Fezile Dabi District Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	Municipality
Nature of business and principal activities	District municipality
Mayoral committee	
Executive Mayor	Cllr AM Oliphant
Councillors	Cllr V De Beer
	Cllr L Khubeka
	Cllr SV Khiba
	Cllr J Mareka
	Cllr MM Modikoe
	Cllr M Moshodi
	Cllr Cllr G Nkethu
	Part Time Councillors
	Cllr KL Khunyeli
	Cllr AR Majoe
	Cllr MA Mosia
	Cllr MJ Msimanga
	Cllr F Scholtz
	Cllr S Setungoane
	Cllr K Thulo
Grading of local authority	Grade 1 Low Capacity
Chief Finance Officer (CFO)	J Reyneke Acting
Accounting Officer	ML Molibeli
Registered office	John Vorster Road Sasolburg 1947
Postal address	P.O Box 10 Sasolburg 1947
Bankers	ABSA Bank
Attorneys	Peyper Attorneys Inc Ponoane Attorneys Vusi Rajuilf Commercial Law Company
Municipal demarcation code	DC20

Index

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

AIDS	Acquired immune Deficiency Syndrome
DBSA	Development Bnk of South Africa
DWS	Department of Water ans Sanitation
EHS	Environmental Health Services
EPWP	Expanded Public Works Program
FDDM	Fezile Dabi District Municipality
GRAP	Generally Recognised Accounting Practice
HIV	Human Immunodeficiency Virus
IAS	International Accounting Standards
IDP	Integrated Developement Plan
LED	Local Economic Development
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MMC	Members of the Mayoral Committee
MPAC	Municipal Accounts Committee
PMU	Project Management Unit
SALGA	South African Local Government Association

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's 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 annual financial statements set out on pages 4 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 14 December 2018 and were signed on:

ML Molibeli
Municipal Manager

Friday, 14 December 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Receivables from non-exchange transactions	3	424 031	1 611 160
VAT receivable	4	9 369 228	7 736 604
Cash and cash equivalents	5	89 401 594	68 268 983
		99 194 853	**77 616 747**
Non-Current Assets			
Property, plant and equipment	6	138 471 677	138 277 984
Intangible assets	7	2 177 200	2 459 028
		140 648 877	**140 737 012**
Total Assets		**239 843 730**	**218 353 759**
Liabilities			
Current Liabilities			
Payables from exchange transactions	8	19 949 870	19 354 393
Unspent conditional grants and receipts	9	10 195 954	-
		30 145 824	**19 354 393**
Non-Current Liabilities			
Employee benefit obligation	10	23 223 000	21 859 000
Total Liabilities		**53 368 824**	**41 213 393**
Net Assets		**186 474 906**	**177 140 366**
Reserves			
Revaluation reserve	11	13 890 084	11 997 563
Accumulated surplus		172 584 822	165 142 803
Total Net Assets		**186 474 906**	**177 140 366**

* See Note 26

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Operating income	12	1 683 531	1 628 059
Interest received - investment	13	6 738 354	6 731 631
Total revenue from exchange transactions		**8 421 885**	**8 359 690**
Revenue from non-exchange transactions			
Transfer revenue			
Transfers and subsidies	14	167 900 046	145 706 632
Public contributions and donations	15	-	100 000
Total revenue from non-exchange transactions		**167 900 046**	**145 806 632**
Total revenue		**176 321 931**	**154 166 322**
Expenditure			
Employee related costs	16	(93 373 147)	(91 953 152)
Remuneration of councillors	17	(7 198 469)	(6 547 121)
Depreciation and amortisation	18	(2 441 691)	(2 861 252)
Debt Impairment		(1 611 160)	-
Contracted services	19	(18 120 629)	(17 221 112)
Grants and subsidies paid	20	(21 536 946)	(61 662)
Loss on disposal of assets and liabilities		-	(5 676)
Operating expenses	21	(24 597 872)	(38 328 637)
Total expenditure		**(168 879 914)**	**(156 978 612)**
Surplus (deficit) for the year		**7 442 017**	**(2 812 290)**

* See Note 26

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	12 798 150	61 308 906	74 107 056
Adjustments			
Prior year adjustments	-	105 845 600	105 845 600
Balance at 01 July 2016 as restated*	**12 798 150**	**167 154 506**	**179 952 656**
Changes in net assets			
Deficit for the year	-	(2 812 290)	(2 812 290)
Revaluation reserve realised	(800 587)	800 587	-
Total changes	(800 587)	(2 011 703)	(2 812 290)
Opening balance as previously reported	11 997 563	164 067 582	176 065 145
Adjustments			
Prior year adjustments	-	1 075 223	1 075 223
Restated* Balance at 01 July 2017 as restated*	**11 997 563**	**165 142 805**	**177 140 368**
Changes in net assets			
Surplus for the year	-	7 442 017	7 442 017
Revaluation of properties	1 892 521	-	1 892 521
Total changes	1 892 521	7 442 017	9 334 538
Balance at 30 June 2018	**13 890 084**	**172 584 822**	**186 474 906**
Note(s)	11		

* See Note 26

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Grants		178 096 000	140 597 750
Interest income		6 738 354	6 731 631
Other receipts		1 294 973	1 723 299
		186 129 327	149 052 680
Payments			
Employee costs		(99 180 856)	(90 730 609)
Suppliers		(43 817 881)	(70 294 936)
Other payments		(21 536 946)	(2 703 661)
		(164 535 683)	(163 729 206)
Net cash flows from operating activities	23	**21 593 644**	**(14 676 526)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(463 290)	(3 494 971)
Proceeds from sale of property, plant and equipment	6	2 257	4 134
Purchase of other intangible assets	7	-	(1 235 423)
Other Intangible cash Item		-	24 598
Net cash flows from investing activities		**(461 033)**	**(4 701 662)**
Net increase/(decrease) in cash and cash equivalents		**21 132 611**	**(19 378 188)**
Cash and cash equivalents at the beginning of the year		68 268 983	87 647 171
Cash and cash equivalents at the end of the year	5	**89 401 594**	**68 268 983**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Operating income	615 000	-	**615 000**	1 683 531	**1 068 531**	35.1
Interest received - investment	6 100 000	3 500 000	**9 600 000**	6 738 354	**(2 861 646)**	35.2
Total revenue from exchange transactions	**6 715 000**	**3 500 000**	**10 215 000**	**8 421 885**	**(1 793 115)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	147 754 000	31 080 000	**178 834 000**	167 900 046	**(10 933 954)**	

* See Note 26

Total revenue	**154 469 000**	**34 580 000**	**189 049 000**	**176 321 931**	**(12 727 069)**	
Expenditure						
Employee related costs	(96 429 000)	(3 546 450)	**(99 975 450)**	(93 373 147)	**6 602 303**	35.3
Remuneration of councillors	(7 543 000)	(244 000)	**(7 787 000)**	(7 198 469)	**588 531**	35.4
Depreciation and amortisation	(4 500 000)	1 000 000	**(3 500 000)**	(2 441 691)	**1 058 309**	35.5
Debt Impairment	-	-	**-**	(1 611 160)	**(1 611 160)**	
Contracted services	(19 318 500)	(3 584 900)	**(22 903 400)**	(18 120 629)	**4 782 771**	35.6
Grants and subsidies paid	(750 000)	(31 080 000)	**(31 830 000)**	(21 536 946)	**10 293 054**	35.7
Operating expenses	(28 214 500)	(2 186 870)	**(30 401 370)**	(24 597 872)	**5 803 498**	35.8
Total expenditure	**(156 755 000)**	**(39 642 220)**	**(196 397 220)**	**(168 879 914)**	**27 517 306**	
Surplus before taxation	**(2 286 000)**	**(5 062 220)**	**(7 348 220)**	**7 442 017**	**14 790 237**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(2 286 000)**	**(5 062 220)**	**(7 348 220)**	**7 442 017**	**14 790 237**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

Receivables

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

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus or deficit.

Fair value estimation

The fair value of financial instruments traded in active markets 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 fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discounted project cash flows for example discount rate, condition of the asset, estimated future cash inflow, outflow, the term for discounting, assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of cash generating 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, together with economic factors such as inflation and interest rates.

Value in use of non-cash generating assets.

The municipality reviews and tests the carrying value of non-cash generating assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

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

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefit or service potential is expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

Post retirement benefits and other long-term benefits

The present value of the post retirement and long-term benefit obligations depend 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 and long-term benefit 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 post retirement and long-term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government 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 or other long-term liability. Where there is no market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in note 10.

Effective interest rate

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

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment of financial assets

On receivables 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 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 are 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 part 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

1.3 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit.

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

Item	Depreciation method	Average useful life
Community assets	Straight line	5 - 30 years
Computer equipment	Straight line	2-30 years
Furniture and office equipment	Straight line	2-30 years
Land	Straight line	Indefinite
Motor vehicle	Straight line	2-30 years
Machinery and equipment	Straight line	1-30 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's 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 in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

Assets of the 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 6).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.4 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality 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 was 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.

Intangible assets are initially measured at cost.

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.

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.

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

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets on a straight line bases to their residual values. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of items of intangible assets have been assessed as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5-12 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 the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

1.5 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.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Management uses its discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of generating a commercial return and generating cash flows managed for cash-generating purposes the assets are treated as cash-generating assets.

1.5 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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.

1.5 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.5 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.6 Impairment of non-cash-generating assets

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

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

Management uses its discretion in acquiring and managing assets of the municipality. Where assets are used primarily with the intention of service delivery and generating cash flows managed for non-cash-generating purposes the assets are treated as non - cash generating assets.

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset are determined on an "optimised" basis. The rationale is that the municipality will 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.

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

Accounting Policies

1.7 Financial instruments

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

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

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.

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

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

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

A financial asset is:
- cash;
- a 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.

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.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

Class	Category
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality 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 will consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the 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.

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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 through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in the 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.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

Financial liabilities

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

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

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Inventories

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

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

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.

1.8 Inventories (continued)

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Value-added Tax (VAT)

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

1.10 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

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

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

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

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

The municipality 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 municipality accounts for it in the same way as for any other defined contribution plan.

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

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

Where contributions to a defined contribution plan do not fall due wholly within 12 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.

Post-employment benefits: Defined contribution plans

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

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

1.10 Employee benefits (continued)

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

Where contributions to a defined contribution plan do not fall due wholly within 12 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.

Post-employment benefits: Defined benefit plans

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

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

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.

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

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

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

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

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

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

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

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

1.10 Employee benefits (continued)

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

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

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) reflects the time value of money.

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 long-term employee benefits

The municipality has an obligation to provide other long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to determine the present value of the obligations.

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

The municipality recognises 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;
- actuarial gains and losses, which shall all be recognised immediately;

1.11 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.

Accounting Policies

1.11 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A contingent assets is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality, or a present obligation that arises from past events.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.12 Accumulated surplus

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

1.13 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve.

The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus / deficit.

On disposal, the net revaluation surplus is transferred to the accumulated surplus / deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.14 Revenue from exchange transactions

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.

Measurement

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

1.14 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

When 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 surveys of work performed.

Interest and dividends

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

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

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

1.15 Revenue from non-exchange transactions

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

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.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with 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.

1.15 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

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

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

Debt forgiveness and assumption of liabilities

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 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 municipality assesses the classification of each element separately.

1.18 Leases (continued)

Operating leases - lessee

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

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

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

1.19 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given raise to the transfer occurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 27.

1.21 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.22 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.

1.23 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.

Accounting Policies

1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’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.

1.25 Budget information

The approved budget is prepared on an accrual 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.

1.26 Related parties

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

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, 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.

1.27 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 adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses 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.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2018 or later periods:

GRAP 34: Separate Financial Statements

It furthermore covers definitions, preparation of separate financial statements, disclosure, transitional provisions and effective date.

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

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

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

GRAP 35: Consolidated Financial Statements

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

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

It furthermore covers definitions, control, accounting requirements, investment entities: fair value requirement, transitional provisions and effective date.

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

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

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

GRAP 36: Investments in Associates and Joint Ventures

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

It furthermore covers definitions, significant influence, equity method, application of the equity method, separate financial statements, transitional provisions and effective date.

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

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

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

GRAP 37: Joint Arrangements

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

It furthermore covers definitions, joint arrangements, financial statements and parties to a joint agreement, separate financial statements, transitional provisions and effective date.

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

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

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

GRAP 38: Disclosure of Interests in Other Entities

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

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

It furthermore covers definitions, disclosing information about interests in other entities, significant judgements and assumptions, investment entity status, interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, controlling interests acquired with the intention of disposal, transitional provisions and effective date.

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

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

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

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

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

It covers: background to arrangements undertaken in terms of the national housing programme, transactions that affect the accounting of housing arrangements, consider whether the municipality undertakes transactions with third parties on behalf of another party, accounting by municipalities appointed as project manager, Disclosure requirements, accounting by municipalities appointed as project developer, accounting for the accreditation fee, commission, administration or transaction fee received, land and infrastructure, conclusion and application of the guideline to existing arrangements.

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

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

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

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

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

2. New standards and interpretations (continued)

- disclosure requirements for non-living resources

It furthermore covers definitions, measurement significant influence, equity method, application of the equity method, separate financial statements, transitional provisions and effective date.

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

The municipality expects to adopt the standard for the first time in 2021 annual financial statements.

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

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

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

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

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

The municipality expects to adopt the amended standard for the first time in the 2021 annual financial statements.

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

GRAP 18 (as amended 2016): Segment Reporting

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

The most significant changes to the Standard are:

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

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

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

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

GRAP 20: Related parties

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

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

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

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

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

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

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

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

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

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

GRAP 32: Service Concession Arrangements: Grantor

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

2. New standards and interpretations (continued)

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

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

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

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

GRAP 108: Statutory Receivables

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

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

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

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

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

GRAP 109: Accounting by Principals and Agents

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

It furthermore covers definitions, Identifying whether an entity is a principal or agent, accounting by a principal or agent, presentation, disclosure, transitional provisions and Effective date.

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

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

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

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

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

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

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

2. New standards and interpretations (continued)

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

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

The impact of this interpretation is currently being assessed.

GRAP 12 (as amended 2016): Inventories

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the amended standard for the first time in the 2019 annual financial statements.

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

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

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the amended standard for the first time in the 2019 annual financial statements.

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

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

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

The most significant changes to the Standard are:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The municipality expects to adopt the amended standard for the first time in the 2019 annual financial statements.

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

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

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the amended standard for the first time in the 2019 annual financial statements.

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

GRAP 31 (as amended 2016): Intangible Assets

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the amended standard for the first time in the 2019 annual financial statements.

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

3. Receivables from non-exchange transactions

Bursary recoupment	116 067	116 066
Pick n Pay card	2 251	2 251
Recoverable expenses	733 796	733 796
Payments in advance	361 258	325 785
Fuel deposit	1 000	1 000
Other receivables	820 819	432 262
Provision for impairment	(1 611 160)	-
	424 031	**1 611 160**

Figures in Rand	2018	2017

3. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions pledged as security

None of the trade and other receivables were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about counterparty default rates:

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 388 558 (2017: R 1 611 160) were past due but not impaired.

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

3 months past due	388 558	1 611 160

Receivables from non-exchange transactions impaired

As of 30 June 2018, other receivables from non-exchange transactions of R 1 611 160 (2017: R -) were impaired and provided for.

The amount of the provision was R 1 611 160 as of 30 June 2018 (2017: R -).

The ageing of these loans is as follows:

Over 6 months	1 611 160	-

4. VAT receivable

VAT	9 369 228	7 736 604

Vat is payable on the payment basis.

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	4 794 889	3 546 671
Short-term deposits	84 606 705	64 722 312
	89 401 594	**68 268 983**

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

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

Credit rating		
ABSA Bank	40 061 241	18 456 735
Nedbank	11 268 118	10 593 919
Standard Bank	37 942 871	38 820 820
Accrued interest	129 364	348 181
	89 401 594	**68 219 655**

Notes to the Annual Financial Statements

5. Cash and cash equivalents (continued)

Cash and cash equivalents pledged as collateral

None of the above bank accounts were pledged as security.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA BANK - Cheque account - 520-000-0100	4 332 611	2 347 982	6 733 744	4 078 424	2 119 418	6 648 425
ABSA BANK - Savings account - 90-7039-9717	15 830 734	1 229 144	127 890	15 830 734	1 229 144	127 890
ABSA BANK - HIV/Aids project bank account - 92-0926-9959	461 170	247 436	984 300	461 170	247 436	984 300
NEDBANK - 32 days call - 7288009165/17	11 268 118	11 210 988	-	11 268 118	11 210 988	-
ABSA BANK - 60 day call - 2067390363	11 653 550	11 521 167	-	11 521 167	11 653 550	-
ABSA BANK - 60 day call - 2068681892	8 169 703	8 169 703	-	8 169 703	8 169 703	-
STANDARD BANK - 60 day call - 728670534/008	25 640 729	25 569 683	-	25 640 729	25 569 683	-
STANDARD BANK - 60 day call - 728670534/010	12 302 145	12 302 145	-	12 302 145	12 302 145	-
Total	**89 658 760**	**72 598 248**	**7 845 934**	**89 272 190**	**72 502 067**	**7 760 615**

6. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	21 330 964	(442 417)	20 888 547	25 302 225	(5 775 317)	19 526 908
Community assets	105 422 223	-	105 422 223	105 422 223	-	105 422 223
Furniture and office equipment	7 213 174	(6 021 641)	1 191 533	7 442 553	(5 935 950)	1 506 603
Computer equipment	5 359 215	(4 246 298)	1 112 917	5 270 987	(3 958 208)	1 312 779
Land	2 900 000	-	2 900 000	2 590 000	-	2 590 000
Motor vehicles	13 516 273	(7 296 946)	6 219 327	13 516 272	(6 339 979)	7 176 293
Machinery and equipment	3 128 493	(2 391 363)	737 130	2 997 745	(2 254 567)	743 178
Total	**158 870 342**	**(20 398 665)**	**138 471 677**	**162 542 005**	**(24 264 021)**	**138 277 984**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Writte offs	Revaluations	Revaluations depreciation elimination	Write offs	Depreciation	Impairment loss	Total
Buildings	19 526 908	-	-	(2 616 974)	4 199 493	-	(220 880)	-	20 888 547
Community assets	105 422 223	-	-	-	-	-	-	-	105 422 223
Furniture and office equipment	1 506 603	32 289	(8 669)	-	-	6 079	(340 042)	(4 727)	1 191 533
Computer equipment	1 312 779	208 999	(28 157)	-	-	28 494	(405 220)	(3 978)	1 112 917
Land	2 590 000	-	-	310 000	-	-	-	-	2 900 000
Motor vehicles	7 176 293	-	-	-	-	-	(956 966)	-	6 219 327
Machinery and Equipment	743 178	222 002	-	-	-	-	(228 050)	-	737 130
	138 277 984	**463 290**	**(36 826)**	**(2 306 974)**	**4 199 493**	**34 573**	**(2 151 158)**	**(8 705)**	**138 471 677**

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Correction prior year errors	Asset write-offs	Transfers received	Other movements	Depreciation	Impairment loss	Total
Buildings	18 221 505	1 962 582	39 583	-	723 165	(151 294)	(1 268 633)	-	19 526 908
Community assets	105 422 223	-	-	-	-	-	-	-	105 422 223
Furniture and office equipment	1 345 604	359 213	15 174	(4 103)	-	185 373	(390 741)	(3 917)	1 506 603
Computer equipment	1 444 773	318 317	(5 749)	-	-	(64 304)	(372 187)	(8 071)	1 312 779
Land	2 590 000	-	-	-	-	-	-	-	2 590 000
Motor vehicles	7 347 913	798 987	-	-	-	-	(970 607)	-	7 176 293
Machinery and equipment	952 610	34 530	(27 666)	(31)	-	31 136	(247 226)	(175)	743 178
	137 324 628	**3 473 629**	**21 342**	**(4 134)**	**723 165**	**911**	**(3 249 394)**	**(12 163)**	**138 277 984**

Pledged as security

None of the above assets have been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

6. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was Monday, 30 July 2018 Revaluations were performed by an independent valuer,Kgolofelo Property Services CC.

Land and buildings are re-valued independently every 5 years. The following properties were revalued: **Portion 2 of Erf 8 Sasolburg and Portion 1 of Erf 49 Sasolburg**

The Income Capitalisation Method of Valuation was considered to be most appropriate for the Subject Property. This method determines the net normalised annual income of the property, assuming the property is fully let at market related rentals, and market escalations, with an allowance made for vacancies (where applicable). Market related operating expenses are incurred, resulting in a net annual income which is then capitalised at a market related rate. The capitalisation rate is determined from the market (i.e. the rate at which similar assets have traded recently), and is influenced in general by: rates of return of similar properties, risk, obsolescence, inflation, market rental growth rates, rates of return on other investments, as well as mortgage rates:These assumptions were based on current market conditions.

Weltevreden settlement agricultural holding 78, off R82.

Cognisance is taken of the fact that the subject property is an Agricultural Holding improved for agricultural purposes. In this case the Cost Depreciated Replacement Method entails the determination of the replacement cost of the improvements which is then depreciate taking into account physical depreciation, functional and economic obsolescence, as well as buyer resistance. The Comparable Sales will be applied for the vacant land which will be added back into the depreciated value

Details of properties

	2018	2017
Portion 1 of Erf 49 Sasolburg		
Terms and conditions		
Building Improvements Value	9 350 000	8 300 000
d Value	1 350 000	1 200 000
	10 700 000	**9 500 000**
Portion 2 of Erf 8 Sasolburg		
Terms and conditions		
Building Improvements Value	10 250 000	8 900 000
Land Value	1 450 000	1 300 000
	11 700 000	**10 200 000**
Weltevreden settlement agricultural holding78		
Terms and conditions		
Land Value	100 000	90 000

Property, plant and equipment in the process of being constructed or developed

	2018	2017
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Community (Thumahole Stadium)	105 422 223	105 422 223

The Tumahole stadium is carried as work in process and will be transferred to owner once all processes have been finalised.

FDDM is implementing a project on behalf of the Mafube Local Municipality, the work in process expensed in the current year is R1 297 245.79

Figures in Rand	2018	2017

6. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Air-Conditioning	-	247 508
Buildings	99 143	215 545
Furniture and office equipment	262 288	250 299
Vehicles	441 689	-
	803 120	**713 352**

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

7. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 380 268	(1 203 068)	2 177 200	4 368 530	(1 909 502)	2 459 028

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2 459 028	(281 828)	2 177 200

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Correction prior year errors	Assets write off	Other changes, movements	Amortisation	Total
Computer software	856 571	1 603 790	(368 367)	(24 598)	96 061	295 571	2 459 02

Pledged as security

None of the intangible assets have been pledged as security:

Other information

There were no intangible assets with indefinite lives.

8. Payables from exchange transactions

Trade payables	4 681 653	3 028 892
Retention creditors	145 534	306 158
Accrued leave pay	7 136 985	7 284 395
Other payables	-	645 046
FS provincial government	4 599 069	4 599 068
Service bonus accrual	3 386 629	3 490 834
	19 949 870	**19 354 393**

Figures in Rand	2018	2017

9. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Integrated national electrification grant	3 736 390	-
Municipal infrastructure grant	6 459 564	-
	10 195 954	**-**

Movement during the year

Balance at the beginning of the year	-	9 707 950
Additions during the year	178 096 000	145 663 932
Income recognition during the year	(167 900 046)	(150 772 814)
Reclassification to payables from exchange transactions	-	(4 599 068)
	10 195 954	**-**

See note 14 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

The municipality is acting in a principal-agent capacity, where projects are handled on behalf of other organ of state for the following unspent conditional grants:

Department of Health - Relebohile Clinic: Ngwathe Local Municipality

Department of Roads, Transport and Police- Internal Roads:Ngwathe Local Municipality

Department of Public works

Department of Sports - Grant:Fezile Dabi Stadium

Municipal infrastructure Grant Mafube Local Municipality

Figures in Rand	2018	2017

10. Employee benefit obligations

Defined benefit plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover

Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in retirement, the serving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the serving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ZAQ Consultants and Actuaries.

Post retirement medical aid plan

The post retirement medical plan is a defined benefit plan, of which the members are made up as follows:	**2018**	**2017**
In- Service members (employees)	136	135
Continuation members (Pensioners)	5	5
	141	**140**

The municipality make monthly contributions for health care arrangements to the following medical aid schemes.

- Bonitas medical scheme

- Discovery medical scheme

- Hosmed medical scheme

- KeyHealth medical scheme

- LA Health medical scheme

-Samwumed medical scheme

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

Carrying value		
Opening balance	(21 859 000)	(20 831 000)
Service cost	(2 253 000)	(700 000)
Interest cost	(2 274 000)	(920 000)
Actuarial gains	1 892 000	346 000
Benefits payment	1 271 000	246 000
	(23 223 000)	**(21 859 000)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	(699 000)	(2 334 000)
Interest cost	(1 029 000)	(1 996 000)
Actuarial (gains) losses	(749 000)	706 000
Benefits payments	246 000	1 922 000
	(2 231 000)	**(1 702 000)**

Key assumptions used

Assumptions used at the reporting date:

	2018	**2017**
Discount rate used	Yield curve	Yield curve
Health cost inflation	CPI + 1%	CPI + 1%
Net discount rate	Yield curve	Yield curve

The basis used to determine the overall expected rate of return on assets is as follow:

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

We used the nominal and real zero curves as at 30 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations.

Other assumptions

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

	One percentage point increase	**One percentage point decrease**
Effect on the accrued liability	11 006 000	10 510 000
Effect on interest cost	1 114 000	1 063 000
Effect on service cost	737 000	699 000

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

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	10 790 000	10 057 000	9 029 000	7 934 000	7 444 000

10. Employee benefit obligations (continued)

Defined contribution plan

Councillors and employees belong to two defined retirement funds which are the Free State Municipal Pension Fund and the Councillors Pension Fund governed by the Pension Fund Act of 1956. These funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed in June 2008. The Free State Municipal Pension Funds' net assets that were available at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the funs was in sound financial position. The estimated liability of the funds is R 1 576 689 000 which is adequately financed.

No new information was available at reporting date.

Long service awards

An actuarial valuation has been performed by ZAQ Consultants and Actuaries of the municipality's liability, in respect of benefits to eligible employees of the municipality. The provision is utilised when eligible employees of the municipality receive the value of the vested benefit. The actuarial valuation was performed in line with the requirements of GRAP 25.

	Female	**Male**	**Total**
Number of active employees	63	81	144

	Female	**Male**	**Total**
Salary weighted average years	43	43	43

	Female	**Male**	**Total**
Salary weighted average past service years	11	10	10

Reconciliation of provisions for long service awards - 2018	**Opening Balance**	**Additions**	**Total**
Long service awards	11 802 000	631 000	12 433 000

Reconciliation of provisions for long service awards - 2017	**Opening balance**	**Additions**	**Total**
Long service awards	11 128 000	674 000	11 802 000

Amounts recognised in the statement of financial performance are as follows:		
Current service cost	(1 554 000)	(1 634 000)
Interest cost	(1 245 000)	(1 076 000)
Actuarial gains/(losses)	1 143 000	360 000
Benefit payments	1 025 000	1 676 000
	(631 000)	**(674 000)**

Amounts recognised in the statement of financial performance are as follows:		
Long service awards	12 443 000	11 802 000

Key Assumptions used at the reporting date:

	2018	2017
Discount rate used	Yield curve	Yield curve
Salary inflation	CPI + 1%	CPI + 1%
Net discount rate	Yield curve	Yield curve

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

10. Employee benefit obligations (continued)

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

We use the nominal and zero curves as at 30 June 2018 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.The Net Effective Discount Rate is different for each relevant time period of the yield curves’ various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

11. Revaluation reserve

Opening balance	11 997 563	12 798 160
Change during the year	1 892 521	(800 597)
	13 890 084	**11 997 563**

Refer to note 6 for detail pertaining to the revaluation of properties.

12. Operating income

Tender Documents	66 275	25 640
Jazz festival income	-	688 124
Recoveries - Councillors and officials	1 499 696	627 246
Insurance claim	23 783	13 500
Sundry income	93 777	273 549
	1 683 531	**1 628 059**

13. Interest received - investment

Interest revenue		
Short term deposits	4 709 440	5 284 327
Bank	2 028 914	1 447 304
	6 738 354	**6 731 631**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Transfers and subsidies

Operating grants		
Equitable share	143 583 000	142 178 000
Rural roads asset management system grant	2 183 000	2 119 000
Financial management grant	1 250 000	1 250 000
Skills education training authorities skills levy	99 777	159 632
	147 115 777	**145 706 632**
Capital grants		
Municipal infrastructure grant	20 647 436	-
Integrated national electrification grant	236 610	-
	20 884 046	**-**
	167 999 823	**145 706 632**

Expanded public works program integrated grant

Balance unspent at beginning of year	-	1 000 000
Other	-	(1 000 000)
	-	-

The grant was received by the municipality based on its ability to meet the performance requirements as set by the Department of Public Works.

Rural roads asset management system grant

Current-year receipts	2 183 000	2 119 000
Conditions met - transferred to revenue	(2 183 000)	(2 119 000)
	-	-

Conditions still to be met - remain liabilities (see note 9).

The purpose of the grant is to assist the rural district municiplaities to set up their road asset management systems and to collect rural data in line with the Road Strategic Framework for South Africa.

Financial management grant

Balance unspent at beginning of year	-	1 250 000
Current-year receipts	1 250 000	-
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-

The purpose of the financial management grant is to assist municipalities to implement financial reforms required by the MFMA.

Skills education training authorities skills levy

Balance unspent at beginning of year	-	159 632
Current-year receipts	99 777	-
Conditions met - transferred to revenue	(99 777)	(159 632)
	-	-

The purpose of the SETA grant is aimed at skills development, promoting growth in employment and capacity building to address scarce skills.

Figures in Rand	2018	2017

14. Transfers and subsidies (continued)

Integrated national electrification grant

Current-year receipts	4 000 000	-
Conditions met - transferred to revenue	(263 610)	-
	3 736 390	**-**

Conditions still to be met - remain liabilities (see note 9).

The purpose of the INEG grant is for the electrification of households in Mafube.

Municipal infrastructure grant

Current-year receipts	27 080 000	-
Conditions met - transferred to revenue	(20 620 436)	-
	6 459 564	**-**

Conditions still to be met - remain liabilities (see note 9).

The purpose of the MIG grant is for tech upgrade of sport facilities, water reticulation and waste water treatment of households in Mafube.

15. Public contributions and donations

Public contributions and donations	-	100 000

Amount pledged by ABSA bank towards an HIV/AIDS awareness event.

Figures in Rand	2018	2017

16. Employee related costs

Basic	50 842 824	48 536 394
Bonus	4 262 257	4 020 868
Medical aid - company contributions	4 689 133	4 368 636
UIF	281 332	103 899
Leave pay provision charge	4 127 298	2 902 260
Overtime payments	1 641 105	1 182 100
Long-service awards	631 000	2 595 995
Car allowance	10 762 834	10 368 069
Housing benefits and allowances	464 023	406 240
Pension - company contributions	8 875 537	8 331 616
Termination benefits	733 000	1 034 170
	87 310 343	**83 850 247**

Remuneration of municipal manager ML Molibeli

Annual Remuneration	903 976	1 230 315
Car Allowance	327 153	454 070
Performance Bonuses	271 545	271 545
Contributions to UIF, Medical and Pension Funds	193 254	257 005
	1 695 928	**2 212 935**

Remuneration of chief finance officer G Mashiyi

Annual Remuneration	959 195	1 188 428
Car Allowance	274 831	363 256
Performance Bonuses	217 236	217 236
Contributions to UIF, Medical and Pension Funds	1 933	1 785
	1 453 195	**1 770 705**

Remuneration of director - Health & Public Safety N Baleni (1 July 2017 to 31 August 2017)

Annual Remuneration	227 244	910 456
Car Allowance	66 500	266 000
Contributions to UIF, Medical and Pension Funds	7 575	28 227
Performance Bonuses	-	168 406
	301 319	**1 373 089**

Remuneration of director - LED: V Moloi

Annual Remuneration	733 363	857 496
Car Allowance	200 000	144 000
Performance Bonuses	168 406	168 406
Contributions to UIF, Medical and Pension Funds	180 003	203 186
Remote Allowance	24 409	-
	1 306 181	**1 373 088**

Remuneration of director - Corporate services: Adv A Mini

Annual Remuneration	833 649	892 038
Car Allowance	254 886	266 000
Performance Bonuses	168 406	168 406
Contributions to UIF, Medical and Pension Funds	49 240	46 644
	1 306 181	**1 373 088**

Figures in Rand	2018	2017

16. Employee related costs (continued)

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

17. Remuneration of councillors

	2018	2017
Executive Major	826 414	796 725
Sitting Allowance for Seconded Councillors of Local Municipalities	240 082	-
Mayoral Committee Members	3 651 342	2 707 788
Speaker	389 683	403 937
Councillors	2 090 948	2 638 671
	7 198 469	**6 547 121**

In-kind benefits

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

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

30 June 2018	Basic salary	Car allowance	Cellphone allowance	Social contributions	Total
Executive Mayor - Cllr AM Olifant	548 805	196 764	40 800	79 562	865 931
Speaker - Cllr L Khubeka	302 773	86 910	-	-	389 683
MMC - Finance & Public Safety - Cllr V De Beer	270 017	88 265	-	-	358 282
MMC - Technical Services - Cllr SV Khiba	412 566	147 574	40 800	59 671	660 611
MMC - Corporate Services- Cllr MM Modikoe	412 566	147 574	40 800	59 671	660 611
MMC - Social Development - Cllr M Moshodi	412 566	147 574	40 800	59 671	660 611
MMC - LED & Tourism - Cllr J Mareka	270 017	88 265	-	-	358 282
MPAC chairperson - Cllr G Nkethu	365 670	129 255	40 800	50 019	585 744
Part Time Councillors: Cllr KL Khunyeli, Cllr MJ Msimanga, Cllr AR Majoe, Cllr F Scholtz, Cllr MA Mosia, Cllr K Thulo, Cllr S Setungoane	1 617 800	474 432	326 400	-	2 418 632
Seconded Councillors of Local Municipalities: Mofokeng MM, Poho MS, Nnune GB, Mare AK, Du Ploy A, Motaung TA, Pietersen ML, Pittaway SH, Khunyeli MJ, Tladi S, Mokodutlo NP, Motebele R, Magashule IM, Serfontein C, Sotshiva LP, Tete C	240 082	-	-	-	240 082
	4 852 862	**1 506 613**	**530 400**	**308 594**	**7 198 469**

17. Remuneration of councillors (continued)

30 June 2017	Basic salary	Car allowance	Cellphone allowance	Social contributions	Total
Executive Mayor - Cllr MP Moshodi (01/07/2016-09/08/2016)	60 930	16 397	2 254	7 668	87 249
Executive Mayor - Cllr AM Olifant (10/8/2016-30/6/2017)	448 644	170 934	25 736	64 163	709 477
Speaker Cllr KGL Nkethu (01/07/2016-09/08/2016)	48 493	13 118	2 254	6 385	70 250
Speaker Cllr SZ Matena (01/07/2016-09/08/2016)	244 370	84 169	5 148	-	333 687
MPAC Chair person - Cllr L Khubeka (01/07/2016-30/06/2017)	207 034	64 308	-	-	271 342
MMC - Corporate services - Cllr AM Olifant (01/7/2016-09/8/2016)	27 332	7 538	-	4 202	39 072
MMC - Corporate services - Cllr MM Modiko (01/8/2016-30/6/2017)	346 937	131 495	20 374	43 310	542 116
MMC - Ehs & Public safety - Cllr VE de Beer (01/7/2016-30/6/2017)	244 286	86 035	-	-	330 321
MMC- - Finance- Cllr ME Notsi (01/7/2016-09/8/2016)	27 894	7 355	-	2 878	38 127
MMC - Led & Tourism- Cllr ML Hlapane (01/7/2016-09/8/2016)	28 585	7 538	-	2 950	39 073
MMC - Led & Tourism- Cllr ML Mareka (01/9/2016-30/6/2017)	212 752	73 554	-	-	286 306
MMC - Social development - Cllr TL Soetsang (01/7/2016-09/8/2016)	22 066	16 061	-	-	38 127
MMC - Social development - Cllr M Moshodi (01/9/2016-30/6/2017)	345 003	131 495	20 374	45 244	542 116
MMC - Technical services - Cllr K Khumalo (01/7/2016-09/8/2016)	27 332	7 538	-	4 202	39 072
MMC - Technical services - Cllr SV Khiba (01/9/2016-30/06/2017)	346 937	131 495	20 374	43 310	542 116
Part time councillors:KI Khunyeli, MJ Msimanga,AR Majoe, F choltz, MA Mosia, K Thulo, S Setungoana,TL Soetsang; Outgoing part time Councillors: D de Hart, DLS George, GN Guza, SJMT Mahlakazela, MP Mokoena,MC Spruit, MS Taje and PD van der Westhuizen	1 683 646	530 780	205 904	29 788	2 450 118
Outgoing Councillors: CM Dalton, NL Hlapane, KJ Khumalo, MA Koloi, NJ Khubeka, ZS Magadlela, KJ Makhoba, WL Makoele, MD Mbono,ME Notsi, MG Ntoane,MS Poho,AH Viljoen. Sitting allowance for seconded councillors of local municipalities	188 552	-	-	-	188 552
	4 510 793	**1 479 810**	**302 418**	**254 100**	**6 547 121**

Salary, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution.

18. Depreciation and amortisation

	2018	2017
Property, plant and equipment	2 441 691	2 861 252

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
19. Contracted services		
Outsourced Services		
Business and Advisory	9 240 546	-
Catering Services	1 547 305	-
Fire Services	110 000	-
Security Services	31 677	-
Transport Services	441 689	1 265 485
Consultants and Professional Services		
Legal Cost	-	820 878
Contractors		
Catering Services	-	3 069 047
Employee Wellness	76 284	-
Event Promoters	6 017 227	11 195 716
Maintenance of Buildings and Facilities	105 143	-
Maintenance of Equipment	255 589	869 986
Maintenance of Unspecified Assets	7 000	-
Sports and Recreation	288 169	-
	18 120 629	**17 221 112**

20. Grants and subsidies paid

Other subsidies		
Infrastructure Development	19 530 046	-
Mafube Local Municipality	-	61 662
Financial aid	2 006 900	-
	21 536 946	**61 662**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Operating expenses

Advertising	1 247 073	215 685
Annual review disaster management plan	-	194 900
Auditors remuneration	4 061 809	3 480 550
Bank charges	100 189	78 005
Bursaries: External students	1 451 497	434 438
Bursaries: Internal	496 451	332 540
Chemicals	-	29 150
Cleaning	-	423 974
Climate change and green economy	-	1 283 456
Community development and training	-	229 352
Computer expenses	-	762 781
Conferences and seminars	-	262 142
Consumables	1 501 193	377 074
Delivery expenses	-	27 558
Development of stadium parking	-	725 937
Distribution to beneficiaries (HIV and Aids)	-	800 000
Donations	278 992	695 797
Emergency funds	-	481 012
Employee assistance program	-	84 400
Entertainment	211 132	256 274
Entrepreneurial support system	-	19 849
Environmental health services	-	1 985
Fire planning and co-operation	-	224 200
Fleet	87 693	81 100
Fuel and oil	1 989	817 658
Gifts	-	143 100
Hire	2 883 592	2 779 448
IT expenses	848 039	527 063
Insurance	357 175	341 186
Integrated fire management plan	-	481 123
Levies	760 730	1 239 050
Magazines, books and periodicals	-	95 999
Marketing	-	1 578 290
Municipal services	2 214 355	1 326 853
Other expenses	535 745	214 716
Performance management system	-	2 055 345
Postage and courier	3 750	-
Printing and stationery	575 994	1 526 641
Promotions	-	979 318
Protective clothing	340 555	463 382
Public participation meetings	-	606 809
Research and development costs	-	50 000
Sampling and testing	-	313 513
Security (Guarding of municipal property)	-	193 888
Software expenses	-	114 800
Sports Development programs	-	344 728
Staff welfare	-	70 554
Stipend	-	195 000
Subscriptions and membership fees	1 041 691	964 645
Telephone and fax	1 912 929	1 539 106
Air Quality management	-	2 234 796
Training	513 041	617 354
Travel - local	2 764 662	4 159 022
Upgrade district centre	-	161 500
Vector control	-	264 048
Workmans compensation fund	407 596	427 543
	24 597 872	**38 328 637**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

22. Auditors' remuneration

	2018	2017
Fees	4 061 809	3 480 550

23. Cash generated from (used in) operations

	2018	2017
Surplus (deficit)	7 442 017	(2 812 290)
Adjustments for:		
Depreciation and amortisation	2 441 691	2 861 252
Gain on sale of assets and liabilities	-	5 676
Debt impairment	1 611 160	-
Movements in retirement benefit assets and liabilities	1 364 000	(606 000)
Movements in provisions	-	674 000
Non-cash performance bonus	-	993 997
Non-cash long service award	-	1 634 000
Non-cash leave provision	-	2 902 260
Non-cash employee benefit	-	2 171 401
Changes in working capital:		
Receivables from non-exchange transactions	(424 031)	(92 585)
Payables from exchange transactions	595 477	(14 749 944)
VAT receivable	(1 632 624)	(2 549 411)
Unspent conditional grants and receipts	10 195 954	(5 108 882)
	21 593 644	**(14 676 526)**

24. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	1 999 718	1 999 718
Cash and cash equivalents	89 401 594	89 401 594
	91 401 312	**91 401 312**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	18 908 193	18 908 193
Unspent conditional grants and receipts	10 955 345	10 955 345
	29 863 538	**29 863 538**

2017

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	1 611 160	1 611 160
Cash and cash equivalents	68 219 656	68 219 656
	69 830 816	**69 830 816**

Financial liabilities

Figures in Rand	2018	2017

24. Financial instruments disclosure (continued)

	At amortised cost	Total
Payables from exchange transactions	18 622 002	18 622 002
Unspent conditional grants and receipts	732 391	732 391
	19 354 393	**19 354 393**

25. Commitments

Authorised capital expenditure

	2018	2017
Already contracted for but not provided for		
• Rural Roads Asset maintenance system	4 398 600	-
• Upgrading of Ntshwanatsatsi Sport Ground	2 691 292	-
• Electrification of Ntshwanatsatsi	2 184 553	-
• Maki Mokhaneli Trading and projects CC	-	1 402 000
	9 274 445	**1 402 000**

	2018	2017
Total capital commitments		
Already contracted for but not provided for	9 274 445	1 402 000

Total commitments

	2018	2017
Total commitments		
Authorised capital expenditure	9 274 445	1 402 000

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

26. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Cash and cash equivalents		68 216 656	52 327	-	68 268 983
Receivables from non-exchange transactions		1 614 160	(3 000)	-	1 611 160
VAT Receivable		7 736 604	-	-	7 736 604
Property, plant and equipment		31 516 445	106 761 539	-	138 277 984
Intangible assets		2 346 981	112 047	-	2 459 028
Payables from exchange transactions		14 755 326	4 599 068	-	19 354 393
Unspent conditional grants and receipts		4 599 068	(4 599 068)	-	-
Provision for long service awards		11 802 000	-	(11 802 000)	-
Employee benefit obligation		10 057 000	-	11 802 000	21 859 000
Revaluation reserve		11 997 563	-	-	11 997 563
Accumulated surplus		58 219 889	1 500 691	-	59 720 580
		222 861 692	**108 423 604**	**-**	**331 285 295**

Statement of financial performance

26. Prior-year adjustments (continued)

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Interest received - investment		6 731 631	-	-	6 731 631
Operating income		1 628 059	-	-	1 628 059
Transfers and subsidies		145 706 632	-	-	145 706 632
Public contributions and donations		100 000	-	-	100 000
Employee related costs		(90 656 986)	-	(1 296 165)	(91 953 152)
Remuneration of councillors		(6 547 121)	-	-	(6 547 121)
Depreciation and amortisation		(3 140 875)	279 623	-	(2 861 252)
Finance cost		(1 996 000)	-	1 996 000	-
Repairs and maintenance		(2 135 471)	-	2 135 471	-
Contracted services		(6 228 245)	795 600	(11 788 466)	(17 221 111)
Operating expenses		(47 981 635)	-	9 652 995	(38 328 640)
Grant and subsidies paid		(61 662)	-	-	(61 662)
Loss on disposal of assets and liabilities		(5 676)	-	-	(5 676)
Actuarial gains and losses		699 835	-	(699 835)	-
Surplus for the year		**(3 887 514)**	**1 075 223**	**-**	**(2 812 292)**

Errors

The following prior period errors adjustments occurred:

Error 1

Koppies greenhouse not recognised in the 2017 financial year was recognised as asset. The comparative figures for cost and depreciation were restated.

	2018	2017
Statement of financial position		
Increase in property plant and equipment	-	1 518 764
Increase in accumulated depreciation	-	(220 005)
Increase in accumulated surplus	-	(723 164)
	-	**575 595**

	2018	2017
Statement of financial performance		
Increase in depreciation	-	220 005
Decrease in contracted services	-	(795 600)
	-	**(575 595)**

Error 2

The cost for the telephone system was corrected, impacting the opening balance for intangible assets.

The Venus system was derecognised in 2017 and was updated impacting on the 2018 opening balance for intangible assets.

	2018	2017
Statement of financial position		
Decrease in intangible assets	-	(471 952)
Decrease in accumulated amortisation	-	579 906
Increase in accumulated surplus	-	372 460
	-	**480 414**

	2018	2017
Statement of financial performance		
Decrease in amortisation	-	(480 414)

Figures in Rand	2018	2017

26. Prior-year adjustments (continued)

Error 3

Unspent grants to be paid back to the FS provincial government reclassified as accruals

Statement of financial position		
Increase in payables from exchange transactions	-	3 866 667
Decrease in unspent grants and receipts	-	(3 866 667)
	-	**-**

Error 4

Opening balance errors corrected between the fixed asset register and the ledger not corrected in prior year affecting opening balances for 2017.

Statement of financial position		
Decrease in cost - PPE	-	(462 349)
Decrease in accumulated depreciation-PPE	-	457 755
Increase in cost - intangible assets	-	51 470
Increase in accumulated amortisation - Intangible assets	-	(47 381)
Increase in accumulated surplus	-	505
	-	**-**

Error 5

The reclassification of certain assets resulted in a change of depreciation. The opening balance for 2017 as well as the comparative for 2017 was restated

Statement of financial position		
Decrease in accumulated depreciation	-	(45 150)
Increase in accumulated surplus	-	25 936
	-	**(19 214)**

Statement of financial performance		
Decrease in depreciation	-	(19 214)

Error 6

Balances as per prior year were as per final TB take on balances 2018 with mSCOA implimentation for:

-Cash and cash equivalents, receivables from non-exchange transactions and accumulated surplus.

Statement of financial position		
Increase in cash and cash equivalents	-	52 327
Decrease in receivables fron non-exchange transactions	-	(3 000)
Increase in accumulated surplus	-	(49 327)
	-	**-**

Error 7

Take on work in process for the Thumahole stadium previously not recognised

Figures in Rand	2018	2017

26. Prior-year adjustments (continued)

Statement of financial position		
Decrease in WIP- PPE	-	105 422 223
Increase in accumulated surplus	-	(105 422 223)
	-	-

Reclassifications

Reclassifications of certain accounts were made in order to comply with the requirements of the Municipal Standard Chart of Accounts (mSCOA). These reclassifications have no impact on the net asset value of the municipality.

The following reclassifications adjustment occurred:

Reclassification 1

Unspent conditional grants were reclassified to payables from exchange transactions. These funds will be paid back to the Free State provincial government.

Statement of financial position		
Increase in payables from exchange transactions	-	4 599 068
Decrease in unspent conditional grants	-	(4 599 068)
	-	-

Reclassification 2

Actuarial gains and interest costs in terms of GRAP 25 valuations were reclassified from actuarial gains and finance charges to employee related costs.

Statement of financial performance		
Decrease in actuarial gains	-	699 835
Decrease in finance costs	-	(1 996 000)
Increase in employee related costs	-	1 296 165
	-	-

Reclassification 3

Repairs and maintenance was reclassified to contracted services.

Operating expenses - Catering and events management was reclassified to contracted services

Statement of financial performance		
Decrease in repairs and maintenance	-	(2 135 471)
Decrease in operating expenses	-	(9 652 995)
Increase in contracted services	-	11 788 466
	-	-

Reclassification 4

Provision for long service award was reclassified to employee benefit obligation

Statement of financial position		
Decrease in provisions	-	(11 802 000)
Increase in employee benefit obligation	-	11 802 000
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Comparative figures

Certain comparative figures have been reclassified as indicated in note 26.

Reclassification of certain accounts were made to comply with the requirements of Municipal Standard Chart of Accounts (MSCOA). The reclassifications have no impact on the net asset value of the municipality.

28. Risk management

Financial risk management

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

Liquidity risk

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

Credit risk

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

Financial instrument	2018	2017
Cash and cash equivalants	89 401 594	68 219 656

29. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 68 732 905 and that the municipality's total assets exceed its liabilities by R 186 474 906.

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

30. Unauthorised expenditure

Balance at the beginning of the year	-	1 858 757
Less amount approved /written-off by council	-	(1 858 757)
	-	**-**

31. Fruitless and wasteful expenditure

Current year expenditure	29 727	9 187
Amounts recovered	(10 872)	(1 710)
Written-off-by council	-	(7 477)
	18 855	**-**

Fruitless expenditure was due to the following reasons:

Cancellation of flights and accomodation.

Training cancelled due to other commitemnts.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

32. Irregular expenditure

Opening balance	2 014 421	26 341
Add: Irregular Expenditure - current year	2 458 322	1 988 080
Less: Amounts condoned	(2 014 421)	-
	2 458 322	**2 014 421**

Analysis of expenditure awaiting condonation per age classification

Approvals by M Moloi when council did not condone the appointment of M Moloi	996 934	-
Expenditure items identified where the supply chain process was not followed in obtaining 3 quotes	1 461 388	26 341
	2 458 322	**26 341**

Details of irregular expenditure condoned

	Condoned by council	
Expenditure items identified where the supply chain process was not followed in obtaining 3 quotes	Council meeting 31 July 2018 item 17	2 014 421

33. In-kind donations and assistance

Public contributions and donations	-	100 000

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	8 172	27 709
Amount paid - current year	(8 172)	(27 709)
	-	-

Audit fees

Current year subscription / fee	4 061 809	3 480 550
Amount paid - current year	(4 061 809)	(3 480 550)
	-	-

PAYE and UIF

Current year subscription / fee	14 381 471	19 508 510
Amount paid - current year	(14 381 471)	(19 508 510)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	20 956 861	21 500 059
Amount paid - current year	(20 956 861)	(21 500 059)
	-	-

Figures in Rand	2018	2017

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

VAT

VAT receivable	9 369 228	7 736 604

VAT output payables and VAT input receivables are shown in note 7.

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

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 City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Categories		
Urgent	141 800	-
Special circumstances	829 263	-
Poor execution of planning	424 739	-
Emergency	-	306 169
Other	-	4 739 661
	1 395 802	**5 045 830**

35. Budget differences

Material differences between budget and actual amounts

1. Other Income – The increase relates to the admin charge for the implementation of Mafube projects.

2. Interest received – The difference is due to fluctuation of the interest rate.

3. Personnel – The underspending relates to vacant posts not filled.

4. Remuneration of councillors – The underspending relates to the Speakers salary not earned for 2 months as well as the fact that councillors appointed by the Mayor was from the local municipalities and therefore FDDM did not have to pay for a full salary.

5. Depreciation – The underspending relates to a review of the useful life of assets, resulting in a reduced depreciation charge.

6. Contracted services – The underspending was achieved through cost savings.

7. Transfer and subsidies –The underspending is due to the late start of the projects in a local municipality.

8. General Expenses – The underspending is due to cost cutting measures.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

36. Contingencies

The municipality have the following contingent liabilities:

FDDM / SAMWU obo P Setsheli - Labour case	2 000 000	2 000 000
FDDM / Nyumba Mobile Homes and Offices (Pty) Ltd	160 000	160 000
FDDM / Picasso Headlines (Pty) Ltd	80 000	80 000
FDDM / Khulekani Sevices	90 000	900 000
	2 330 000	**3 140 000**

- P Setsheli: Dismissal due to misconduct in refusing to take lawfull orders.

- Nyumba Mobile Homes and Offices (Pty): Outstandng money owed for project undertaken by joint venture for the construction of additional wards and new forensic mortuary at Newtsimaholo District Hospital.

- Picasso Headlines (Pty) Ltd: Outstanding payment relating to advertising charges.

- Khulekani Sevices: Civil claim regarding a payment dispute relating to security services.

37. Related parties

Relationships	
Excecutive Council Members	Refer to note 18
Members of key management	Refer to note 17

38. Events after the reporting date

Court case between Lindi Mamatekwa Malibeli (Applicant) and FDDM (respondent). The ruling by the court on the 21st of September 2018 was that FDDM should pay 50% of the taxed cost once finalised.