8 597 081
- (Increase) in Accumulated surplus amounting to R365 263 082

Recalculation of the leave provision for the year ended 30 June 2017:

The provision for leave, as provided for at 30 June 2017, was recalculated and the necessary adjustment was made retrospectively. The effect was as follows:

- Increase in the Employee related cost with R138 983
- (Increase) in the Payables from exchange transactions with R138 983

The combined results in respect to the aforementioned errors and reclassifications are as follow:

Notes to the Annual Financial Statements

43. Prior period errors (continued)

Statement of Financial Position	As previously reported	Adjustments	Reclassifications	Restated
ASSETS				
Current assets				
Inventories	2 792 591	-	-	2 792 591
Receivables from exchange transactions	32 564 848	450 867	-	33 015 715
Receivables from non-exchange transactions	13 553 446	374 224	-	13 927 670
Other receivables from exchange transactions	64 021	(64 021)	-	-
VAT receivable	20 416 563	(1 482 814)	-	18 933 749
Cash and cash equivalents	512 639	-	180	512 819
	69 904 108	(721 744)	180	69 182 544
Non-Current Assets				
Property, plant and equipment	593 524 940	164 243 421	-	757 768 361
Intangible assets	1 079 074	(96 374)	-	982 700
Investment property	-	227 481 796	-	227 481 796
Heritage assets	211 000	(196 000)	-	15 000
Investments	120 730	-	(180)	120 550
	594 935 744	**391 432 843**	**(180)**	**758 886 611**
LIABILITIES				
Current Liabilities				
Finance lease obligation	(666 642)	180 790	-	(485 852)
Payables from exchange transactions	(26 688 570)	(11 269 568)	-	(37 958 138)
Consumer deposits	(799 295)	-	-	(799 295)
Employee benefit obligation	(773 473)	-	-	(773 473)
Unspent conditional grants	(26 777 282)	-	-	(26 777 282)
	(55 705 262)	(11 088 778)	-	(66 794 040)
Non-Current Liabilities				
Finance lease obligation	(3 114 345)	111 648	-	(3 002 697)
Employee benefit obligation	(5 971 608)	-	-	(5 971 608)
Provisions	(12 763 987)	5 335 886	-	(7 428 101)
	(21 849 940)	**5 447 534**	**-**	**(16 402 406)**
Total Liabilities	(77 555 202)	(5 641 244)	-	(83 196 446)
Net Assets	(587 284 649)	(362 912 914)	-	(950 197 563)
Accumulated surplus	(587 284 649)	(362 912 914)	-	(950 197 563)

43. Prior period errors (continued)

Statement of Financial Performance	As previously reported	Adjustments	Reclassifications	Restated
REVENUE				
Revenue from exchange transactions				
Service charges	(48 932 367)	-	-	(48 932 367)
Dividends received	(1 369)	-	-	(1 369)
Interest earned - external investments	(578 992)	-	-	(578 992)
Interest earned - outstanding debtors	(10 525 780)	-	-	(10 525 780)
Rental of facilities and equipment	(2 208 897)	-	-	(2 208 897)
Other income	(544 947)	236	-	(544 711)
Total revenue from exchange transactions	(62 792 352)	236	-	(62 792 116)
Revenue from non-exchange transactions				
Property rates	(14 917 157)	-	-	(14 917 157)
Government grants and subsidies	(105 755 753)	88 894	-	(105 666 859)
Fines, penalties and forfeits	(7 550)	-	-	(7 550)
Donations received	-	(17 118 203)	-	(17 118 203)
Total revenue from non-exchange transactions	(120 680 460)	(16 909 301)	-	(120 591 566)
	(183 472 812)	**(16 909 074)**	**-**	**(183 383 682)**
Expenditure				
Employee related costs	46 766 247	6 078	-	46 772 325
Remuneration of councillors	3 475 238	(127 024)	-	3 348 214
Depreciation and amortisation	32 865 634	9 826 645	-	42 692 279
Finance costs	3 010 152	(894 997)	-	2 115 155
Debt impairment	36 734 605	(2 411 042)	-	34 323 563
Repairs and maintenance	3 117 530	(502 192)	-	2 615 338
Bulk purchases	26 844 034	426 229	-	27 270 263
General expenses	31 388 761	(2 181 603)	-	29 207 158
Total expenditure	184 202 201	4 406 866	-	188 344 295
Operating (deficit) surplus	729 389	(12 522 114)	-	(11 792 725)
Fair value adjustments	1 160	(8 597 081)	-	(8 595 921)
Loss on disposal of assets	1 538 752	(937 653)	-	601 099
Inventory losses	1 380 910	-	-	1 380 910
	3 650 211	(22 156 941)	-	6 372 364
Deficit for the year	3 650 211	(22 156 941)	-	6 372 364

Notes to the Annual Financial Statements

44. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following changes in accounting policies:

- GRAP 2: Inventories
- GRAP 104: Financial instruments

Inventories

During the year, the municipality changed its accounting policy with respect to the treatment of inventory. In order to conform with the benchmark treatment in of the Mscoa, the municipality now accounts inventory on the weighted average (2017: first-in first-out) method.

As the municipality did not make use of a inventory system in previous periods, no financial information was available to make the necessary changes retrospectively. Management has accessed the potential financial impact, should retrospective application been made and has estimated the change to be immaterial and insignificant. This is due to the fact that some items are held for long period of time, while other are used frequently.

Provision for doubtful debt

In the previous financial years, the municipality used a blanket provision for the calculation of their doubtful debt. The policy applied was disclosed as such in the annual financial statements. As GRAP 104 does not allow the use a blanket provision, management used the guidelines provided to provide for their doubtful debt at 30 June 2016 and 30 June 2017.

Although the calculation was done in accordance with the aforementioned Standard during the previous financial year, the accounting policy was not updated. Retrospective adjustment is therefore not required.

45. Change in estimate

Property, plant and equipment

The useful lives and residual values of certain movable assets were revised in the current period by management as required by the Standard. The effect of this revision has increased the depreciation charges for the current and future periods by R 87 488

46. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	119 855	-	119 855
Receivables from exchange transactions	-	60 779 194	60 779 194
Receivables from non-exchange transactions	-	27 849 374	27 849 374
Other receivables from exchange transactions	-	376 848	376 848
Cash and cash equivalents	2 646 779	-	2 646 779
	2 766 634	**89 005 416**	**91 772 050**

Notes to the Annual Financial Statements

. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Finance lease liability	1 082 621	1 082 621
Payables from exchange transactions	49 023 968	49 023 968
Consumer deposits	781 696	781 696
Unspent conditional grants and receipts	40 930 853	40 930 853
	91 819 138	**91 819 138**

2017

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	33 015 715	33 015 715
Receivables from non-exchange transactions	-	13 927 670	13 927 670
Cash and cash equivalents	512 639	-	512 639
Other financial assets	120 550	-	120 550
	633 189	**46 943 385**	**47 576 574**

Financial liabilities

	At amortised cost	Total
Finance lease liability	3 488 549	3 488 549
Payables from exchange transactions	37 958 143	37 958 143
Consumer deposits	799 295	799 295
Unspent conditional grants and subsidies	26 777 283	26 777 283
	69 023 270	**69 023 270**

47. Risk management

Financial risk management

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

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

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

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

Further quantitative disclosures are included throughout these annual financial statements.

Notes to the Annual Financial Statements

47. Risk management (continued)

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

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

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

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

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.

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

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Credit risk

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

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

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

Notes to the Annual Financial Statements

47. Risk management (continued)

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

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

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

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

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

Market risk

Interest rate risk

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

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

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

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

Notes to the Annual Financial Statements

47. Risk management (continued)

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

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

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

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

Price risk

Although shares are held by the municipality, it is not exposed to equity price risks arising from equity investments as the municipality does not actively trade in these investments and the balance is immaterial to the municipality's operations.

48. Irregular expenditure

Opening balance	181 065 693	131 436 775
Add: Current year irregular expenditure	25 264 497	49 628 918
Add: Current year irregular expenditure (identified during the audit)	26 841 113	-
Add: Prior year expenditure identified in the current year	22 901 391	-
Add: Prior year expenditure identified in the current year (identified during the audit)	26 777 283	-
	282 849 977	**181 065 693**

The full extent of irregular expenditure relating to quotations, advertisements for lessor period and functionality evaluation still to be investigated.

In addition, the municipality has not procured bank services through the required procurement processes for a number of years due to the location thereof and the limited available financial institutions. Management is still in the process of determining the full extent of bank charges incurred irregularly as a result thereof.

49. Fruitless and wasteful expenditure

Opening balance	2 376 360	2 003 661
Add: Current year fruitless and wasteful expenditure	1 375 621	372 699
	3 751 981	**2 376 360**

The fruitless and wasteful expenditure for the current year is represented by interest levied on overdue payables due to cash flow constraints experienced by the municipality.

50. Unauthorised expenditure

Opening balance	241 326 287	155 343 040
Add: Current year unauthorised operating expenditure	62 187 685	80 347 400
Add: Current year unauthorised capital expenditure	2 683 353	5 635 847
	306 197 325	**241 326 287**

Notes to the Annual Financial Statements

51. Additional disclosure in terms of Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

Contributions to organised local government

Opening balance	(16 096)	(24 882)
Current year subscription / fee	516 110	508 786
Amount paid - current year	(516 110)	(500 000)
	(16 096)	**(16 096)**

Audit fees

Opening balance	-	12 917
Current year subscription / fee	2 493 966	3 102 334
Amount paid - current year	(2 493 966)	(3 115 251)
	-	**-**

PAYE, UIF and SDL

Opening balance	-	478 694
Current year subscription / fee	7 057 894	6 280 843
Amount paid - current year	(6 409 562)	(6 759 537)
	648 332	**-**

Pension and medical aid fund contributions

Opening balance	-	610 533
Current year subscription / fee	7 490 748	8 016 277
Amount paid - current year	(7 220 886)	(8 626 810)
	269 862	**-**

The balance represents pension and medical aid fund contributions deducted from employees and councillors in June 2018 payroll, as well as the municipality's contribution to these funds.

VAT

VAT receivable	14 749 646	18 933 749

VAT output payables and VAT input receivables are based on the amounts due/payable to SARS and on outstanding debtors and creditors as at year end.

Notes to the Annual Financial Statements

51. Additional disclosure in terms of Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	79	-	79
Mr SJ Bahumi	968	31 542	32 510
Mr JDJ Barnes	224	-	224
Mr MA Lebaka	665	-	665
Mr TS Moqhoisi	893	568	1 461
Miss AN November	909	3 086	3 995
Mr XW Nqelani	2 702	15 082	17 784
Mr MC Ntemane	819	3 344	4 163
Mr TV Nthapo	784	12 108	12 892
Mr MJ Phaliso	806	1 197	2 003
	8 849	**66 927**	**75 776**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	98	-	98
Mr SJ Bahumi	1 658	29 055	30 713
Mr MA Lebaka	435	-	435
Miss AN November	888	1 184	2 072
Mr S Nqelani	1 139	11 264	12 403
Mr MC Ntemane	280	-	280
	4 498	**41 503**	**46 001**

Supply Chain Management Regulations

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. The expenses incurred as listed hereunder have been approved.

The municipality maintains a detailed register at its offices.

Incident		
Emergency procurement	355 438	625 821
SMME approved suppliers	-	21 464
Sole providers	10 918	372 812
	366 356	**1 020 097**

Notes to the Annual Financial Statements

52. Non-compliance with the MFMA

Chapter	Section	Description
4	32	The municipality incurred costs during the year that meets the definition of unauthorised, fruitless and wasteful and irregular expenditure.
8	62	Not all general financial management function requirements were adhered to during the year, as not all controls operated effective and efficiently.
8	64	Not all revenue management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Not all expenditure management requirements were met as not all controls operated effective and efficiently throughout the year.
14	166	The MFMA requirements for the audit committees were not complied with throughout the financial year.

53. Contingent liabilities

The municipality had the following contingent liabilities at 30 June 2018:

- **Telkom SA Limited:** The claimant is suing the municipality for outstanding fees. The possibility of a present obligation does exist, but due to the fact that the municipality has not been provided with any form of supporting documentation to support the claim, the probability of the obligation is remote. The matter is still pending. Due to the fact that management has not been furnished with any supporting documentation, it is impracticable to determine the amount.

- **Machaka Attorneys:** The attorney is claiming R23 702 for work performed. Management is of the opinion that the services were rendered after the attorneys services were ended and therefore believe that no funds are owed. In order to save any additional costs (due to court proceedings), the municipality offered the claimant R5,000, but this was not accepted. Management is of the opinion that the existence of present obligation is remote as evidence suggests that the services were indeed rendered after the attorney's services were ended. The matter is still pending.

- **Ducharme Consulting (Pty) Ltd:** The claimant was appointed by the municipality to prepare the 2017 annual financial statements. The amount billed exceeded the project amount and it is claimed that the additional costs incurred were due to requests from management. The matter is still pending and no resolution has been taken to date. Management is however of the opinion that the possibility of a present obligation is low as the contract price was fixed.

- **Nomano, Makamohelo and MBB JV:** The claimant is claiming funds for work performed on the Waste Water Treatment Works in Jacobsdal. The supporting information has been requested to support the claim, but to date no information has been provided. The municipality is of the opinion that the claim will not succeed. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

- **Waltons Bidvest:** The claimant obtained a court interdict for the outstanding amount of R65 000 in respect to stationary and furniture. The claim was settled by the municipality.

- **Vula Trust and Lucas Ramohlaba:** The municipality paid the disputed invoices of R143 340 for the rental of machinery, but due to fraud on the side of the claimant, invoices with the incorrect bank account details were submitted. The municipality is of the opinion that as the fraud occurred on the side of the claimant, the matter should be handled by them and the municipality fulfilled its obligation. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

- **Nashua Kimberley:** This matter was resolved as the contract for the rental of copiers and office equipment was found to be invalid. A compromising settlement was reached by the parties, which did not result in any additional outflow by the municipality.

Notes to the Annual Financial Statements

53. Contingent liabilities (continued)

- **Omphi Nobuhle Trading and Ramathobo Enterprise CC JV (Construction of sports grounds):** The site was abonded by the claimant due to cashflow constraints. In order to finalise the project, management wanted to re-advertise the project, but the claimant claimed that they should be allowed to finalise the project and in order to do that, they requested funds to be paid. The municipality is of the opinion that all funds have been paid and have requested supporting documentation to collaborate their claim - to date no information has been received. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

- **Net 15:** During an investigation it was found that the website hosting costs exceeded the allowed and agreed-upon project cost. The contract was cancelled based on irregularities identified. Net 15 is claiming the outstanding fees. The municipality is of the opinion that the claim will not succeed. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

54. Events after the reporting date

After the financial yearend, the community members in Koffiefontein took part in protest action. This action resulted in a number of buildings being damaged, which included the Municipal Offices, the "War Room", the Caretaker room at the Dithake Stadium and the building at the cemetery in Koffiefontein. The Community Hall in Petrusburg also incurred fire damage due to protest action. The financial implication of the damages could not yet be determined.

During the council meeting held on 28 August 2018, it was decided that all interest owed to the municipality on overdue debtor accounts pertaining to the 2018 financial year will be written off during the 2019 financial period at such date determined by the council.

In November 2018, the municipality received correspondence from National Treasury that Equitable Share will be withheld as the Unspent Conditional Grants as at 30 June 2018 is not cash-backed. The correspondence indicated that the following amounts will be withheld:

- March 2019: R8 000 000
- July 2019: R12 000 000
- November 2019: R10 200 000

After yearend, Senwes indicated that it will donate a piece of land to the municipality for urban development. Although the donation has not been made, management is of the opinion that it will be made before 30 June 2019.

55. Budget differences

Material differences between budget and actual amounts

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

Statement of financial performance

Dividends received: Dividends were received from OVK. As this revenue is not controlled by the Municipality and dependant on the results of the aforementioned company, management over-budgeted for the revenue.

Interest on outstanding receivables: Although the municipality did provide / budget for interest on outstanding receivables, more revenue was generated that anticipated. This due to the slow recovery of outstanding debtors. Furthermore, the concept to understand why, in unforeseen circumstances, debtors could not settle their accounts in a timeously manner was also a reason as to why the budgeted revenue was exceeded.

Interest earned on external investments: During the year management invested surplus fund on a regular basis in call deposit accounts. This resulted in more interest being generated on the external investments than was anticipated.

Notes to the Annual Financial Statements

55. Budget differences (continued)

Rental of facilities and equipment: The municipality did not anticipate that rental income will be levied as agreed upon in the rental agreements. Furthermore management lacked the understanding as to why it is necessary to sufficiently budget for this line item.

Licences and permits: Although budgeted for separately, the municipality received immaterial licence and permit fee revenue. For this reason, it was classified as Other income in the Statement of financial performance.

Other income: In previous financial period, VAT generated from the spending of grant funds were classified as other (own) income, in accordance with the VAT 219 Guidelines. This resulted in management budgeting for this revenue during the 2017/2018 financial year. This revenue was however classified as Grants and subsidies received, as required by the Standards of GRAP.

Property rates: The last valuation roll came into effect on 1 July 2013, and the municipality anticipated that the new valuation roll would have been implemented with effect in the 2018 financial year. This was however not the case, resulting in the budgeted revenue not being achieved.

Government grants and subsidies: Due to cash flow constraints experienced by the municipality, the anticipated spend on capital projects were not achieved. A number of unspent grants were furthermore repaid (through withholding it from the Equitable share allocation), which put more pressure on the target being reached.

Fines and penalties: The decrease is as a result of less fines that were issued during the year.

Debt impairment: The budgeted figure was based on the expectation that the same movement would be required as in the previous financial year. This was however not the case, resulting in the budget not being met.

Depreciation and amortisation: During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current assets, and as a result thereof, a increase in the depreciation and amortisation expense.

Impairment loss: During the aforementioned verification, assets were identified which conditions detoriated. These losses were not unforeseen and therefore not budgeted for.

Finance cost: Although the Municipality did not have overdraft facilities whereby interest were charged, the budget was exceeded due to interest being charged on overdue accounts as well as the unwinding of the interest applicable to the provision for the rehabilitation of the landfill sites.

Repairs and maintenance: Due to the municipality's financial difficulties it was decided to limit the budget for repairs and maintenance, however various incidents occurred that required vital equipment to be repaired, resulting in the increase.

General expenses: Although the budgeted expense was overspent as per the Statement of comparison of budget and actual amounts, the actual expense in respect to the contracted services are classified as general expenses. If this is taken into account, there is no material fluctuation between the budgeted and actual amounts.

Gain on disposal of assets: Management reached an agreement with Nashua in respect to their finance lease agreement, Certain leased assets were replaced, which resulted in the gain being recognised. This was not anticipated or planned by management during the budget preparation period.

Fair value adjustments: The fair value adjustments are due to other financial assets and investment property being carried at fair value. During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current assets, and as a result thereof, a increase in the fair value of the investment property.

Actuarial gains: This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

Inventory losses / write-downs: Due to lack of internal controls over maintenance materials and stationary, items were written off during the year. As these represent controls within the municipality, management did not provide / budget for it.

Notes to the Annual Financial Statements

55. Budget differences (continued)

Statement of financial position

Inventories: The decrease is a result of more stock being consumed during the year than anticipated.

Receivables from exchange and non-exchange transactions: In order to enhance the municipality's cash flow situation, management planned to recover more outstanding debt than in the previous financial years. This did however not realise, resulting the debtor balances exceeding the budgeted balance.

Other receivables from exchange transactions: Although budgeted for, these debtor types are not within the municipality's normal business and therefore does not have control over it.

VAT receivable: The immaterial balance budgeted for at yearend was due to the expectation that the municipality would have received all outstanding VAT refunds from the South African Revenue Services. At yearend, a significant balance is still to be recovered.

Cash and cash equivalents: The decrease in cash balance is as a result of poor recoverability of accounts receivable than budgeted and thereby affecting the cash position of the municipality.

Investment property: During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current asset, including Investment property.

Property, plant and equipment: During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current asset, including Property, plant and equipment.

Intangible assets: During the year the previous financial year, the municipality purchased SAGE software amounting to R1 006 976. The expectation was that the system would have amortisised quicker than it actually did.

Heritage assets: No balance was budgeted for, as it is immaterial to the municipality's operations.

Other financial assets: The municipality utilised investment accounts during the year and these accounts were closed although management provided / budget for it.

Finance lease obligations: During the year the municipality entered into new finance lease agreements. Due to cashflow constraints and the need for the equipment, these were acquired although not budgeted for.

Payables from exchange transactions: Due to the municipality's financial difficulties, it is not able to meet its short term commitments and therefore the desired budgeted results cannot be achieved.

Employee benefit obligations: Due to the municipality's financial difficulties this was not provided / budgeted for.

Unspent conditional grants and receipts: The municipality anticipated that all grants received and paid will be utilised for the year, therefore no amount was budgeted for.

Provisions: The landfill sites operated by the municipality were physically inspected and a professional valuation was performed to estimate the future liability. This resulted in a material prior period adjustment.

Notes to the Annual Financial Statements

56. Going concern

Management considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.
- The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- Although a surplus of R8 263 353 (2017: R12 845 271) was realised, Government grants and subsidies contributed R 79 495 430 (2017: R105 666 859).
- The municipality's unspent conditional grants for the current year amounted to R40 930 853 (2017: R26 777 283). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.
- 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 should be impaired (GRAP 104). A provision for doubtful debt amounting to R12 259 706 (2017: R36 734 605) has been disclosed in the financial statements.
- As at 30 June 2018 the municipality's current liabilities amounted to R91 721 672 (2017: R66 794 045), whilst the current assets amounted to R109 078 999 (2017: R69 182 543).
- The current and acid test ratios are below the required ratio of 2:1 and 1:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The Letsemeng Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2019 financial year, the allocated Equitable Share allocation amounts to R58 082 000 and the Financial Management Improvement Grant to R1 970 000.
- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2020 and 2021 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.
- The municipality has not been placed under administration for the 12 months ending 30 June 2018.