



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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

General Information

Legal form of entity	Municipality Municipal Finance Management Act (Act No.56 of 2003)
Executive committee	
Mayor	MG Ngubane
Deputy Mayor	SE Nkosi
Exco member	MM Mdlalose
Exco member	ZC Msibi
Exco member	AP Meiring
Speaker	P Mgcina
Councillors	MV Buhali MA Buthelezi SB Buthelezi XN Dladla NS Hlatshwayo NC Khabanyane BV Khumalo NP Khumalo MJ Madela MG Mlangeni HN Mkhwanazi MV Molefe VP Mzima TM Ndaba JA Vorster VC Ndlovu RN Ngcobo D Ngwenya M Msibi TM Nzuza MN Ntshangase
Amakhosi	SE Shabalala M Mbatha ZG Mabaso ZP Nzima
Grading of local authority	Grade 3 Low Capacity
Chief Finance Officer (CFO)	Mr WJM Mngomezulu
Accounting Officer	Mr SR Zwane
Registered office	B9356 Section 1 Madadeni Newcastle 2951
Postal address	Private Bag X6615 Newcastle 2940
Bankers	ABSA Public Sector
Auditors	Auditor General of South Africa Registered Auditors

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

General Information

Nature of business and principal activities

The provision of services (water and sanitation) to communities in a sustainable manner; to promote social and economic development and to provide a safe and healthy environment

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 12
Accounting Policies	13 - 29
Notes to the Annual Financial Statements	30 - 67

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Constitution of Republic of South Africa (Act 108 of 1998), Municipal Finance Management Act (Act 56 of 2003), Local Government Municipal Act 2003, Local Government : Municipal structures Act, Municipal Property Rates Act, Division of revenue Act (Act 1 of 2007), and Municipal Systems Act (Act 32 of 2000), 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 June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Provincial and National Government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial and National Government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Council on August 31, 2019 and were signed on its behalf by:

Mr SR Zwane
Accounting officer

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Report

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

1. Going concern

As at June 30, 2019, the municipality had an accumulated surplus of R673 145 338 (FY 2018 -R589 579 436) and that the municipality's current liabilities exceed its assets by R 39 282 184 (FY2018 - 47 839 601

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

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

2. Subsequent events

1.Amajuba District Municipality's District Development Agency (Pty) Ltd entity was established in 2014 by the municipality to coordinate macro-economic development initiatives for and on behalf of the municipality

; The Council made Resolution after the financial year end, and the Mayor was authorized to identify and recommend to Council people who will volunteer their services to the Interim Board;

About four (4) names of private citizens have been received for the consideration of the Municipality

The Municipal Manager and the Head of Department for Planning and Development will serve in the board with a view to provide administrative support ;

;A item was tabled to ExCo and Council on 15 Nov 2019 to recommend the appointment of members of the Interim Board of Directors.

3. Accounting policies

The annual financial statements prepared and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

4. Accounting Officer

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

Name	Nationality
Mr SR Zwane	South African

5. Corporate governance

General

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

Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Report

Remuneration

The upper limits of the remuneration of councillors are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required by him by the Remunerations of Public Office Bearers Act No.20 of 1998.

Internal audit

The municipality has an internal audit function based at the municipality. This is in compliance with the Municipal Finance Management Act, 2003.

6. Bankers

The municipality's primary banker is ABSA Public Sector.

7. Auditors

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

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the on August 31, 2019 and were signed on its behalf by:

Mr SR Zwane
Accounting officer

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	77,854	103,942
Receivables from exchange transactions	4	1,177,518	2,418,207
VAT receivable	5	9,233,799	8,991,723
Consumer debtors	6	1,799,354	4,115,103
Cash and cash equivalents	7	70,435,292	54,079,120
		82,723,817	69,708,095
Non-Current Assets			
Property, plant and equipment	8	469,200,411	381,013,580
Intangible assets	9	2,998,756	3,474,251
Investments in associates	10	252,229,747	266,419,632
		724,428,914	650,907,463
Total Assets		807,152,731	720,615,558
Liabilities			
Current Liabilities			
Current portion of loans	11	1,178,948	742,659
Finance lease obligation	17	42,930	108,159
Payables from exchange transactions	12	84,306,405	73,303,229
Unspent conditional grants and receipts	13	27,735,779	34,744,131
Provisions	14	8,248,072	8,239,082
Long-term service awards	15	442,054	294,122
Post Retirement Medical liabilities	16	51,812	116,314
		122,006,000	117,547,696
Non-Current Liabilities			
Loans	11	6,048,687	7,360,404
Finance lease obligation	17	-	59,200
Long-term Service Awards	15	5,390,437	4,735,586
Post retirement medical liabilities	16	562,268	1,333,236
		12,001,392	13,488,426
Total Liabilities		134,007,392	131,036,122
Net Assets		673,145,339	589,579,436
Accumulated surplus		673,186,975	589,579,436

* See Note 41 & 40

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	28,524,258	28,973,090
Rental income	19	85,250	282,778
Other income		251,778	139,000
Unutilised provision reversal		584,931	-
Interest income	21	11,834,627	8,874,403
Actuarial gains		1,901,413	-
Total revenue from exchange transactions		43,182,257	38,269,271
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	286,381,608	226,903,025
Public contributions and donations	23	1,430,000	135,100
Fines, Penalties and Forfeits	24	-	1,676,566
Total revenue from non-exchange transactions		287,811,608	228,714,691
Total revenue		330,993,865	266,983,962
Expenditure			
Employee related costs	25	(91,341,365)	(86,254,102)
Remuneration of councillors	26	(6,032,264)	(5,134,399)
Depreciation and amortisation	27	(25,258,142)	(22,381,272)
Impairment of assets	28	(2,639,660)	(1,101,899)
Finance costs	29	(1,337,778)	(2,031,626)
Lease rentals on operating lease	30	(240,217)	(160,309)
Debt Impairment	31	(21,114,444)	(26,937,822)
Bulk purchases	32	(16,936,958)	(17,906,817)
Contracted services	33	(26,808,285)	(21,492,606)
Actuarial losses		-	(263,839)
General Expenses	34	(36,065,809)	(51,278,631)
Repairs and maintenance		(5,421,519)	(6,294,518)
Total expenditure		(233,196,441)	(241,237,840)
Surplus for the year from continuing operations		97,797,424	25,746,122
Share of equity from associate	10	(14,189,885)	(25,885,867)
Surplus (deficit) for the year		83,607,539	(139,745)

* See Note 41 & 40

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	596,771,715	596,771,715
Adjustments		
Correction of errors	13,292,284	13,292,284
Balance at July 1, 2017 as restated*	589,719,181	589,719,181
Changes in net assets		
Surplus for the year	(139,745)	(139,745)
Total changes	(139,745)	(139,745)
Opening balance as previously reported	604,962,421	604,962,421
Adjustments		
Correction of errors	(15,382,985)	(15,382,985)
Restated* Balance at July 1, 2018 as restated*	589,579,436	589,579,436
Changes in net assets		
Surplus for the year	83,607,539	83,607,539
Total changes	83,607,539	83,607,539
Balance at June 30, 2019	673,186,975	673,186,975

* See Note 41 & 40

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		15,922,975	17,248,809
Grants		251,667,477	220,847,635
Interest income		5,840,113	4,708,643
		273,430,565	242,805,087
Payments			
Employee costs		(96,761,482)	(89,922,813)
Suppliers		(62,226,750)	(94,988,637)
Finance costs		(1,337,778)	(2,031,626)
Other payments		(8,275,654)	(8,159,942)
		(168,601,664)	(195,103,018)
Net cash flows from operating activities	36	104,828,901	47,702,069
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(115,208,651)	(48,461,901)
Cash flows from financing activities			
Repayment of other financial liabilities		(875,428)	(785,955)
Movement in long-term service awards		-	-
Movement in post retirement medical liabilities		-	-
Finance lease payments		(124,429)	(127,811)
unspent grant		27,735,779	34,744,131
Net cash flows from financing activities		26,735,922	33,830,365
Net increase/(decrease) in cash and cash equivalents		16,356,172	33,070,533
Cash and cash equivalents at the beginning of the year		54,079,120	21,008,587
Cash and cash equivalents at the end of the year	7	70,435,292	54,079,120

* See Note 41 & 40

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Performance

Revenue

Service charges	28,465,687	(868,950)	27,596,737	28,524,258	927,521	
Interest on Overdue Account	4,083,654	1,633,918	5,717,572	5,994,514	276,942	
Interest Earned-Ext Invest	4,551,860	203,063	4,754,923	5,840,113	1,085,190	1
Equitable Share-FBS Portion	148,705,000	-	148,705,000	148,743,233	38,233	
Finance Management Grant	1,570,000	-	1,570,000	1,570,000	-	
Road asset management grant	-	-	-	967,784	967,784	
Operating Grants -PPE-MIG;	-	-	-	177,525	177,525	
EPWP -Publicworks Grant;	1,620,000	-	1,620,000	1,620,000	-	
Capital Grants-PPE -WSIG;	-	-	-	88,742,426	88,742,426	2
Operating Grant-WSIG	-	-	-	3,593,917	3,593,917	2
Operatating Grants-MIG	-	-	-	40,075,475	40,075,475	3
Capacitating new councilors grant	-	79,388	79,388	9,225	(70,163)	
Tele/Cellphone Cost Recovered	5,000	-	5,000	610	(4,390)	
Tender Deposits	100,000	(50,000)	50,000	16,200	(33,800)	
Sundry Income	2,000	8,000	10,000	104,101	94,101	
Rental facilities-Hall Hire	250,000	(231,314)	18,686	85,250	66,564	
Skills Development Grant	180,000	-	180,000	182,022	2,022	
Shared Services Grant -DPSS	400,000	-	400,000	400,000	-	
Atmospheric Emmission Licence	-	300,000	300,000	130,435	(169,565)	
Growth and Development Summit	-	300,000	300,000	300,000	-	
Donations	-	-	-	30,000	30,000	
unutilised provisions	-	-	-	584,931	584,931	
Public contributions and donations	-	-	-	1,400,000	1,400,000	4
Acturial Gain	-	-	-	1,901,413	1,901,413	4
Total revenue	189,933,201	1,374,105	191,307,306	330,993,432	139,686,126	

Expenditure

Personnel	(86,524,590)	869,048	(85,655,542)	(91,341,365)	(5,685,823)	5
Remuneration of councillors	(5,685,460)	(435,989)	(6,121,449)	(6,032,264)	89,185	
Depreciation and amortisation	(33,178,215)	(205,390)	(33,383,605)	(25,258,142)	8,125,463	4
Impairment loss/ Reversal of impairments	-	-	-	(2,639,660)	(2,639,660)	4
Lease rentals on operating lease	-	-	-	(240,217)	(240,217)	
Debt Impairment	(14,265,065)	-	(14,265,065)	(21,114,444)	(6,849,379)	4
Bulk purchases	(17,263,000)	(113,200)	(17,376,200)	(16,936,958)	439,242	
Contracted Services	(17,013,968)	(7,182,497)	(24,196,465)	(26,808,285)	(2,611,820)	6
Finance costs	(764,000)	-	(764,000)	(1,337,778)	(573,778)	
General Expenses	(36,829,920)	(4,175,193)	(41,005,113)	(36,065,809)	4,939,304	7
Repairs and maintenance - deductible	(11,287,533)	256,830	(11,030,703)	(5,421,519)	5,609,184	7
Total expenditure	(222,811,751)	(10,986,391)	(233,798,142)	(233,196,441)	601,701	
Surplus/(Deficit) for the year	(33,178,550)	(9,612,286)	(42,790,836)	(106,340,198)	63,549,362	

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Capital Transfers						
Capital Transfers	126,858,000	-	126,858,000	115,208,651	(11,649,349)	8
Own Revenue-Capital	348,000	-	348,000	203,747	(144,253)	
Loan funding	-	34,364,743	34,364,743	-	(34,364,743)	9
Total capital expenditure	127,206,000	34,364,743	161,570,743	115,412,398	49,397,991	

The accounting policies on pages 13 to 29 and the notes on pages 30 to 67 form an integral part of the annual financial statements.

1. the increase in the investment income was due to additional government grants that were approved in the year, initially not budgetted- MIG & WSIG
2. the increase in WSIG grant was not initially budgetted for in the approved budget
3. The increase in MIG grant was not initially budgetted for in the approved budget
4. The increase in non-cashflows (Acturial gains , debtors impairment etc) were not initially budgetted for
5. The increase in personnel costs is mainly due to the past service cost for the Long service Awards liability and overtime/ standby allowances that were incurred during the financial year
6. Contracted servises increase was due to the need to continuous provide water tanker services to the communities that do not have access to clean water
- 7- The decrease in general expenses is mainly due to cost containment measures being implemented
- 8- Capital expenditure is below the budget due to projects that are yet to be completed
- 9- The municipal did not obtain additional funding during the financial year

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

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 Constitution of Republic of South Africa (Act 108 of 1998), Municipal Finance Management Act (Act 56 of 2003), Local Government Municipal Act 2003, Local Government : Municipal structures Act ,Municipal Property Rates Act, Division of revenue Act (Act 1 of 2007), and Municipal Systems Act (Act 32 of 2000).

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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Consolidation

Investment in associates

An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a controlled entity nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of an activity but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post acquisition changes in the municipality's share of net assets of the associate, less any impairment losses.

Equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the municipality's share of net assets of the investee. The surplus or deficit of the municipality includes the municipality's share of the surplus or deficit of the investee.

The municipality's share of the surplus or deficit of the investee is recognised in surplus or deficit.

Distributions received from an investee reduce the carrying amount of the investment.

The most recent available annual financial statements of the associate are used by the municipality in applying the equity method. The associate has the same reporting date with the municipality.

The municipality's annual financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances.

Deficits in an associate in excess of the municipality's interest in that associate are recognised only to the extent that the municipality has incurred a legal or constructive obligation to make payments on behalf of the associate. If the associate subsequently reports surpluses, the municipality resumes recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Surpluses and surplus on transactions between the municipality and an associate are eliminated to the extent of the municipality's interest therein.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.3 Consolidation (continued)

The controlling entity discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and account for the investment in accordance with the Standards of GRAP on Financial instruments from that date, unless the associate becomes a controlled entity or a joint venture, in which case it is accounted for as such. The carrying amount of the investment at the date that it ceases to be an associate is regarded as the fair value on initial recognition as a financial asset in accordance with the Standards of GRAP on Financial instruments.

1.4 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Post retirement benefits

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

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

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

Debtors impairment

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

1.5 Property, plant and equipment

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	5-30 years
Plant and machinery	Straight line	10-15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	3-7 years
Office equipment	Straight line	2-5 years
IT equipment	Straight line	3 years
Park facilities	Straight line	20-30 years
Wastewater network	Straight line	10 years
Water network	Straight line	10 years

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.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.6 Intangible assets (continued)

Item	Depreciation method	Average useful life
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1.7 Investments in associates

An investment in an associate is carried using the equity method..

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

1.8 Financial instruments

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

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

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

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

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

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

A financial asset is:

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

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

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.8 Financial instruments (continued)

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.

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

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

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

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

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

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

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

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

Classification

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

Class	Category
Cash and cash equivalent	Financial asset measured at amortised cost
Trade and other Receivables	Financial asset measured at amortised cost

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

Class	Category
Loans	Financial liability measured at amortised cost
Finance Lease	Financial liability measured at amortised cost
Trade Payables	Financial liability measured at amortised cost

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

Class	Category
Investment in associate	Measured using the equity

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Reclassification

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

1.9 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.10 Inventories (continued)

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula.

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.

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumer or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, borehole etc). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Identification

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

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

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

Value in use

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

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.

1.12 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.12 Employee benefits (continued)

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

Other post retirement obligations

The entity provides post-retirement health care benefits upon retirement to some retirees.

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

1.13 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.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.13 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 surplus.

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

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

Interest income

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

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with prescribed debt principle as enforced by the law

Measurement

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

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.16 Interest income

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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

1.19 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.

1.20 Fruitless and wasteful expenditure

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.20 Fruitless and wasteful expenditure (continued)

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

1.21 Irregular expenditure

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

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

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

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

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

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

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

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

1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2018 to 6/30/2019.

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.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.23 Related parties

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

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

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

1.24 Events after reporting date

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

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

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	April 1, 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	April 1, 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	April 1, 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	April 1, 2020	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	April 1, 2019	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2020	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 1, 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	April 1, 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 1, 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	April 1, 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	April 1, 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	April 1, 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	April 1, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	April 1, 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	April 1, 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
3. Inventories		
Purified water	-	839,149
Raw water from Uthukela at Durnacol raw reservoir	19,913	18,223
Raw water from Balele dam at purified at Emadlangeni	15,014	11,385
Raw water from Uthukela purified at Dannhausser	44,088	62,632
Raw water from Uthukela purified at Durnacol	19,372	18,713
Raw Water Balele dam	11	13
Purified water purchased from Uthukela	41,516	34,610
	98,398	950,115
Inventories (write-downs)	(62,060)	(880,783)
	77,854	103,942

Closing inventory volumes for the for the financial periods ending 2017 and 2018 were estimated based on the scientific quantitative methods which took into consideration the following:

- existing infrastructure changes , upgrades and improvements
- capacity volumes per infrastructure
- no disruptions of delivery of water was experienced during the mention periods
- the minimum required levels of water to maintain water pressure levels in households
- latest stock count data as at 2019 Financial year

Inventory write- down

The cost of inventory was written down to the lower of cost and net-realizable value for the current and prior years . The cost of R839 149 inventory for prior year as previously reported was fully written down to nill because the neither stock count was conducted nor were water stock balance for all reserviors were estimated using alternative method.

(62,060) (922,417)

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
4. Receivables from exchange transactions		
Sundry debtors	14,852	6,396
Employee costs in advance	1,152,166	2,401,311
Prepayments	10,500	10,500
	1,177,518	2,418,207

Included in Trade and other receivables are employee costs received in advance in form of standby allowances that were erroneously overpaid. The employees of the municipal undertook an industrial action against the Municipal not deduct on a monthly basis installments to repay their debt. The matter has been referred to the council for consideration and the outcome of the recoverability of the staff debtor is unknown.

An amount has been provided has been provided to factor in the uncertainties that may affect the recoverability employees cost received in advance until the outcome of the council resolution has been finalised

Trade and other receivables past due but not impaired

As of June 30, 2019, trade and other receivables of 30 739 410 1,177,518 (2018: 2,407,707) were past due but not impaired.

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

1 month past due	14,582	2,407,707
2 months past due	1,152,166	-

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. VAT receivable		
VAT	9,233,799	8,991,723
VAT is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARS.		
VAT as disclosed in the annual financial statements is prepared on the accrual basis.		
6. Consumer debtors		
Gross balances		
Water	81,632,860	62,834,166
Less: Allowance for impairment		
Water	(79,833,506)	(58,719,063)
Net balance		
Water	1,799,354	4,115,103
Water		
Current (0 -30 days)	1,799,354	4,115,103

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
6. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	2,084,489	2,957,666
31 - 60 days	2,390,928	2,280,264
61 - 90 days	1,707,211	1,763,009
91 - 120 days	1,602,099	1,686,414
121 - 365 days	1,735,711	1,642,038
> 365 days	62,424,509	42,703,323
	71,944,947	53,032,714
Industrial/ commercial		
Current (0 -30 days)	222,430	278,378
31 - 60 days	339,895	335,675
61 - 90 days	167,789	175,789
91 - 120 days	116,075	87,362
121 - 365 days	110,291	87,387
> 365 days	2,891,427	1,592,244
	3,847,907	2,556,835
National and provincial government		
Current (0 -30 days)	1,343,410	1,394,026
31 - 60 days	330,044	1,238,551
61 - 90 days	157,353	221,848
91 - 120 days	172,365	264,870
121 - 365 days	160,875	104,611
> 365 days	3,675,970	2,426,226
	5,840,017	5,650,132
Total		
Current (0 -30 days)	3,664,816	4,634,798
31 - 60 days	3,051,777	3,854,968
61 - 90 days	2,031,609	2,160,939
91 - 120 days	1,890,058	2,038,938
121 - 365 days	2,006,384	1,834,326
> 365 days	68,988,216	48,310,197
	81,632,860	62,834,166
Less: Allowance for impairment	(79,833,506)	(58,719,063)
	1,799,354	4,115,103
Reconciliation of allowance for impairment		
Balance at beginning of the year	(58,723,310)	(31,781,242)
Contributions to allowance	(21,110,196)	(26,937,821)
	(79,833,506)	(58,719,063)

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3,000	3,000
Bank balances	805,288	1,969,315
Short-term deposits	69,627,004	52,106,805
	70,435,292	54,079,120

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019			2018		
7. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
Absa bank - cheque account - 405 347 259 3	805,288	1,984,150	1,122,435	805,288	1,969,315	1,119,896
Standard bank - call deposit - 068 448 3090 02	72,965	685,068	641,744	72,965	685,068	641,744
Standard bank - call deposit - 068 448 3090 03	2,611,486	2,446,709	5,417,632	2,611,486	2,446,709	5,417,632
Standard bank - call deposit - 068 448 3090 06	384,187	359,945	33,828	384,187	359,945	33,828
Standard bank - call deposit - Call Deposit - 068 448 3090 05	761,857	1,018	986	761,857	1,018	986
Standard bank - call deposit- 068 448 3090 04	431,186	403,979	935,985	431,186	403,979	935,985
Standard bank - call deposit - 068 448 3090 07	1,659,618	189	204,117	1,659,618	189	204,117
Standard bank - call deposit - 068 448 3090 08	2,825,720	-	137,900	2,825,720	-	137,900
Standard bank - call deposit - 068 448 3090 10	-	-	700,763	-	-	700,763
Standard bank - call deposit - 068 448 3090 11	494,654	463,443	8,296,787	494,654	463,443	8,296,787
Standard bank - call deposit - 068 448 3090 12	52,804	51,113	540,470	52,804	51,113	540,470
Standard bank - call deposit - 068 448 3090 09	65,646	61,607	57,706	65,646	61,607	57,706
Standard bank - call deposit - 068448309/013	35,497,273	14,760,126	-	35,497,273	14,760,126	-
Standard bank - call deposit- 068448309/014	1,241,576	1,163,236	-	1,241,576	1,163,236	-
Standard bank - call deposit- 068448309/015	675,744	1,500	-	675,744	1,500	-
Standard bank - call deposit- 068448309/016	7,482	4,840,260	-	7,482	4,840,260	-
Standard bank - call deposit- 068448309/017	2,409,454	2,257,424	-	2,409,454	2,257,424	-
Standard bank - call deposit- 068448309/018	89,083	302,772	-	89,083	302,772	-
Fnb - call deposit -62797886838	13,372,986	-	-	13,372,986	-	-
Investec - call deposit - 1100 501686 503	156,321	83,686	78,395	156,321	83,686	78,395
Investec - call deposit - 1100 501686 505	75,031	70,321	634,895	75,031	70,321	634,895
Investec - call deposit - 1100 501686 506	5,797	5,797	775,544	5,797	5,797	775,544
Investec - call deposit - 1100 501686 507	37,108	34,779	360,218	37,108	34,779	360,218
Investec - call deposit - 1100 501686 508	542,758	-	459,972	542,758	-	459,972
Investec - call deposit - 1100 501686 501	664,222	622,526	583,165	664,222	622,526	583,165
Investec - call deposit - 1100 501686 500	467,390	3,160,853	25,584	467,390	3,160,853	25,584
Investec - call deposit - 1100- 501-686-509	11,681	-	-	11,681	-	-

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand				2019		2018	
7. Cash and cash equivalents (continued)							
Investec - call deposit -1100-501-686-510	419,379	-	-	419,379	-	-	
Investec - call deposit -1100-501-686-511	287,133	271,251	-	287,133	271,251	-	
Investec - call deposit -1100-501-686-512	574,193	1,216,723	-	574,193	1,216,723	-	
Investec - call deposit -1100-501-686-513	3,732,269	18,842,478	-	3,732,269	18,842,478	-	
Total	70,432,291	54,090,953	21,008,126	70,432,291	54,076,118	21,005,587	

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	569,591	-	569,591	569,591	-	569,591
Buildings	25,361,472	(10,397,155)	14,964,317	25,361,472	(9,349,726)	16,011,746
Buildings under construction	30,489,026	-	30,489,026	30,489,026	-	30,489,026
Movable assets	28,921,485	(22,465,665)	6,455,820	27,748,874	(19,292,386)	8,456,488
Park facilities	36,337,513	(18,671,985)	17,665,528	36,337,513	(17,408,274)	18,929,239
Infrastructure assets	412,365,483	(145,248,304)	267,117,179	382,253,754	(124,829,772)	257,423,982
infrastructure assets under construction	131,938,950	-	131,938,950	49,133,508	-	49,133,508
Total	665,983,520	(196,783,109)	469,200,411	551,893,738	(170,880,158)	381,013,580

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Work in progress	community assets expensed	Depreciation	Impairment loss	Closing balance
Land	569,591	-	-	-	-	-	-	-	569,591
Buildings	16,011,746	-	-	-	-	-	(1,047,429)	-	14,964,317
Building under construction	30,489,026	-	-	-	-	-	-	-	30,489,026
Movable Assets	8,453,274	1,174,207	-	-	-	-	(3,171,734)	-	6,455,747
Community assets under construction	-	3,771,442	-	-	-	(3,771,442)	-	-	-
Recreational facilities	18,928,808	-	-	-	-	-	(1,263,711)	-	17,665,097
Infrastructure assets	257,423,982	387,538	1,400,000	28,631,771	-	-	(19,300,678)	(1,425,434)	267,117,179
Infrastructure assets under construction	49,133,508	111,437,213	-	-	(28,631,771)	-	-	-	131,938,950
	381,009,935	116,770,400	1,400,000	28,631,771	(28,631,771)	(3,771,442)	(24,783,552)	(1,425,434)	469,199,907

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers received	Work in progress	community assets expensed	Depreciation	Impairment loss	Closing balance
Land	569,591	-	-	-	-	-	-	569,591
Buildings	16,963,009	-	-	-	-	(951,263)	-	16,011,746
Building under construction	30,177,112	311,914	-	-	-	-	-	30,489,026
Movable assets	9,017,400	1,195,270	-	-	-	(1,757,751)	(49)	8,454,870
Recreational facilities	20,452,490	-	-	-	-	(1,522,334)	(917)	18,929,239
Infrastructure Assets	241,610,422	-	33,400,558	-	-	(17,366,848)	(220,150)	257,423,982
Infrastructure Assets Work in Progress	57,508,395	44,763,749	-	(33,400,558)	(19,738,078)	-	-	49,133,508
	376,298,419	46,270,933	33,400,558	(33,400,558)	(19,738,078)	(21,598,196)	(221,116)	381,011,962

Pledged as security

No assets were pledged as security during the financial year:

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
8. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Buildings under construction	30,489,026	30,489,026
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
The completion of the disaster management building which mainly consists the eletrification part was delayed as a result of the contractor being unable to complete the project .	30,489,026	30,489,026
ADM has a pending claim of over R8.2 million for guarantees that were associated with the construction and completion of the Disaster Management Building .		
Based on the latest estimate , it would cost R12 Million inclusive of VAT (10 Million excluding VAT) to complete the project which will result in ADM requiring further funding of R5 Million should the pending claim materialise.		
The intention of ADM is to pursue first the pending claim R8.2 Million on gurantees which will ease the financial burden of seeking the full R12 Million . [State the reasons for delay]		
	30,489,026	30,489,026

Reconciliation of Work-in-Progress 2019

	Infrastructure assets under construction	Building under construction	Community assets under construction	Total
Opening balance	49,133,508	30,489,026	-	79,622,534
Additions/capital expenditure	111,437,209	-	3,771,442	115,208,651
community assets expensed	-	-	(3,771,442)	(3,771,442)
Transferred to completed items	(28,631,771)	-	-	(28,631,771)
	131,938,946	30,489,026	-	162,427,972

Reconciliation of Work-in-Progress 2018

	Infrastructure assets under construction	Building under construction	Total
Opening balance	57,508,395	30,177,112	87,685,507
Additions/capital expenditure	44,763,749	311,914	45,075,663
Community assets expensed	(19,738,078)	-	(19,738,078)
Transferred to completed items	(33,400,558)	-	(33,400,558)
	49,133,508	30,489,026	79,622,534

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
8. 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		
Maintenance Pipelines & Reticulation	4,051,722	4,212,744
Maintenance Plant and Machinery	570,918	1,079,192
Maintenance of resevoirs	55,580	469,575
Maintenance ponds	21,921	205,261
Vehicle maintenance	317,265	184,630
Building and Offices	369,564	143,944
Maintenance boardroom devices	14,830	1,118
Maintenance of Fencing	19,715	-
	5,421,515	6,296,464

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

Commitments

Already contracted	2019	2018
Property plant and equipment	18,182,878	127,206,000

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

9. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	6,809,997	(3,811,241)	2,998,756	6,810,000	(3,335,749)	3,474,251

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Closing balance
Computer software	3,474,251	(475,495)	2,998,756

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Closing balance
Computer software	3,949,746	(475,495)	3,474,251

Intangible assets in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of Intangible assets

Software for disaster management call center	2,832,332	2,832,332
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Carrying value of Intangible assets that is taking a significantly longer period of time to complete than expected

Software for disaster management call center	2,832,332	2,832,332
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The installation of the disaster management software is awaiting the completion of the disaster management building under construction as disclosed in note 8

	2,832,332	2,832,332
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Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand				2019	2018
10. Investments in associates					
Name of entity	Listed / Unlisted	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
uThukela Water (Pty) Ltd	Unlisted	33.00 %	33.00 %	252,229,747	266,419,632

The carrying amounts of associates are shown net of impairment losses.

The annual financial statements of Uthukela Water (Pty)ltd are prepared for the accounting period 01 July 2018 to 30 June 2019, which is the same as the Amajuba District Municipality. No loans were made to or received from the associate. No shares were sold nor acquired during the year.

With effect from 01 July 2013, the municipality took over 33.3% portion of the assets, liabilities and staff that relate to Amajuba District Municipality from uThukela Water. The municipality is therefore providing water and sanitation services as a water services provider and authority.

Movements in carrying value

Opening balance	266,419,632	292,305,499
Share of surplus/(deficit)	(14,189,885)	(25,885,867)
	252,229,747	266,419,632

11. Loans

At amortised cost

Bank loan	7,227,635	8,103,063
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The financial liability relates to DBSA loans taken over from uThukela Water which are now due and payables by Amajuba District Municipality in terms of the transfer of the water and sanitation function. These loans include interest capitalised as they were not serviced by uThukela Water.

The loans were consolidated into one loan, with fixed repayments of R764 306.92 bi-annually over a period of 10 years. The effective interest rate is 9% and the final repayment date is January 2025.

Non-current liabilities

At amortised cost	6,048,687	7,360,404
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Current liabilities

At amortised cost	1,178,948	742,659
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Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
12. Payables from exchange transactions		
Trade payables	75,451,649	67,617,747
Other creditors	48,150	54,800
Retentions	6,742,246	3,274,566
Consumer deposits	2,064,360	2,356,116
	84,306,405	73,303,229

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Water Services Infrastructure Grant- WSIG	24,657,259	32,593,602
Road Asset Management Grant	1,237,216	-
Disaster Management Grant	1,771,141	1,771,141
Councillors Training Grant	70,163	79,388
Growth and Development Summit Grant	-	300,000
Expanded Public Works Programme	-	-
	27,735,779	34,744,131

See note 22 for reconciliation of grants from National/Provincial Government.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance Bonus	584,931	-	-	(584,931)	-
Leave Provision	7,654,151	1,412,840	(818,919)	-	8,248,072
	8,239,082	1,412,840	(818,919)	(584,931)	8,248,072

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	412,126	172,805	-	584,931
Leave Provision	6,946,119	3,796,106	(3,088,074)	7,654,151
	7,358,245	3,968,911	(3,088,074)	8,239,082

Non-current liabilities	-	-	-	-
Current liabilities	-	-	8,248,072	8,239,082
	-	-	8,248,072	8,239,082

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

15. Long-term Service Awards

The Municipality offers employees LSA for every 5 years of service completed .

The most recent actuarial valuations of the post employment medical aid benefits were carried out on 6 August 2019 by Mr PetChanan Weiss , a fellow of the Actuarial Society of South Africa. The present value of the liability, and the related current service cost and past service cost, were measured using the projected unit credit method and with reference to PGN301, the relevant professional guidance of the Actuarial Society of South Africa

	2019	2018
Current portion	442,054	294,122
Non-current portion	4,253,588	4,735,586
	4,695,642	5,029,708
<hr/>		
Reconciliation of Long Service Awards Liability		
	2019	2018
Opening balance	5,029,708	4,679,345
Current-Service Cost	585,077	569,777
Interest cost	429,946	378,045
expected benefits vesting	(294,122)	(621,768)
Acturial gain/loss	(1,054,967)	24,309
	4,695,642	5,029,708

Key financial assumptions	Value p.a
Discount rate	8.26%
Inflation rate	5.60%
Net effective discount rate	2.52%

Key demographic assumptions	Value
Average retirement age	62
Mortality during employment	SA 85-90
Withdrawal from service	50%

Sensitivity Analysis of the assumptions on the Accrued Liability (R Millions)

Assumption	Change	Liability	% change
Central assumptions		4.696	
Inflation rate	+1%	5.041	7%
	-1%	4.384	-7%
Discount rate	+1%	4.377	7%
	-1%	5.056	8%
Average retirement age	-2yrs	4.303	-8%
	+2yrs	5.063	8%
Withdrawal rates	50%	5.510	17%

Sensitivity Analysis of the assumptions on the income statement

Central assumptions	Change	Current Service cost	Interest Cost	Total	% change
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Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand		2019	2018		
15. Long-term Service Awards (continued)					
Central assumptions		490,800	370 000	860 800	
Inflation rate	+1%	533 200	398 500	931 700	8%
	-1%	452 900	344 200	797 100	-7%
Discount rate	+1% _s	456 300	385 300	841 600	-2%
	-1%	529 900	351 300	881 200	2%
Average retirement age	-2yrs	451 300	337 500	788 800	-8%
	+2yrs%	523 300	398 400	921 600	7%
Withdrawal rates	50%	595 800	437 200	1 033 000	20%

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

16. Post retirement medical liabilities

The Municipality still has former employees whom were contributing towards the post-retirement medical subsidies under the defined benefit plan before the new SALGA regulations that came into effect in 2001.

The Post-Employment Medical Aid subsidy liability valuation considers all former retirees and their dependants whose participation in the health care arrangements entitles them to a post-employment medical aid subsidy.

The most recent actuarial valuations of the post employment medical aid benefits were carried out on 6 August 2019 by Mr PetChanan Weiss , a fellow of the Actuarial Society of South Africa. The present value of the liability, and the related current service cost and past service cost, were measured using the projected unit credit method and with reference to PGN301, the relevant professional guidance of the Actuarial Society of South Africa

Net liability Post retirement medical subsidy	2019	2018
Current portion	51,812	116,314
Non-current portion	562,268	1,333,236
Total liability	614,080	1,449,550

Reconciliation of Post retirement medical liability	2019	2018
Opening balance	1,449,550	1,199,716
Interest cost	127,290	103,826
Acturial gain(loss)	(846,446)	239,530
Expected payments	(116,314)	(93,522)
Subtotal	614,080	1,449,550
	614,080	1,449,550

Assumption	Value
Discount rate	8.58%
Health care cost inflation rate	6.24%
Net-of-health-care-cost-inflation discount rate	2.20%
Maximum subsidy inflation rate	4.31%
Net-of-maximum-subsidy-inflation discount rate	4.10%
Mortality post-employment	PA(90) -1 with a 1% mortality improvement p.a. from 2010

Sensitivity Analysis of the assumptions on the Accrued Liability (R Millions)

Assumption	Change	Total	% change
Central assumptions		0.614	
Health care inflation rate	+1%	0.657	7%
	-1%	0.567	-8%
Discount rate	+1%	0.567	-8%
	-1%	0.668	9%
Post-employment mortality	-1yr	0.638	4%t

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Finance lease obligation		
Minimum lease payments due		
- within one year	44,192	139,741
- in second to fifth year inclusive	-	44,192
	44,192	183,933
less: future finance charges	(1,263)	(16,575)
Present value of minimum lease payments	42,929	167,358
Present value of minimum lease payments due		
- within one year	44,192	59,200
- in second to fifth year inclusive	-	108,158
	44,192	167,358
Non-current liabilities	-	59,200
Current liabilities	42,930	108,159
	42,930	167,359

It is municipality policy to lease certain ICT equipment under finance leases.

The average lease term was 30 months and the average effective borrowing rate was 4% (2018: 4%).

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
18. Service charges		
Sale of water	23,492,535	23,493,844
Sewerage and sanitation charges	5,031,723	5,479,246
	28,524,258	28,973,090
19. Rental income		
Premises		
Premises	46,450	42,228
Venue hire	38,800	240,550
	85,250	282,778
20. Other income		
Sundry income	251,778	139,000
unutilised provision	584,931	-
	836,709	139,000
21. Interest income		
Interest revenue		
Bank	5,840,113	4,708,643
Interest charged on trade and other receivables	5,994,514	4,165,760
	11,834,627	8,874,403

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
22. Government grants and subsidies		
Operating grants		
Equitable share	127,924,783	66,837,000
Levies Replacement Grant	20,818,451	71,128,000
Municipal Infrastructure Grant	177,525	21,705,758
Shared services Grant	400,000	-
Financial Management Grant (FMG)	1,570,000	1,500,000
Skills Development Grant	182,022	139,014
Expanded Public Works Programme Integrated Grant (EPWP)	1,620,000	1,297,982
Water Services Infrastructure Grant (WSIG)	3,593,917	951,842
Road Asset Management Grant- Operating Environmental Grant	967,784	2,583,388
	-	540,983
Growth and Development Summit Grant	300,000	-
Councillors Training Grant	9,225	-
	157,563,707	166,683,967
Capital grants		
Municipal infrastructure Grants	40,075,475	20,011,242
Water Services Infrastructure Grant (WSIG)	88,742,426	36,454,557
Disaster Management Grant	-	3,228,859
Public Works (EPWP) Grants	-	524,400
	128,817,901	60,219,058
	286,381,608	226,903,025

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share and Levies Grant

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

Municipal Infrastructure Grant

Current-year receipts	40,253,000	41,717,000
Conditions met - transferred to revenue (operating)	(177,525)	(21,705,758)
Conditions met - transferred to revenue (capital)	(40,075,475)	(20,011,242)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Water Services Infrastructure Grant- WSIG

Balance unspent at beginning of year	32,593,602	-
Current-year receipts	84,400,000	70,000,000
Conditions met - transferred to revenue (operating)	(3,593,917)	(951,842)
Conditions met - transferred to revenue (capital)	(88,742,426)	(36,454,556)
	24,657,259	32,593,602

Conditions still to be met - remain liabilities (see note 13).

Shared Services Grant

Current-year receipts	400,000	-
Conditions met - transferred to revenue	(400,000)	-

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
22. Government grants and subsidies (continued)		
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Expanded Public Works Programme Integrated Grant (EPWP)		
Balance unspent at beginning of year	-	33,382
Current-year receipts	1,620,000	1,789,000
Conditions met - transferred to revenue (operating)	(1,620,000)	(1,264,600)
Conditions met transferred to revenue (operating) - approved rollover	-	(33,382)
Condition met - transferred to revenue (capital)	-	(524,400)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Rural Transport Road Grant		
Balance unspent at beginning of year	-	383,388
Current-year receipts	2,205,000	2,200,000
Conditions met - transferred to revenue	(967,784)	(2,583,388)
	1,237,216	-
Conditions still to be met - remain liabilities (see note 13).		
Cogta - Disaster Management Centre Grant		
Balance unspent at beginning of year	1,771,141	5,000,000
Current-year receipts	-	(3,228,859)
	1,771,141	1,771,141
Conditions still to be met - remain liabilities (see note 13).		
Provide explanations of conditions still to be met and other relevant information.		
Finance Management Grant		
Current-year receipts	1,570,000	1,500,000
Conditions met - transferred to revenue	(1,570,000)	(1,500,000)
	-	-
Conditions still to be met - remain liabilities (see note 13).		
Councillors Training Grant		
Balance unspent at beginning of year	79,388	79,388
Current-year receipts	(9,225)	-
	70,163	79,388
Conditions still to be met - remain liabilities (see note 13).		
Growth and Development Summit Grant		
Balance unspent at beginning of year	300,000	-
Current-year receipts	-	300,000
Conditions met - transferred to revenue	(300,000)	-

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
22. Government grants and subsidies (continued)		
	-	300,000
23. Public contributions and donations		
Public contributions and donations	1,430,000	135,100
Conditions still to be met - remain liabilities (see note 13)		
Provide explanations of conditions still to be met and other relevant information		
24. Fines, Penalties and Forfeits		
Fines and penalties	-	1,676,566

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs		
Basic	57,177,392	54,793,802
Bonus	4,251,721	4,105,517
Medical aid - company contributions	3,837,422	3,701,478
UIF and SDL	1,205,280	1,089,875
Subsistence and Travel	1,427,614	933,799
Post-retirement medical aid	-	249,834
Leave pay provision charge	1,412,839	3,796,106
Standby Allowance	1,764,767	897,440
Shift Allowance	213,192	108,726
Defined contribution plans	7,068,593	6,744,801
Post retirement medical expenses	(92,850)	(470,646)
Travel, motor car, accommodation, subsistence and other allowances	5,183,644	5,360,994
Overtime payments	6,044,109	5,056,441
Current Service Costs Long-service awards	1,427,804	(481,937)
Housing benefits and allowances	385,272	349,712
Telephone	-	1,593
Bargaining council contribution	34,566	16,567
	91,341,365	86,254,102

Included (excluded) in Employee costs are personnel costs capitalised in the conversion of Inventory

Remuneration of municipal manager

Annual Remuneration	985,303	1,054,692
Cellphone Allowance	18,000	18,000
	1,003,303	1,072,692

Remuneration of chief finance officer

Annual Remuneration	906,651	906,651
Cellphone Allowance	18,000	18,000
	924,651	924,651

Director of Engineering Services

Annual Remuneration	473,326	582,280
Car Allowance	-	114,726
Cellphone Allowance	10,500	12,000
Housing allowance and annual bonus	-	126,675
	483,826	835,681

The Director Engineering Service position was occupied for 5 months by an acting director and 7 months by a director who was appointed during the financial year.

Director of Development and Planning

Annual Remuneration	269,445	564,767
Car Allowance	115,477	173,906
Cellphone allowance	9,000	12,000
Housing allowance and annual bonus	-	49,928
	393,922	800,601

Director of Community Services

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs (continued)		
Annual Remuneration	791,034	802,260
Car Allowance	-	13,661
Cellphone allowance	18,000	18,000
Annual bonus	-	65,081
	809,034	899,002

Corporate and human resources (corporate services)

Annual Remuneration	473,326	-
Cellphone allowance	10,500	-
	483,826	-

The position of the director for Corporate and human resources was occupied during the current financial year (FY2018 the position was vacant)

26. Remuneration of councillors

Mayor	855,257	823,853
Deputy Mayor	613,285	655,902
Mayoral Committee Members	1,326,259	680,053
Speaker	206,715	312,848
Councillors	3,030,748	2,661,743
	6,032,264	5,134,399

Mayor

Mayoral allowance	816,497	807,063
Cellphone	38,760	16,790
	855,257	823,853

Deputy Mayor

Annual remuneration	653,196	643,813
Cellphone allowance	38,760	23,020
	691,956	666,833

Speaker

Annual remuneration	194,718	301,256
Cellphone allowance	11,997	11,592
	206,715	312,848

In-kind benefits

The Executive Mayor, Deputy 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 has use of a Council owned vehicle for official duties and has four full time driver/bodyguards.

Deputy Mayor has two full time driver/bodyguards.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
27. Depreciation and amortisation		
Property, plant and equipment	24,257,426	22,126,893
Intangible assets	1,000,716	254,379
	25,258,142	22,381,272
Included (Excluded) in Depreciation is costs capitalised in the conversion of inventory		
28. Impairment of assets		
Impairments		
Property, plant and equipment	1,425,434	221,116
Inventories	62,060	880,783
inventory was written down to lower of cost and net realisable value		
Trade and other receivables	1,152,166	-
A provision for irrecoverable debts due to an industrial action by the Municipal staff against the deduction of standby allowances that were paid in advance..]		
	2,639,660	1,101,899
Sensitivity of key assumptions		
29. Finance costs		
Interest expense	1,337,778	2,031,626
30. Lease rentals on operating lease		
Equipment		
Contractual amounts	240,217	160,309
31. Debtors impairment		
Debtors impairment	21,114,444	26,937,822
The debt impairment indicated above includes impairments of exchange and non-exchange receivables ; and consumer debtors		
32. Bulk purchases		
Water	16,936,958	17,906,817
Included (excluded) in Bulk purchases are costs capitalised in the conversion of inventory		
33. Contracted services		
VIP Desludging	3,587,000	3,623,684
Water Tanker Service	16,323,064	13,105,767
Security Services	6,334,414	4,670,345
Pest control and hygiene service	235,161	85,703
Consultants and Professional Services		
Legal Cost	328,646	7,107
	26,808,285	21,492,606

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
34. General expenses		
Advertising	105,080	75,776
Arts and Culture	266,632	13,820
Assessment rates & municipal charges	566,761	639,511
Audit committee costs	567,931	326,808
Auditors remuneration	4,126,672	2,554,705
Bank charges	247,879	94,208
Budget & IDP roadshows	118,770	265,343
Call centre management	-	1,337,292
Chemicals	731,602	1,552,755
Cleaning	76,345	46,319
Commission paid	319,224	-
Community assets	3,771,442	19,738,078
Community programs	183,491	6,038
Conferences and seminars	70,529	5,999
Consulting and professional fees	5,964,024	3,573,869
Consumables	70,007	188,589
Debt collection	29,580	45,340
Disaster management programmes	101,363	140,950
Electricity	6,470,104	6,531,228
Entertainment	19,802	6,376
Environmental Management	493,700	761,650
Fleet - Fuel and oil	2,759,451	2,450,983
HIV/AIDS Plan Implementation	34,798	32,698
HPCSA Registration fees	7,608	6,720
IT expenses	1,976,032	1,813,071
Insurance	900,652	750,419
Magazines, books and periodicals	44,839	1,378
Pathological Sampling	18,962	9,324
Postage and courier	695,151	675,316
Pre-paid expense	-	851,987
Printing and stationery	130,418	148,260
Project initiation	420,439	182,322
Promotions and Marketing	85,385	51,615
Protective clothing	250,057	205,795
Repairs and maintenance	5,421,519	6,294,518
Road asset management	-	2,255,898
Royalties and license fees	877,265	701,773
Sports Development Programme	946,066	438,904
Staff welfare	102,767	70,105
Subscriptions and membership fees	861,094	793,016
Telephone and fax	907,724	766,035
Town planning support	-	695,543
Training	312,056	66,486
Travel - local	314,261	392,431
Water Analysis	6,528	10,489
Youth Programmes	113,318	3,409
	41,487,328	57,573,149

Included (excluded) in the general expenses costs capitalised in the conversion of Inventory

35. Auditors' remuneration

Fees	4,126,672	2,554,705
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Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
36. Cash generated from operations		
Surplus (deficit)	83,607,539	(139,745)
Adjustments for:		
Depreciation and amortisation	25,258,142	22,381,272
Share of equity	14,189,885	25,885,867
Impairment of assets	2,639,660	1,101,899
Debt impairment	21,114,444	26,937,822
Movements in provisions	8,990	1,292,963
Current service cost -post retirement liabilities	585,077	-
past service cost - post retirement liabilities	1,136,849	-
Interest costs -Long service awards liabilities	429,946	-
Interest costs - Post retirement medical liabilities	127,290	-
unreliaed vested benefits	(410,436)	-
increase in leave provision	1,412,840	-
reversal of bonus provision	(584,931)	-
Donated assets	1,400,000	-
Other cashflows	(3,684,511)	(10,752,881)
Changes in working capital:		
Inventories	(15,546)	7,545,477
Receivables from exchange transactions	96,979	(813,138)
Consumer debtors	(18,798,694)	(14,598,039)
Payables from exchange transactions	7,833,905	(465,188)
VAT	(242,076)	(2,888,785)
Unspent conditional grants and receipts	(34,744,131)	(6,055,390)
Retentions	3,467,680	(1,730,065)
	104,828,901	47,702,069
37. Commitments		
Authorised capital expenditure		
Already contracted		
• Property, plant and equipment	18,182,878	127,206,000
Total capital commitments		
Already contracted for	18,182,878	127,206,000

This committed expenditure relates to property and will be financed by government grants, retained surpluses, existing cash resources, and funds internally generated.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
38. Contingencies		
39. Related parties		
Relationships		
Controlled entities		
	Amajuba Development Agency (Proprietary) Limited: Amajuba Economic Development Agency (Pty) Ltd was registered in December 2014. This entity is fully owned and controlled by Amajuba DM. The agency is currently not carrying on business and has no assets and liabilities.	
Associates		
	uThukela Water (Proprietary) Limited The entity, uThukela Water (Pty) Ltd, is jointly owned and controlled by Amajuba DM, Newcastle LM and uMzinyathi DM and supplies the municipality with bulk water services: Refer to note 10	
Related party balances		
Amounts included in Trade receivable (Trade Payable) regarding related parties		
uThukela Water (Proprietary) Limited	33,085,238	29,664,174
Related party transactions		
Purchases from (sales to) related parties		
uThukela Water (Proprietary) Limited	16,825,018	18,052,392

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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40. Prior period errors

Property, plant and equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Accumulated impairment Consumer debtors	-	(15,239,631)
Consumer Debtors	-	1,574,780
Consumer deposits	-	(1,574,780)
Inventory	-	(776,841)
Post Retirement Liability	-	10,674,860
Retained earnings	-	(8,872,860)
Property , Plant and equipment (Infrastructure Assets)	-	(10,348,794)
Accumulated depreciation	-	307,582
Retained earnings	-	10,041,212

Statement of financial performance

Debt Impairment	-	15,239,631
Employee cost	-	(1,801,837)
impairment loss- inventory	-	776,841

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

41. 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:

Consumer debtors

Consumer debtors were understated by overpayments that were netting-off against the aging. Credit balances were reclassified to consumer deposit received.

Net -consumer debtors for the prior year were re-estimated using a Grap 104 compliant model which resulted in a further impairment.

Inventory

A correction was made during the prior year to account inventory based on the periodic inventory model. .

Post retirement Medical liabilities

A correction was made to reverse a provision for eligible staff members whom were included in the 2017 financial year actuarial valuations.

Property , Plant and Equipment

Infrastructure assets - A correction was made to write-off a project that was incorrectly capitalised in the 2015/2016 financial year relating to Buffalo Flats Water Conversation and demand project .Expenditure incurred was not of capital in nature.

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories		839,149	(776,841)	-	62,308
Consumer debtors		17,779,954	(15,239,631)	1,574,780	4,115,103
Post retirement medical liabilities		12,124,247	(1,801,837)	(8,872,860)	1,449,550
Consumer deposits		(781,336)	(1,574,780)	-	(2,356,116)
Property , Plant and Equipment (Infrastructure Assets)		267,465,194	(10,041,212)	-	257,423,982
		297,427,208	(29,434,301)	(7,298,080)	260,694,827

2019

Statement of financial performance

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

41. Prior-year adjustments (continued)

Change in accounting policy

The following change in accounting policies occurred:

Change 1

Inventory Policy

The Municipality changed retrospectively the inventory accounting policy from weighted average to first in first out method (FIFO) as part of the correction the prior period error adjustments of the inventory balance. This was due to the fact that the Municipality does not have a system in place to maintain accurately a moving average costs for the current and prior financial years when performing costing of inventory .

The effects of changes in accounting policy were retrospectively corrected through a correction of an error in note 40 due to the that Municipality was not compliant with GRAP 12 in the prior years.

42. Risk management

Financial risk management

Liquidity risk

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

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

The table below summarises the maturity of liabilities.

As at 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	921,160	1,006,022	3,609,092	1,431,194
Payables from exchange transactions	84,306,406	-	-	-
	85,227,566	1,006,022	3,609,092	1,431,194

As at 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	742,659	921,160	3,304,648	2,741,661
Finance lease obligation	59,200	108,159	-	-
Payables from exchange transactions	73,303,221	-	-	-
	74,105,080	1,029,319	3,304,648	2,741,661

Market risk

Interest rate risk

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

43. Going concern

As at June 30, 2019, the municipality had an accumulated surplus of R673 145 338 (FY 2018 -R589 579 436) and that the municipality's current liabilities exceed its assets by R 39 282 184 (FY2018 - 47 839 601

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

43. Going concern (continued)

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the Provincial and Governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality..

44. Events after the reporting date

1.The application of roll overs for conditional grants disclosed by the Municipality in note 13 of the financials was not approved by the Treasury Department of South Africa.

45. Unauthorised expenditure

Opening balance	629,339,543	612,265,650
Unauthorised expenditure current year/Prior year as reported	14,597,558	40,556,705
Prior period error adjustment	-	(23,482,812)
	643,937,101	629,339,543

Unauthorised expenditure mainly consists of employee costs is attributable to of overtime, pension fund contributions as well as the acting allowances for directors that were not initially budgetted

The process of investigating unauthorised expenditure of R629 Million relating to prior years in currently underway as required by S32 of the MFMA.t

46. Fruitless and wasteful expenditure

Opening balance	2,131,447	1,926,271
Fruitless and wasteful expenditure-current year	142,277	205,176
	2,273,724	2,131,447

Fruitless and wasteful expenditure relates mainly to penalties incurred because of late payments, reconnection charges and interest charges on overdue accounts as well as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

The municipality maintains a register containing all fruitless expenditure incurred.

Fruitless and wasteful expenditure incuree	Interest on overdue accounts	Total
Eskom	40,061	40,061
Telkom	9,081	9,081
Newcastle Municipal	12,794	12,794
Auditor General	18,181	18,181
Department of Transport	3,102	3,102
Others	59,059	59,059
	142,278	142,278

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
47. Irregular expenditure		
Opening balance	64,233,643	50,896,237
Add: Irregular Expenditure - current year	15,455,654	2,717,002
Closing Balance as previously reported	-	53,613,239
Prior period error adjustments		
FBL Security overpayment of the contract amount	-	10,620,404
	79,689,297	64,233,643

Analysis of expenditure awaiting condonation per age classification

Current year	15,455,654	-
2017/18 Financial year	13,337,406	13,337,406
2016/17 Financial years & other prior years	50,896,237	50,896,237
	79,689,297	64,233,643

Details of irregular expenditure – current year

Supplier	Matter	
		-
Royal Hosking Dhv - contract for engineering consulting services	Normal supply chain policies not followed	10,941,905
Mi7 Security Intelligence - Mayoral VIP protection security services	Normal supply chain policies not followed	525,000
Aves cyber security - Supply of software	Normal supply chain policies not followed	84,470
Purangie Enterprise - removal of existing faulty meters and installation of new domestic and bulk meters.	Normal supply chain policies not followed	442,953
Mi7 Security Intelligence - Mayoral VIP protection security services	Normal supply chain policies not followed	175,950
Expenditure to date incurred on a identified irregular contract for Markert demand	Normal supply chain policies not followed	2,952,451
Appointment of Sebata Municipal Solutions through deviation of Normal SCM procedures	Normal supply chain policies not followed	138,000
Improchem (PTY) LTD	Normal supply chain policies not followed	194,925
		15,455,654

Details of irregular expenditure condoned

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48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	631,141	845,780
Amount paid - current year	(631,141)	(845,780)
	-	-

Audit fees

Current year subscription / fee	4,126,672	2,554,705
Amount paid - current year	(4,126,672)	(2,554,705)
	-	-

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
48. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE and UIF		
Current year subscription / fee	5,981,666	15,992,309
Amount paid - current year	(5,981,666)	(15,992,309)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	10,580,346	10,100,461
Amount paid - current year	(10,580,346)	(10,100,461)
	-	-
VAT		
VAT receivable	9,233,799	8,991,723

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

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

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

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.

Supply chain maintains a deviation register of all approvals.

Deviations submitted and approved

Sache & Associates		9,500
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Exceptional case where it is impractical to follow the official procurement processes: Sachs & Associates was appointed for the Mi2 project and has been asked to conduct a workshop as part of reviving the project.

Market Demand		99,084
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Exceptional case where it is impractical to follow the official procurement processes: The municipality requires the professional services to update GRAP compliant fixed asset register for 2017/2018 financial year covering: work-in progress of immovable assets, verification of immovable assets, verification of movable assets, property register, financials and audit support. Market Demand is currently the service provider for fixed asset register system used by ADM.
Ntshosho Group

		220,800
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An Emergency: Ntshosho Group is currently appointed by ADM to assist IT with Audit and policy compliance. The ADM IT staff capacity has since decreased following the resignation of an IT support staff and the Chief Technologist Officer has since fallen ill for an extended period. Ntshosho Group has been requested to urgently provide resources because there is currently no IT support

Daddy Cool (Pty) Ltd		76,676
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Exceptional case where it is impractical to follow the official procurement processes: The services will require service providers to strip and quote and that process will have further cost implications to the municipality and there is also a risk of more damages on the air conditioners when they are stripped by all service providers.

Data Tegra		68,754
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Exceptional case where it is impractical to follow the official procurement processes: The contract for the Mimecast Services has run its course and the Municipality has decided not to renew it. The data that has been achieved by Mimecast must be obtained from the service provider. This is therefore a situation in which the standard procurement cannot be followed since the service can only be obtained from the incumbent service provider – Data Tegra.

Arch Actuarial Consulting		10,925
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The goods or services are procured or available from a single provider only: ARCH Actuarial Consulting is the service provider appointed to do GRAP 25 actuary report for 2016/2017 AFS. The service provider is required to recalculate 2016/2017 report using the method that was used to calculate 2017/2018 for comparative reasons. The same service provider was appointed to do 2017/2018 report and this deviation is based on the awarded quote

Wetspec		641,691
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An Emergency: ADM website had a problem, adverts could not be posted. Not all bidders were able to access the request for quotation. Due to the low stock of chemicals in the plants, SCM process could not be followed for the second time. A deviation was processed to buy a three months stock while SCM is busy with the process of appointing a service provider for a period of three years. Lack of Chemicals would have resulted in the municipality being unable to provide clean water to its residents.

Amajuba District Municipality

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
48. Additional disclosure in terms of Municipal Finance Management Act (continued)		
TM Guest Lodge		75,600
<p>Exceptional case where it is impractical to follow the official procurement processes: The SCM process was followed, the request for quotation was advertised on 06 September 2018 and it closed on 14 September 2018. No bidders responded to the request. It is no surprise that bidders did not respond as it is difficult to find accommodation in a hosting district. TM Lodge was the only available venue that could accommodate 11 councillors</p>		
Abatafazi Suppliers		197,500
<p>Exceptional case where it is impractical to follow the official procurement processes: The requisition for the procurement of SALGA games 2018 tracksuits and caps could not be completed because the community services department embarked on a fundraising exercise to cover the costs SALGA game clothing. The fundraising campaign did not yield positive results and the potential donors took long to respond to the request and some donors did not respond at all. The service provider who committed to assisting the municipality with tracksuits declined the request on 04 December 2018.</p>		
		1,400,530

49. Water losses

Water losses are as follows:

Units lost (KI)	2,674,549	2,705,867
Water losses as a %		
Water Losses %	43	43
Annual purified water produced (KI)	6,291,528	6,355,563

Water losses is 43% for 2019 (2018: 43%). This is above the norm ranging from 15% to 30% according to MFMA circular 71. The municipality is faced with aging infrastructure with minimal repair and maintenance funds.

Also noted are unauthorised consumptions consisting of illegal connections, meter bypass and illegal uses of fire hydrant were noted as apparent losses, furthermore customer meter inaccuracy due to old meter and intermittent water supply were also reason for the losses. Human error from manual reading and capturing of data resulted in meter reading errors, data handling and accounting errors