Kgetlengrivier Local Municipality

Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Local municipality in terms of the Municipal Structures Act (Act 117 of 1998) and Section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Provision of municipal services as mandated by all enabling legislation
Legislation governing the municipality's operations	Municipal Finance Management Act (Act no.56 of 2003) Municipal Structures Act (Act 117 of 1998) Constitution of the Republic of south Africa (Act 108 of 1998) Municipal Property Rates Act (act 6 of 2004) Division of Revenue Act (Act 1 of 2007)
Mayoral committee	
Executive Mayor	Cllr AA Salaledi (Mayor and speaker)
Councillors	Cllr ME Doyi Cllr MB Bhoola (Chairperson of Community Safety and Transport) Cllr TG Naledi Cllr OS Molusi (Chief whip Infrastructure) Cllr JP Snyman Cllr N Sole (Chairperson MPAC) Cllr D Ramoenyane Cllr A Molefe Cllr LD Modisane Cllr TC Jacobs (Chairperson Finance) Cllr BO Mogale Cllr BC Mokone Cllr I Chirwa
Grading of local authority	Grade 2
Accounting Officer	Mr Joseph Mogale
Chief Finance Officer (CFO)	Mr Sipho Ngwenya
Registered office	Kgetlengrivier Local Municipality Corner Smuts and Deewet Street Koster 0348
Business address	Kgetlengrivier Local Municipality Corner Smuts and Deewet Street Koster 0348
Postal address	Kgetlengrivier Local Municipality Corner Smuts and Deewet Street Koster 0348
Bankers	ABSA
Category	B
Municipal demarcation code	NW374

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
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 (Previously CMIP)
FMG	Financial Management Grant
EPWP	Expanded Public Works Program

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 68, which have been prepared on the going concern basis, were approved by the accounting officer on 26 February 2021 and were signed on its behalf by:

Accounting Officer
Mr Joseph Mogale

Accounting Officer's Report

The accounting officer submits their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in provision of municipal services as mandated by all enabling legislation and operates principally in South Africa.

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

Net deficit of the municipality was R 161 887 834 (2019: deficit R 27 686 030).

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, 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.

5. Accounting Officer

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

Name	Nationality
Mr Joseph Mogale	South African

6. 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.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

7. Auditors

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

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	5	322 139	49 999 607
Other receivables from exchange transactions	6&10	3 072 096	3 132 335
Receivables from non-exchange transactions	7&10	6 459 298	9 724 273
VAT receivable	8	23 992 614	795 973
Receivables from exchange transactions	9	29 272 344	68 985 054
Cash and cash equivalents	11	5 873 921	2 738 966
		68 992 412	**135 376 208**
Non-Current Assets			
Investment property	3	36 689 000	37 565 000
Property, plant and equipment	4	575 556 674	596 220 209
		612 245 674	**633 785 209**
Total Assets		**681 238 086**	**769 161 417**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	320 860 350	244 785 818
Consumer deposits	15	1 985 964	1 975 246
Unspent conditional grants and receipts	12	8 459 206	10 200 000
Employee benefit obligations and provisions	13	23 579 640	24 137 224
Unidentified deposits		774 423	774 423
		355 659 583	**281 872 711**
Non-Current Liabilities			
Employee benefit obligations and provisions	13	20 195 733	18 807 538
Other financial iability		16 301 000	16 301 000
		36 496 733	**35 108 538**
Total Liabilities		**392 156 316**	**316 981 249**
Net Assets		**289 081 770**	**452 180 168**
Accumulated surplus		289 081 770	452 180 168

* See Note 37 & 36

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	54 836 242	49 220 848
Rental of facilities and equipment	18	155 985	56 647
Interest received consumer debtors		12 412 607	14 801 422
Licences and permits		3 596 123	11 941 164
Miscellaneous other revenue		282 135	236 253
Interest received - investment	19	176 763	81 975
Total revenue from exchange transactions		**71 459 855**	**76 338 309**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	7 956 105	7 325 475
Transfer revenue			
Government grants & subsidies	21	113 838 794	132 808 202
Fines, Penalties and Forfeits		32 684 500	7 208 000
Total revenue from non-exchange transactions		**154 479 399**	**147 341 677**
Total revenue	16	**225 939 254**	**223 679 986**
Expenditure			
Employee related costs	22	(67 223 020)	(65 812 131)
Remuneration of councillors	23	(5 658 620)	(5 634 392)
Depreciation and amortisation	24	(27 899 107)	(23 434 217)
Finance costs	25	(15 791 367)	(8 616 831)
Lease rentals on operating lease		(10 369 382)	(13 601 997)
Debt Impairment	26	(90 951 923)	(36 837 190)
Repairs and maintenance		(5 113 486)	(5 918 252)
Bulk purchases	27	(34 222 599)	(30 478 717)
Contracted services	28	(54 512 580)	(32 883 327)
General Expenses	29	(28 351 759)	(27 300 941)
Total expenditure		**(340 093 843)**	**(250 517 995)**
Operating deficit		**(114 154 589)**	**(26 838 009)**
Gain (loss) on disposal of assets and liabilities		69 153	(848 021)
Inventories losses/write-downs		(47 802 398)	-
		(47 733 245)	**(848 021)**
Deficit for the year		**(161 887 834)**	**(27 686 030)**

* See Note 37 & 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**479 866 198**	**479 866 198**
Changes in net assets		
Surplus for the year	(27 686 030)	(27 686 030)
Total changes	(27 686 030)	(27 686 030)
Opening balance as previously reported	452 180 171	452 180 171
Adjustments		
Prior year adjustments	(1 210 567)	(1 210 567)
Restated* Balance at 01 July 2019 as restated*	**450 969 604**	**450 969 604**
Changes in net assets		
Surplus for the year	(161 887 834)	(161 887 834)
Total changes	(161 887 834)	(161 887 834)
Balance at 30 June 2020	**289 081 770**	**289 081 770**

Note(s)

* See Note 37 & 36

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates		7 956 105	7 325 475
Sale of goods and services		40 057 002	51 063 887
Grants		148 047 475	137 013 068
Interest income - investments		176 763	81 975
		196 237 345	195 484 405
Payments			
Employee costs		(72 881 640)	(71 446 523)
Suppliers		(96 928 400)	(34 207 645)
Finance costs		(15 791 367)	(8 616 831)
		(185 601 407)	(114 270 999)
Net cash flows from operating activities	31	**10 635 938**	**81 213 406**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(25 929 839)	(68 500 288)
Proceeds from sale of property, plant and equipment	4	230 907	3 950 865
Property plant and equipment other movements		18 197 949	(16 580 302)
Net cash flows from investing activities		**(7 500 983)**	**(81 129 725)**
Cash flows from financing activities			
Movement in other financial iability		-	(30 000)
Net increase/(decrease) in cash and cash equivalents		**3 134 955**	**53 681**
Cash and cash equivalents at the beginning of the year		2 738 966	2 685 285
Cash and cash equivalents at the end of the year	11	**5 873 921**	**2 738 966**

* See Note 37 & 36

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	57 462 000	-	**57 462 000**	54 836 242	**(2 625 758)**	46
Rental of facilities and equipment	226 000	-	**226 000**	155 985	**(70 015)**	46
Interest received (trading)	18 936 000	-	**18 936 000**	12 412 607	**(6 523 393)**	
Licences and permits	9 731 000	-	**9 731 000**	3 596 123	**(6 134 877)**	46
Miscellaneous other revenue	-	-	**-**	282 135	**282 135**	46
Interest received - investment	53 000	-	**53 000**	176 763	**123 763**	46
Gains on disposal of assets	16 293 000	-	**16 293 000**	-	**(16 293 000)**	46
Total revenue from exchange transactions	**102 701 000**	**-**	**102 701 000**	**71 459 855**	**(31 241 145)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8 416 000	-	**8 416 000**	7 956 105	**(459 895)**	
Transfer revenue						
Government grants & subsidies	95 612 000	30 900 000	**126 512 000**	113 838 794	**(12 673 206)**	46
Fines, Penalties and Forfeits	36 820 000	-	**36 820 000**	32 684 500	**(4 135 500)**	46
Total revenue from non-exchange transactions	**140 848 000**	**30 900 000**	**171 748 000**	**154 479 399**	**(17 268 601)**	
Total revenue	**243 549 000**	**30 900 000**	**274 449 000**	**225 939 254**	**(48 509 746)**	
Expenditure						
Personnel	(55 975 000)	(6 912 000)	**(62 887 000)**	(67 223 020)	**(4 336 020)**	46
Remuneration of councillors	(4 136 000)	-	**(4 136 000)**	(5 658 620)	**(1 522 620)**	46
Depreciation and amortisation	(46 229 000)	-	**(46 229 000)**	(27 899 107)	**18 329 893**	46
Finance costs	(1 561 000)	-	**(1 561 000)**	(15 791 367)	**(14 230 367)**	46
Lease rentals on operating lease	-	-	**-**	(10 369 382)	**(10 369 382)**	46
Debt Impairment	(19 000 000)	-	**(19 000 000)**	(90 951 923)	**(71 951 923)**	46
Repairs and maintenance	-	-	**-**	(5 113 486)	**(5 113 486)**	46
Bulk purchases	(30 561 000)	-	**(30 561 000)**	(34 222 599)	**(3 661 599)**	46
Contracted Services	(6 387 000)	-	**(6 387 000)**	(54 512 580)	**(48 125 580)**	46
General Expenses	(57 032 000)	(9 442 000)	**(66 474 000)**	(28 351 759)	**38 122 241**	46
Total expenditure	**(220 881 000)**	**(16 354 000)**	**(237 235 000)**	**(340 093 843)**	**(102 858 843)**	
Operating deficit	**22 668 000**	**14 546 000**	**37 214 000**	**(114 154 589)**	**(151 368 589)**	
Gain on disposal of assets and liabilities	-	-	**-**	69 153	**69 153**	46
Inventories losses/write-downs	-	-	**-**	(47 802 398)	**(47 802 398)**	
	-	**-**	**-**	**(47 733 245)**	**(47 733 245)**	
Deficit before taxation	**22 668 000**	**14 546 000**	**37 214 000**	**(161 887 834)**	**(199 101 834)**	
Transfer and subsidies - capital	(25 847 000)	-	**(25 847 000)**	-	**25 847 000**	46

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**48 515 000**	**14 546 000**	**63 061 000**	**(161 887 834)**	**(224 948 834)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	44 872 000	-	**44 872 000**	322 139	**(44 549 861)**	46
Other receivables from exchange transactions	-	-	**-**	3 072 096	**3 072 096**	46
Receivables from non-exchange transactions	-	-	**-**	6 459 298	**6 459 298**	46
VAT receivable	-	-	**-**	23 992 614	**23 992 614**	46
Consumer debtors	177 028 000	-	**177 028 000**	29 272 344	**(147 755 656)**	46
Cash and cash equivalents	2 550 000	-	**2 550 000**	5 873 921	**3 323 921**	46
	224 450 000	**-**	**224 450 000**	**68 992 412**	**(155 457 588)**	
Non-Current Assets						
Investment property	28 511 000	-	**28 511 000**	36 689 000	**8 178 000**	46
Property, plant and equipment	545 495 000	-	**545 495 000**	575 556 674	**30 061 674**	46
	574 006 000	**-**	**574 006 000**	**612 245 674**	**38 239 674**	
Total Assets	**798 456 000**	**-**	**798 456 000**	**681 238 086**	**(117 217 914)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	99 640 000	30 900 000	**130 540 000**	320 860 350	**190 320 350**	46
Consumer deposits	1 892 000	-	**1 892 000**	1 985 964	**93 964**	
Unspent conditional grants and receipts	-	-	**-**	8 459 206	**8 459 206**	46
Employee benefit obligations and provisions	20 471 000	-	**20 471 000**	23 579 640	**3 108 640**	46
Unidentified deposits	-	-	**-**	774 423	**774 423**	
	122 003 000	**30 900 000**	**152 903 000**	**355 659 583**	**202 756 583**	
Non-Current Liabilities						
Employee benefit obligations and provisions	14 982 000	-	**14 982 000**	20 195 733	**5 213 733**	46
Other financial iability	-	-	**-**	16 301 000	**16 301 000**	46
	14 982 000	**-**	**14 982 000**	**36 496 733**	**21 514 733**	
Total Liabilities	**136 985 000**	**30 900 000**	**167 885 000**	**392 156 316**	**224 271 316**	
Net Assets	**661 471 000**	**(30 900 000)**	**630 571 000**	**289 081 770**	**(341 489 230)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	661 471 000	(30 900 000)	**630 571 000**	289 081 770	**(341 489 230)**	46

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 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:

Allowance for slow moving, damaged and obsolete stock

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

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 13 - Provisions.

Useful lives of waste and water network and other assets

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

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

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

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

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

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

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

Accounting Policies

1.2 Investment property (continued)

Fair value

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

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

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

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

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

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

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 4).

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment 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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	50 years
Furniture and fixtures	Straight line	5-7 years
Motor vehicles	Straight line	4-10 years
Office equipment	Straight line	5-7 years
Infrastructure roads	Straight line	100 years
Community buildings	Straight line	50 years
Pavings	Straight line	50 years
Water infrastructure	Straight line	100 years
Electricity infrastructure	Straight line	45 years
Recreational facilities	Straight line	50 years
Security halls	Straight line	5 years
Specialised plant and equipment	Straight line	15 years

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.4 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.

Accounting Policies

1.4 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Licenses and franchises	Straight line	3 years
Computer software	Straight line	3 years

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

1.5 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

- equity instruments or similar forms of unitised capital;

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

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 equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	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
Bank overdraft	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non exchange transactions	Financial liability measured at amortised cost
Other long term liabilities	Financial liability measured at amortised cost

Initial recognition

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

Accounting Policies

1.5 Financial instruments (continued)

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].

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

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

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

Gains and losses

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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.

Accounting Policies

1.5 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 continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

Accounting Policies

1.5 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.

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

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

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

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

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

1.6 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Accounting Policies

1.6 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;

Accounting Policies

1.6 Statutory receivables (continued)

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.7 Leases

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

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

Operating leases - 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.

1.8 Inventories

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

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

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

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

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

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

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

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

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

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

1.9 Impairment of cash-generating assets

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Accounting Policies

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

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

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

Identification

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

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

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

Value in use

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

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

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.

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

1.11 Employee benefits

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.11 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.12 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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.

Accounting Policies

1.14 Revenue from exchange transactions (continued)

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.

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

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

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

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

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

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

Accounting Policies

1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Fines

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

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

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

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 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.

Accounting Policies

1.19 Unauthorised expenditure (continued)

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.

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 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 functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

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

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

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

Comparative information is not required.

1.23 Related parties

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

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

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

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

Accounting Policies

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.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land	01 April 2019	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements
• GRAP 20: Related parties	01 April 2017	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

3. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36 689 000	-	36 689 000	37 565 000	-	37 565 000

Reconciliation of investment property - 2020

	Opening balance	**Other changes, movements**	**Fair value adjustments**	**Total**
Investment property	37 565 000	(1 998 000)	1 122 000	36 689 000

Reconciliation of investment property - 2019

	Opening balance	**Fair value adjustments**	**Total**
Investment property	33 511 000	4 054 000	37 565 000

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.

Figures in Rand	2020	2019

3. Investment property (continued)

Details of valuation

The effective date of the revaluations was Tuesday, 30 June 2020. Revaluations were performed by independent valuers JB consultants that are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	155 985	56 647

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	157 034 010	(61 193 374)	95 840 636	159 161 973	(47 485 201)	111 676 772
Infrastructure	857 434 308	(452 300 231)	405 134 077	879 417 188	(469 165 399)	410 251 789
Community	56 890 698	(40 114 271)	16 776 427	55 657 698	(39 007 094)	16 650 604
Movable plant and equipment	73 086 763	(15 281 229)	57 805 534	71 984 554	(14 343 510)	57 641 044
Total	**1 144 445 779**	**(568 889 105)**	**575 556 674**	**1 166 221 413**	**(570 001 204)**	**596 220 209**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land and Buildings	111 676 772	-	-	(13 818 388)	(2 017 675)	(73)	95 840 636
Infrastructure	410 251 789	25 096 839	(161 754)	(7 975 871)	(21 895 601)	(181 325)	405 134 077
Community	16 650 604	833 000	-	568 320	(1 265 667)	(9 830)	16 776 427
Movable plant and equipment	57 641 044	-	-	2 874 654	(2 710 164)	-	57 805 534
	596 220 209	**25 929 839**	**(161 754)**	**(18 351 285)**	**(27 889 107)**	**(191 228)**	**575 556 674**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land and Buildings	113 688 028	-	-	25 723	-	(2 036 979)	111 676 772
Infrastructure	382 696 107	68 500 288	(4 798 886)	(16 477 804)	(19 667 916)	-	410 251 789
Community	18 084 682	-	-	(56 234)	(1 377 844)	-	16 650 604
Movable property plant and equipment	41 528 949	-	-	18 500 552	(2 388 457)	-	57 641 044
	555 997 766	**68 500 288**	**(4 798 886)**	**1 992 237**	**(23 434 217)**	**(2 036 979)**	**596 220 209**

Figures in Rand	2020	2019

4. 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		
Community assets	833 000	400 000
Infrastructure	25 096 839	68 500 288
	25 929 839	**68 900 288**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	**Included within community**	**Total**
Opening balance	54 554 391	400 000	54 954 391
Additions/capital expenditure	25 096 839	833 000	25 929 839
Transferred to completed items	(12 535 500)	-	(12 535 500)
	67 115 730	**1 233 000**	**68 348 730**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	**Included within Community assets**	**Total**
Opening balance	36 529 521	400 000	36 929 521
Additions/capital expenditure	68 500 288	-	68 500 288
Transferred to completed items	(50 475 417)	-	(50 475 417)
	54 554 392	**400 000**	**54 954 392**

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		
Contracted services	20 997 169	10 557 273
Repairs and maintenance	4 944 474	5 918 252
	25 941 643	**16 475 525**

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.

5. Inventories

Water	54 720	70 781
Materials and supplies	265 950	465 705
Land held for sale	1 469	49 463 121
	322 139	**49 999 607**

Inventories write-down recognised as expenses	47 802 398	-
Inventories recognised as an expense during the year	1 370 365	-

The municipality held vacant land that has been earmarked for use to consruct RDP houses in the prior years. These houses and the land will be transferred to beneficiaries at no monetary value, the related land has thus been written down to nil net realisable value in compliance with GRAP standards.

Figures in Rand	2020	2019

6. Other receivables from exchange transactions

Other receivables	3 072 096	3 132 335

Trade and other receivables pledged as security

No trade and other receivables were pledged as security.

Credit quality of trade and other receivables

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

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2020, R 3 072 096 (2019: R 3 132 335) were past due but not impaired.

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

1 month past due	3 072 096	3 132 335

Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 2 772 265 (2019: R 2 166 602) were impaired and provided for.

The amount of the provision was R 2 772 265 as of 30 June 2020 (2019: R 2 166 602).

The ageing of these loans is as follows:

Over 6 months	2 772 265	2 166 602

7. Receivables from non-exchange transactions

Fines	2 023 976	1 792 246
Other receivables from non-exchange revenue	191 054	231 193
Consumer debtors - Rates	4 244 268	7 700 834
	6 459 298	**9 724 273**

Receivables from non-exchange transactions pledged as security

There were no receivables from non exchange transactions that were pledged as security.

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 45 219 869 (2019: R 37 971 693) were impaired and provided for.

The amount of the provision was R 45 219 869 as of 30 June 2020 (2019: R 37 971 693).

The ageing of these loans is as follows:

1 to 3 months	124 364	-
Over 3 months	45 095 504	37 971 693

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. VAT receivable

VAT	23 992 614	795 973

9. Receivables from exchange transactions: consumer receivables

Gross balances		
Electricity	37 836 992	34 452 556
Water	48 960 456	43 491 228
Sewerage	21 388 033	18 069 416
Refuse	13 340 625	12 070 429
Interest receivable consumer debtors	103 996 731	105 489 634
	225 522 837	**213 573 263**
Less: Allowance for impairment		
Electricity	(18 003 434)	(10 173 973)
Water	(46 500 185)	(15 367 962)
Sewerage	(19 016 871)	(15 779 258)
Refuse	(12 539 166)	(10 478 075)
Interest receivable consumer debtors	(100 190 837)	(92 788 941)
	(196 250 493)	**(144 588 209)**
Net balance		
Electricity	19 833 558	24 278 583
Water	2 460 271	28 123 266
Sewerage	2 371 162	2 290 158
Refuse	801 459	1 592 354
Interest receivable consumer debtors	3 805 894	12 700 693
	29 272 344	**68 985 054**
Electricity		
Current (0 -30 days)	21 543 789	(486 925)
31 - 60 days	219 231	281 775
61 - 90 days	217 100	356 715
91 - 120 days	213 353	329 554
+121 days	(2 359 915)	23 797 464
	19 833 558	**24 278 583**
Water		
Current (0 -30 days)	331 835	906 019
31 - 60 days	364 377	1 074 822
61 - 90 days	406 781	474 283
91 - 120 days	420 314	582 727
+ 121 days	936 964	25 085 415
	2 460 271	**28 123 266**
Sewerage		
Current (0 -30 days)	206 748	450 966
31 - 60 days	200 630	218 562
61 - 90 days	198 619	28 594
91 - 120 days	199 727	23 764
121 - 365 days	1 565 438	1 568 272
	2 371 162	**2 290 158**

Figures in Rand	2020	2019

9. Receivables from exchange transactions: consumer receivables (continued)

Refuse		
Current (0 -30 days)	146 124	297 301
31 - 60 days	135 941	174 862
61 - 90 days	134 971	171 511
91 - 120 days	134 071	169 684
121 - 365 days	250 352	778 996
	801 459	**1 592 354**

Interest on consumer debtors		
Current (0 -30 days)	943 019	-
31 - 60 days	766 062	-
61 - 90 days	813 211	-
91 - 120 days	904 151	-
121 - 365 days	379 451	12 700 693
	3 805 894	**12 700 693**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(144 588 209)	(135 641 998)
Contributions to allowance	(51 662 284)	(8 946 211)
	(196 250 493)	**(144 588 209)**

Consumer debtors impaired

As of 30 June 2020, consumer debtors of R 196 250 493 (2019: R 156 575 599) were impaired and provided for.

The amount of the provision was R 196 250 493 as of 30 June 2020 (2019: R 156 575 599).

10. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	23 215 129	19 191 789

Less: Allowance for impairment		
Consumer debtors - Rates	(18 970 861)	(11 490 955)

Net balance		
Consumer debtors - Rates	4 244 268	7 700 834

Rates		
Current (0 -30 days)	756 683	1 123 489
31 - 60 days	700 424	683 867
61 - 90 days	685 664	647 050
91 - 120 days	677 764	607 476
+ 120 days	1 423 733	4 638 952
	4 244 268	**7 700 834**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Figures in Rand	2020	2019

11. Cash and cash equivalents (continued)

Cash on hand	50	-
Bank balances	232 609	1 158 175
Short-term deposits	4 238 178	245 268
Other cash and cash equivalents	1 403 084	1 335 523
	5 873 921	**2 738 966**

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

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

ABSA bank credit rating for short term deposits and counter party risk as at year end by Moodys was P3: Not under watch.

FNB bank credit rating for short term deposits and counter party risk as at year end by Moodys was P3: Not under watch.

Old mutual credit rating for short term deposits and counter party risk as at year end by Moodys was P3: Not under watch.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA Bank - Main cheque account - 17 0000 0032	355 170	461 223	1 221 011	232 609	1 158 175	5 517 942
ABSA Bank - Call Account - 4772-3221	17 475	16 203	15 086	17 475	16 203	15 100
ABSA Bank - Fixed deposit - 20-5937-3814	19 430	18 085	-	19 430	18 085	-
ABSA Bank - Call Account - 40-7406-9151	55 586	51 292	93 976	55 586	51 292	93 976
ABSA Bank - Call Account - 40-6946-5550	6 444	5 061	4 909	6 444	5 061	4 909
ABSA Bank - Cheque Account - 40-7406-9020	3 992 002	3 816	330	3 992 002	3 816	-
ABSA Bank - Housing account - 40-6045-1122	182 173	183 196	184 033	182 173	183 196	183 911
ABSA Bank - Call account - 90-9898-9605	1 974	1 903	1 820	1 974	1 903	1 903
FNB Bank - Fixed deposit - 71039175594	31 539	29 325	27 152	31 539	29 325	-
Sanlam - Investment account - 49912548	1 074 643	1 002 990	939 321	1 074 643	1 002 990	901 273
Old Mutual account	243 151	243 151	-	243 151	252 151	-
Replacement eft and cheques account	-	-	-	14 386	14 386	-
FNB - 32 day notice - 74037426985	2 461	2 384	-	2 461	2 384	-
Total	**5 982 048**	**2 018 629**	**2 487 638**	**5 873 873**	**2 738 967**	**6 719 014**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant	7 721 681	2 106 936
Municipal services infrastructure grant	-	8 093 064
Library grant	87 069	-
Financial management grant	404 158	-
EPWP grant	246 298	-
	8 459 206	**10 200 000**

Movement during the year

Balance at the beginning of the year	10 200 000	6 044 063
Additions during the year net of amounts surrendered to treasury	20 827 000	67 097 139
Income recognition during the year	(22 567 794)	(62 941 202)
	8 459 206	**10 200 000**

See note 21 for reconciliation of grants from National/Provincial Government.

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

Figures in Rand	2020	2019

13. Employee benefit obligations and provisions

Reconciliation of employee benefit obligations and provisions - 2020

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	15 976 538	972 195	-	-	16 948 733
Leave pay	8 868 224	-	(1 717 584)	-	7 150 640
Long service award	2 831 000	701 000	-	(285 000)	3 247 000
Post employment medical aid benefit	15 269 000	2 018 000	(1 143 000)	285 000	16 429 000
	42 944 762	**3 691 195**	**(2 860 584)**	**-**	**43 775 373**

Reconciliation of employee benefit obligations and provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	15 347 853	628 685	15 976 538
Leave pay	4 763 819	4 104 405	8 868 224
Long service awards	2 831 000	-	2 831 000
Post employment medical aid benefit	1 173 000	14 096 000	15 269 000
	24 115 672	**18 829 090**	**42 944 762**

Non-current liabilities	20 195 733	18 807 538
Current liabilities	23 579 640	24 137 224
	43 775 373	**42 944 762**

Financial and actuarial assumptions used in valuing theobligations:

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

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

The discount rate used in valuing the long service award, post retirement medical benefit was the yield curve. As at 30 June 2020, the prime rate by South AFrica Reserve Bank was 7.25%. The assumptiona used a consumer price index of the difference between nominal and real yield curves. A nominal salary increase equal to CPI + 1% was assumed.

Environmental rehabilitation provision

The municipality has three dumping sites, each in Derby, Koster and Swartregguns. The provision arises from the legal obligation of the municipality to restore the sites after use according to the National Environmental Management: Waste Act, 2008 (Act no. 59 of 2008). The provision is classified as a current liabilty as the municipality has not obtained licenses to operate all the sites as yet.

In terms of the licensing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R16 948 732 to restore the site at the end of its useful life, estimated to be between 2017 and 2024 for Koster Townlands landfill sites. Provision has been for the net present value of this cost, using the average cost of borrowing interest rate.

Assuptions: The life of a quarry can be acceptable up to a period of 25 years and seldom is it necessary to extend that. Periods longer than 25 years have only a marginal effect on the final value.

The valuation was performed by by Adv CP Herbst of Ecolaw Consultancy Pty limited, registered environmetal law experts.

13. Employee benefit obligations and provisions (continued)

Leave pay provision

The provision relates to accrued leave days according to policy that the municipality is obligated to pay employees upon leaving the municipality. The amount of the provision is calculated by municipal officials based on allowed number of days outstanding and the remuneration rate at at year end for each employee.
As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional payable for employees' wages, depending on the outcome of the pending litigation. It is not practical to reliably estimate the amount of this payable prior to the outcome of the pending litigations.

Long service award

The provision arises as a result of duration of service rendered by employees according to policy. The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long-service award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per policy.

The actuarial gains/loss of the long service award includes an interest cost of R369 000(2019: R282 000) and current service costs of R311 000 (2019: R313 000).

Plan assets: As at the valuation date, the long service leave award liability of the Municipality was unfunded,
i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.
Plan Liabilities: Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.
The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

The valuation was performed by ZAQ Consultants and Actuaries.

Post employment medical aid benefit

Figures in Rand	2020	2019

13. Employee benefit obligations and provisions (continued)

The obligation arises from the municiaplity's policy which allows for all in -service employees, retired employees and their dependants to participate in the medical aid arrangements and are entitled to a post- employment medical aid subsidy
The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2019 by Mr N Fourie, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The actuarial gains/loss of post employment medical aid benefit includes an interest cost of R1 951 000 (2019: R1 496 000) and current service costs of R423 000 (2019: R522 000).

Plan assets:As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Plan Liabilities: The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement

The valuation was performed by ZAQ Consultants and Actuaries

14. Payables from exchange transactions

Trade payables	280 088 204	207 670 059
Retentions	16 715 748	15 386 860
Accrued bonus	1 447 651	1 248 534
Deposits received	10 005 000	10 005 000
Unallocated funds	7 168 255	3 584 290
Receivables with credit balances	5 679 223	304 700
Goods received not yet invoiced	15 188	15 188
Salaries control	665 937	6 985 691
VAT on retentions	(924 856)	(414 504)
	320 860 350	**244 785 818**

15. Consumer deposits

Electricity	1 700 266	1 799 458
Water	285 698	175 788
	1 985 964	**1 975 246**

16. Revenue

Service charges	54 836 242	49 220 848
Rental of facilities and equipment	155 985	56 647
Interest received consumer debtors	12 412 607	14 801 422
Licences and permits	3 596 123	11 941 164
Other revenue	282 135	236 253
Interest received - investment	176 763	81 975
Property rates	7 956 105	7 325 475
Government grants & subsidies	113 838 794	132 808 202
Fines, Penalties and Forfeits	32 684 500	7 208 000
	225 939 254	**223 679 986**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

16. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	54 836 242	49 220 848
Rental of facilities and equipment	155 985	56 647
Interest received consumer debtors	12 412 607	14 801 422
Licences and permits	3 596 123	11 941 164
Other revenue	282 135	236 253
Interest received - investment	176 763	81 975
	71 459 855	**76 338 309**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7 956 105	7 325 475
Transfer revenue		
Government grants & subsidies	113 838 794	132 808 202
Fines, Penalties and Forfeits	32 684 500	7 208 000
	154 479 399	**147 341 677**

17. Service charges

Sale of electricity	43 212 659	40 345 102
Sale of water	5 725 141	3 490 986
Sewerage and sanitation charges	3 379 971	3 054 237
Refuse removal	2 518 471	2 330 523
	54 836 242	**49 220 848**

18. Rental of facilities and equipment

Premises		
Premises	155 434	54 449
Venue hire	551	2 198
	155 985	**56 647**

19. Investment revenue

Interest revenue		
Bank	176 763	81 975

20. Property rates

Rates received		
Residential	7 956 105	7 325 475

Figures in Rand	2020	2019

21. Government grants and subsidies

Operating grants		
Equitable share	91 271 000	69 867 000
Financial management grant	2 475 842	2 415 000
EPWP	1 214 702	1 375 001
Library grant	751 931	708 981
North West province relief grant	-	1 455 024
	95 713 475	**75 821 006**
Capital grants		
Municipal infrastructure grant	18 125 319	56 987 196
	113 838 794	**132 808 202**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	22 567 794	62 941 202
Unconditional grants received	91 271 000	69 867 000
	113 838 794	**132 808 202**

Equitable Share

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

All registered indigents receive a monthly subsidy of basic services which is funded from the grant.

Municipal infrastructure grant

Balance unspent at beginning of year	2 106 936	11 095 537
Current-year receipts	28 249 344	36 903 058
Conditions met - transferred to revenue	(18 125 319)	(56 987 196)
Rollover not approved	(4 509 280)	11 095 537
	7 721 681	**2 106 936**

Conditions still to be met - remain liabilities (see note 12).

Department of water affairs grant

Balance unspent at beginning of year	8 093 064	8 093 064
Roll over not approved	(8 093 064)	-
	-	**8 093 064**

Conditions still to be met - remain liabilities (see note 12).

Library grant

Current-year receipts	839 000	708 981
Conditions met - transferred to revenue	(751 931)	(708 981)
	87 069	**-**

Conditions still to be met - remain liabilities (see note 12).

Figures in Rand	2020	2019

21. Government grants and subsidies (continued)

Financial management grant

Current-year receipts	2 880 000	2 415 000
Conditions met - transferred to revenue	(2 475 842)	(2 415 000)
	404 158	**-**

Conditions still to be met - remain liabilities (see note 12).

EPWP grant

Current-year receipts	1 461 000	1 375 000
Conditions met - transferred to revenue	(1 214 702)	(1 375 000)
	246 298	**-**

Conditions still to be met - remain liabilities (see note 12).

22. Employee related costs

Basic	37 891 843	36 255 048
Bonus	4 687 033	4 176 944
Medical aid - company contributions	2 647 417	2 664 820
UIF	387 500	380 239
Bargaining council contributions	26 748	775 320
SDL	467 787	504 504
Travel, motor car, accommodation, subsistence and other allowances	2 777 669	1 933 308
Overtime payments	1 579 011	1 752 953
Long-service awards	416 000	2 516 000
Housing benefits and allowances	725 343	774 487
Pension fund contribution	6 036 441	5 777 301
Post retirement medical subsidy	5 644 312	3 057 299
Group life	-	3 683
Standby and shift allowance	695 585	967 758
Telephone allowance	183 600	175 560
	64 166 289	**61 715 224**

Remuneration of municipal manager

Annual Remuneration	846 922	846 922
Car Allowance	282 307	282 307
Contributions to UIF, Medical and Pension Funds	9 944	81 813
Phone allowance	12 000	12 000
	1 151 173	**1 223 042**

Remuneration of chief finance officer

Annual Remuneration	699 411	699 411
Car Allowance	233 136	233 137
Contributions to UIF, Medical and Pension Funds	8 232	73 720
Leave payout	-	29 606
Phone allowance	12 000	12 000
	952 779	**1 047 874**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

22. Employee related costs (continued)

Remuneration of technical services director

Annual Remuneration	699 411	569 993
Car Allowance	233 137	189 998
Contributions to UIF, Medical and Pension Funds	8 231	62 551
Phone allowance	12 000	10 000
	952 779	**832 542**

Remuneration of community services director

Annual Remuneration	-	453 325
Car Allowance	-	151 108
Contributions to UIF, Medical and Pension Funds	-	9 082
Phone allowance	-	6 000
	-	**619 515**

Remuneration of LED Director

Annual Remuneration	-	272 607
Car Allowance	-	90 869
Contributions to UIF, Medical and Pension Funds	-	4 458
Phone allowance	-	6 000
	-	**373 934**

The corporate services director was seconded from COGTA at no cost to the municipality in the current year.

23. Remuneration of councillors

Executive Mayor/speaker	901 900	-
Councillors	4 148 123	4 848 486
Councillors' pension contribution	608 597	785 906
	5 658 620	**5 634 392**

24. Depreciation and amortisation

Property, plant and equipment	27 899 107	23 434 217

25. Finance costs

Trade and other payables	15 791 367	8 616 831

26. Debt impairment

Contributions to debt impairment provision	90 951 923	36 837 190

27. Bulk purchases

Electricity	33 118 935	29 705 837
Water	1 103 664	772 880
	34 222 599	**30 478 717**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Contracted services

Consultants and professional services	24 305 847	17 388 765
Outsourced security services	9 209 564	4 937 289
Other Contractors	20 997 169	10 557 273
	54 512 580	**32 883 327**

29. General expenses

Advertising	392 596	1 055 771
Auditors remuneration	3 601 776	3 095 508
Bank charges	409 974	731 410
Computer expenses	-	304
Consulting and professional fees	4 620 312	2 590 732
Consumables	545 032	1 313 346
Entertainment	2 085 888	448 964
LED special projects	50 000	304 600
Insurance	572 244	580 692
Community development and training	-	4 000
Fuel and oil	1 856 835	2 872 443
Postage and courier	825 099	719 381
Burial fees	16 500	8 000
Protective clothing	587 870	642 199
Software expenses	8 067 398	3 740 092
Staff welfare	119 792	63 927
SALGA membership fees	544 140	-
Telephone and fax	6 068	7 546
Training	-	42 446
Travel - local	225 616	1 108 046
Title deed search fees	6 114	6 367
Expanded public works program expenditure	1 219 127	1 326 771
Heritage day	-	2 617
Indigent free basic expenses	242 326	336 339
Ward committees stipend	816 000	621 000
Other expenses	1 541 052	5 678 440
	28 351 759	**27 300 941**

30. Auditors' remuneration

Fees	3 601 776	3 095 508

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

31. Cash generated from operations

Deficit	(161 887 834)	(27 686 030)
Adjustments for:		
Depreciation and amortisation	27 899 107	23 434 217
(Loss) gain on sale of assets and liabilities	(69 153)	848 021
Debt impairment	90 951 923	36 837 190
Movements in provisions	830 611	21 660 090
Changes in working capital:		
Inventories	49 677 468	(127 482)
Other receivables from exchange transactions	60 239	441 999
Consumer debtors	(51 239 213)	(84 453 814)
Other receivables from non-exchange transactions	3 264 975	21 010 421
Payables from exchange transactions	76 074 532	91 197 259
VAT	(23 196 641)	21 982 178
Unspent conditional grants and receipts	(1 740 794)	(24 013 555)
Consumer deposits	10 718	82 912
	10 635 938	**81 213 406**

Figures in Rand	2020	2019

32. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Trade receivables from exchange transactions	29 272 344	29 272 344
Receivables from non-exchange transactions	6 459 298	6 459 298
Other receivable from exchange transactions	3 072 096	3 072 096
Cash and cash equivalents	5 873 921	5 873 921
	44 677 659	**44 677 659**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	280 088 204	280 088 204

2019

Financial assets

	At amortised cost	Total
Trade receivables from exchange transactions	68 985 054	68 985 054
Receivables from non-exchange transactions	9 724 273	9 724 273
Other receivables from exchange transactions	3 132 335	3 132 335
Cash and cash equivalents	2 738 966	2 738 966
	84 580 628	**84 580 628**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	207 670 059	207 670 059

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	51 808 207	89 822 489
Total capital commitments		
Already contracted for but not provided for	51 808 207	89 822 489

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

34. Contingencies

Various litigations are in the process against the municipality relating to various disputes. The municipality's lawyers and management have not assessed the likelihood of the actions against the municipality being successful and the timeline which the various cases should be resolved. The contingecies arising from these cases are:

1. Eskom Holding Soc Ltd V Kgethlengrivier Local Municipality: The case relates to a civil claim against the municipality for electricity supplied. The amount of the claim is still unknown

2. Ranamane Mokalane Inc V Kgethlengrivier Local Municipality: The case relates to a Civil Claim against the municipality for legal service rendered and not paid for. The amount of the contingent is R3 356 273

3. Bagaphala Project Trading CC V Kgethlengrivier Local Municipality: The case relates to Civil Claim against the municipality for service rendered in terms of contract. The amount of the claim is R548 462

4. SALGB V Kgetlengrivier Local Municipality: The case relates to a Civil Claim against the municipality for service rendered in terms of contract.The amount of the claim is R13 913

5. Standard Bank of S.A V Kgetlengrivier Local Municipality. The case relates to a Civil Claim against resident of KLM in terms of bond contract KLM cited . The amount of the claim is R697 076

6. Various Property Rate payers Vs Kgetleng: The Municipality is engaged Civil Claims against the municipality for property rates and taxes levied by Kgetlengrivier Local Municipality. A register of all the 75 ratepayers is available for inspection at the municipality. The total amount of these 75 property rates claims is R728 390

7. Koster, Derby, Swartruggens and Tax Payers Association V Kgetlengrivier Local Municipality: The case relates to a Civil Claim against the municipality for property rates and taxes levied by Kgetlengrivier Local Municipality. The amount of the claim is R35 000 000. The ratepayers also have two pending cases (M152/2014, 02/2020) of undisclosed amounts against the Municipality relating to payments of property rates

8. SAMWU V Kgetlengrivier Local Municipality: The case relates to Interdicting Employees to engage in an unlawful state. The amount of the claim is unknown.

9. Bertobrite (Pty) Ltd V Kgetlengrivier Local Municipality: The case relates to a Civil Claim against the municipality for service rendered/lease of cars to the municpality. The amount of the claim is R16 146 624

10. Mpatla Group (Pty) Ltd V Kgetlengrivier Local Municipality: The case relates to a Civil Claim against the municipality for service rendered. The amount of the claim is R731 100

11. Minister of Water and Sanitation V Kgetlengrivier Local Municipality: The case relates to a Civil Claim for water supplied/Levies. The amount of the claim is R7 740 058

35. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report
Members of key management	Remuneration of key management. Refer to note 22
Councillors	Remuneration of councillors. Refer to note 23

All members of key management and councillors formally signed declaration of interests. CIPC search of associated companies was formally performed. There were no transactions and balances with related partises in the current year.

36. Prior period errors

In the comparative amounts, certain prior period differences were made on the financial statements production system, caseware. The entity uses Phoenix as an enterprise system for recording financial transactions. There were major differences between Phoenix account transactions and balances and the annual financial statements production software (caseware) in the prior year. These difference arose from a non reconciliation between caseware and Pheonix where journals were posted on caseware only and not updated on Pheonix.

For this reason, management could not practically restate the annual financial statements retrospectively. Management applied GRAP 3 paragraph 46 which states that *"When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period)"* and restated Pheonix balances in the current year because of the impracticality of retrospective restatement.

The annual financial statements were adjusted for the following items retrospectively on the annual financial statements production system, caseware only.

Inventory relating to vacant land previously written off on the financial statements only was reinstated and then derecognised in the current year in line with resolution of council.

Cash and cash equivalents: The municipality captured certain receipts and payments in the 2019 financial period as these amounts related to that period and were not captured in the prior year..

Property plant and equipment: Consultants were engaged to reconstruct the municipality's asset register. Adjustements were processed relating to correction of prior year property plant and equipment balalces

Provisions: The entity engaged actuaries to value long term employment benefits and landfill site provisions. The expert reports resulted in retrospective adjusments to provisions

VAT: VAT in the prior year was adjusted inorder to separately disclose impairment on VAT.

Consumer debtors: were restated as a result of imairment journals in the prior year that where only posted on the annual financial statements but not processed in the general ledger for impairment amounts relating to that period.

Unspent conditional grants: adjustments were made in the prior year for amounts withheld by the provincial treasury but were not removed form the general ledger in that period.

Other financial liability: there was a reclassification of accounts previously incorrectly mapped on the annual financial statements of the prior year.

Accumulated surplus: Various correcting journals that were processed inorder to correct items of revenue, expenditure, assets and liabilities in the prior year.

Contracted services: Amounts of contracted services were incorrectly classified as general expenses in the prior year aannual financial statements. These were reclassified in the current year.

Repairs and maintenance: Amounts relating to repairs and maintenance incorrectly lumped with general expenses were reclassified in the current yea.r

General expense: reclassifications were made out of general expenses to repairs and maintenance and contracted services in the current year.

Irregular expenditure in the prior year was understated by amounts that qualify to be irregular bur were not part of the diclosed amount. An adjustment of R28 635 425 was made to prior year disclosure..

The amounts affecting individual financial statement line items are disclosed in note 37:

37. 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:

37. Prior-year adjustments (continued)

Statement of financial position

2019

	As previously reported	Correction of error	Restated
Inventories	536 486	49 463 076	49 999 562
Other receivables from exchange transactions	17 368 770	(14 236 435)	3 132 335
Receivables from non exchange transactions	32 590 931	(22 866 658)	9 724 273
VAT	1 224 663	(428 690)	795 973
Consumer debtors	49 916 948	19 068 106	68 985 054
Cash and cash equivalents	59 155 263	(56 416 297)	2 738 966
Property plant and equipment	644 624 212	(48 404 003)	596 220 209
Payables from exchange transactions	(232 143 015)	(12 642 803)	(244 785 818)
Unspent conditional grants	(62 047 628)	51 847 628	(10 200 000)
Provisions	(28 254 762)	4 117 538	(24 137 224)
Other financial liability	(14 094 000)	(2 207 000)	(16 301 000)
Accumulated surplus	(505 011 952)	52 831 784	(452 180 168)
	(36 134 084)	**20 126 246**	**(16 007 838)**

Statement of finanical performance

2019

	As previously reported	Correction of error	Re-classification	Restated
Employee related costs	57 392 051	8 420 080	-	65 812 131
Remuneration of councillors	7 275 769	-	(1 641 377)	5 634 392
Contracted services	-	-	32 883 327	32 883 327
Repairs and maintenance	-	-	5 918 252	5 918 252
Miscellaneous revenue	(241 279)	-	5 026	(236 253)
Government grants	(131 353 178)	-	(1 455 024)	(132 808 202)
Bulk purchases	30 421 528	-	57 189	30 478 717
Relief fund	1 455 024	-	(1 455 024)	-
General expenditure	70 372 446	-	(43 071 505)	27 300 941
Deficit for the year	**35 322 361**	**8 420 080**	**(8 759 136)**	**34 983 305**

38. Comparative figures

Certain comparative figures have been reclassified. The effects of the reclassification are as disclosed in note 37

39. 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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Figures in Rand	2020	2019

39. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	**2020**	**2019**
Cash and cash equivalents	5 873 921	2 738 966
Consumer debtors	29 272 344	68 985 054

40. Going concern

As at 30 June 2020, the municipality had accumulated surpluses of R 289 081 770 and the municipality's total assets exceed its liabilities by R 289 081 770.

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 treasury continue to fund the municipality.

41. Events after the reporting date

There were no events after the reporting date that require restatement or revision or disclosure

42. Unauthorised expenditure

Unauthorised expenditure	224 948 834	70 541 675

Unauthorised expendiure relates mainly to overspending on the final approved budget.

43. Fruitless and wasteful expenditure

Interest on overdue account - AGSA	533 628	233 459
Interest on overdue account - Eskom	10 776 432	5 983 790
Interest on overdue account - Telkom	12 311	6 283
Interest on overdue account - SARS	3 503 233	1 034 349
Interest on overdue account - Other	965 760	71 316
	15 791 364	**7 329 197**

No criminal or disciplinary steps were taken as a consequence of above expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

44. Irregular expenditure

Opening balance	118 163 189	50 605 016
Add: Irregular Expenditure - current year	56 921 633	38 922 748
Correction of prior period error	-	28 635 425
	175 084 822	**118 163 189**

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year SALGA subscription / fee	544 140	-

Audit fees

Opening balance	2 908 395	3 268 635
Current year subscription / fee	4 728 756	2 908 395
Amount paid - previous years	(79 022)	(3 268 635)
	7 558 129	**2 908 395**

PAYE and UIF

Current year subscription / fee	7 816 933	7 150 333
Amount paid - current year	(7 816 933)	(7 150 333)
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	8 683 858	8 442 121
Amount paid - current year	(8 683 858)	(8 442 121)
	-	**-**

VAT

VAT receivable	23 992 614	795 973

VAT output payables and VAT input receivables are shown in note 8.

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Doyi ME	-	1 759	1 759
Bhoola MB	4 232	3 531	7 763
Naledi TG	-	672	672
Molusi OS	858	21 426	22 284
Ramoenyane D	977	28 974	29 951
Molefe A	1 943	37 660	39 603
Modisane LD	6 404	26 779	33 183
Mokone BC	-	22 330	22 330
Chirwa I	3 436	-	3 436
	17 850	**143 131**	**160 981**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Doyi ME	-	3 869	3 869
Bhoola MB	4 575	3 673	8 248
Naledi TG	-	1 479	1 479
Molusi OS	924	22 696	23 620
Ramoenyane D	1 034	31 019	32 053
Molefe A	2 117	45 082	47 199
Modisane LD	1 557	59 412	60 969
Mokone BC	1 616	26 929	28 545
Chirwa I	3 799	-	3 799
Snyman JP	128	-	128
	15 750	**194 159**	**209 909**

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. There were no condonations of deviations from supply chain management regulations.

46. Budget differences

Material differences between budget and actual amounts

46. Budget differences (continued)

Major differenced between budget and actual were caused by the following:

Statement of financial performance differences

Service charges: The major contributing factor to thie variance was an under estimation of water and electricty consumption during budget process. Actual usage was less than anticipated.

Rental of facilities and equipment: There was a decrease in demand for facilities usage partly as a prohibition of social events during the later part of the year due to covid lockdown.

Interest received trading: The municipality charges interest based on prime rates as announced by the Reserve bank. There were several rate reductions during the year leading to this decrease in interest revenue..

License and perimts: Nill amount for actual amount is due to all monies collected and then transferred to Provincial traffic department which was not the case in prior years.

Miscelleneous other revenue: The main contributor was additional revenue from external services contributions.

Gains on disposal of assets: Disposals did not take place as anticipated and budget processes were not realised during the year, especially on the sale of land.

Government grants and subsidies: The reduction of grants from initial budget was caused by the withdrawal in the equitable share by the provincial treasury.

Fines penalties and forfeits: The reduction was due to significant decrease in traffic fines issued during the year.

Remuneration of Personnel and councillors: The main contributors is more on contributions on social employee benefits (post retirement medical aid benefit, long service award) and leave provision. The expenditure was determined by actuaries and initial budget did not account for these.

Depreciation and amortisation: Budgeted for all under construction assets to be finalised and start being depreciated. This did not materialise.

Finance costs: There was under budgeting of interest from prior years as most relates electricity and water which the budget assumption was would be settled.

Repairs and maintenance: The biggest contributors for the overspending are water and sanitation, whilst the rest is made up of various other types for example vehicles, electrical infrastructure.

Contracted services and general expenses: These two line tiems should be looked at as once since contracted services are taken out of total expenditure, the overall over expenditure is mainly due to security services, refuse and Internal audit cost which were under budgeted for. Other line item expenditure however experienced cost savings, for example there was reduction in consultancy fees

Transfers and subsidies capital: The budget amounts relates to anticipated capital expenditure according to the B schedules templates, the actual amount remains nil as additions to assets will reported on under property plant and equipment.

Statement of financial position differences

Inventories: Land held for sale was written off leading to the difference between budget and actual amount, the write off approximates the amount of the difference in the budget comparison.

Receivables and consumer debtors: The difference in all receivables should be looked at as a whole since the budget lumped ass receivables as consumer debtors. The agregate difference of approximately R71 million arise mainly from under budgeting of the impact of the related impairment which significantly reduces actual accounts receivables.

Investment property: The difference arises from Revaluation on the investment property which was done at year end.

Property plant and equipment: Due to underspending on procument of assets

Figures in Rand	2020	2019

46. Budget differences (continued)

Payables from exchange transactions: The municipality had not paid a larger portion of its suplliers as initial anticipated on budgeting leading to the difference.

Unspent conditional grants: The municipality did not budget to underspend on conditional grants, actual results however show that some grants were not spent. Grants not spend, application have been submitted for roll over.

Provisions: The actual amounts are as a result of professional valuations which differ with initial municipal estimations

Net assets: As a result of various adjustments netting off as net assets including the effects of the significant net loss reported for the period.