Ramotshere Moiloa Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Local Municipality
Mayor	L Selebogo
Speaker	AN Nyamane
Chief Whip	KI Manthoko
Executive Council	C Dreyer
	L Motsokwane
	J Pule
	B Monamodi
	AB Cassanga
	TB Sebolao
	P Molefe
Councillors	TR Moiloa
	B Pheloane
	MN Tshikovhi
	D Moabi
	B Kenosi
	S Rantwa
	O Modirwa
	K Mothoagae
	U Morake
	R Mogorosi
	P Madisa
	N Molokwane
	IT Moloantoa
	J Mafora
	S Thembo
	TJ Morebantwa
	IS Suliman
	RSB Phetwe
	TN Sapala
	L Selebego
	K Venter
	L Mosadi
	SI Modibetsane
	SF Ngweye
	GS Motswenyane
	NT Moroeng
	T Modisane
	Y Suliman

General Information

Grading of local authority	Low capacity
Accounting Officer (Acting)	Ernest Mangope
Chief Finance Officer (Acting)	Leshomo Mariha
Business address	C/o President & Coetzee Street Zeerust 2865
Postal address	P O Box 92 Zeerust 2865
Bankers	First National Bank
Auditors	Auditor General South Africa

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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 officers 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 officers acknowledge that they are 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 officers to meet these responsibilities, the accounting officers 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 officers are 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 officers have 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, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The annual financial statements set out on pages 5 to 60, which have been prepared on the going concern basis, were approved by the accounting officers on 04 January 2021 and were signed on its behalf by:

E Mangope
Acting Municipal Manager

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality main business is the provision of services to the community in line with Part B of Schedule 4 and Part B of Schedule 5 of the Constitution. The municipality provides services in Zeerust, Lehurutse and Groot Marico.

Net surplus of the municipality is R 13 215 905 (2019: surplus R 9 018 490).

2. Going concern

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

3. Subsequent events

The annual financial statements for the municipality were not submitted to Auditor General on the due date. The accounting officer is aware that this conduct will be reported as non-compliance.

The municipality did not receive its second trench of Equitable share, on the scheduled date, due to non-compliance.

There are no other significant events subsequent to the reporting period.

4. Accounting policies

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act 2003 (Act N0. 56 of 2003) (MFMA) and the Division of Act South Africa (Act No 2 of 2013) (DoRA).

The annual financial statements are prepared in accordance with the 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 Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
D Makhate	South African	Suspended Sunday, 7 July 2020
E Mangope	South African	Appointed Tuesday, 07 July 2020

6. Corporate governance

General

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

Accounting Officer's Report

Audit and risk committee

The Audit Committee has complied with its responsibilities arising from Section 166 of the Municipal Finance Management Act and Circular 65 issued by National Treasury. The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee Charter, and it has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The Audit Committee, consisting of independent outside members, has met at least four times per annum as per its approved terms of reference, although additional special meetings were held.

7. Auditors

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

8. COVID-19

There was an outbreak of COVID-19 which was declared an epidemic by the World Health Organisation and following that, the South Africa Government declared 21 days of full lockdown. The municipality adhered to the restrictions and only essential workers reported for duty.

Statement of Financial Position as at 30 June 2020

	Note(s)	2020 R	2019 Restated* R
Assets			
Current Assets			
Inventories	2	6 376 922	5 915 487
Receivables from exchange transactions	4	7 876 178	5 856 363
Receivables from non-exchange transactions	5	633 181	2 926 766
Consumer debtors	6	102 502 054	55 973 094
Other assets		-	2 022 728
Cash and cash equivalents	7	4 038 163	11 621 579
		121 426 498	**84 316 017**
Non-Current Assets			
Investment property	8	53 497 333	53 593 805
Property, plant and equipment	9	639 858 564	636 869 443
Intangible assets	10	387 563	1 899 986
Heritage assets	11	404 550	404 550
Other financial assets	3	-	2 171 236
		694 148 010	**694 939 020**
Total Assets		**815 574 508**	**779 255 037**
Liabilities			
Current Liabilities			
Other financial liabilities	12	331 632	837 077
Finance lease obligation	13	-	679 992
Payables from exchange transactions	14	147 240 045	114 477 161
VAT payable	15	6 948 027	8 100 260
Consumer deposits	16	2 218 022	2 106 857
Employee benefit obligation	17	880 000	897 000
Unspent conditional grants and receipts	18	2 535 915	14 078 534
		160 153 641	**141 176 881**
Non-Current Liabilities			
Other financial liabilities	12	2 121 915	2 348 182
Employee benefit obligation	17	32 049 000	31 144 000
Provisions	19	41 996 844	45 349 131
		76 167 759	**78 841 313**
Total Liabilities		**236 321 400**	**220 018 194**
Net Assets		**579 253 108**	**559 236 843**
Accumulated surplus		579 253 108	559 236 843

* See Note 46

Statement of Financial Performance

	Note(s)	2020 R	2019 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	20	78 744 299	77 904 126
Licences and permits		1 099 943	1 230 714
Connections and disconnections		686 859	782 911
Rental income		130 971	113 263
Sundry Income		675 836	775 042
Sale of Land		59 595	440 833
Interest received - investment	21	1 770 825	1 024 901
Fair value adjustments		57 664	-
Total revenue from exchange transactions		**83 225 992**	**82 271 790**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	40 524 933	31 198 346
Transfer revenue			
Government grants & subsidies	23	227 349 119	206 258 841
Fines, Penalties and Forfeits	48	3 022 100	4 274 450
Total revenue from non-exchange transactions		**270 896 152**	**241 731 637**
Total revenue	24	**354 122 144**	**324 003 427**
Expenditure			
Bulk purchases	25	(56 172 898)	(49 907 187)
Contracted services	26	(10 187 069)	(9 700 011)
Debt Impairment		(6 965 561)	(2 020 180)
Depreciation and amortisation	27	(34 598 527)	(38 924 291)
Employee related costs	28	(139 444 353)	(130 019 052)
Finance costs	29	(11 367 404)	(12 703 339)
Lease rentals on operating lease	49	(2 011 709)	(24 151)
Remuneration of councillors	30	(13 829 417)	(13 240 917)
Loss on disposal of assets and liabilities		(3 002 120)	(5 313 913)
Fair value adjustments		-	(25 006)
General Expenses	31	(64 666 049)	(59 055 418)
Repairs and maintenance		(7 495 324)	(5 840 315)
Total expenditure		**(349 740 431)**	**(326 773 780)**
Surplus (deficit) for the year from continuing operations		**4 381 713**	**(2 770 353)**
Actuarial valuation movement		8 834 192	11 788 843
Surplus for the year		**13 215 905**	**9 018 490**

* See Note 46

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2018	**550 218 353**	**550 218 353**
Changes in net assets		
Surplus for the year	9 018 490	9 018 490
Total changes	9 018 490	9 018 490
Restated* Balance at 01 July 2019	**559 236 843**	**559 236 843**
Changes in net assets		
Surplus for the year	13 215 905	13 215 905
Adjustments	6 800 360	6 800 360
Total changes	20 016 265	20 016 265
Balance at 30 June 2020	**579 253 108**	**579 253 108**

* See Note 46

Cash Flow Statement

	Note(s)	2020 R	2019 Restated* R
Cash flows from operating activities			
Receipts			
Service charges & rates		70 488 401	76 704 465
Grants		215 806 500	216 925 000
Interest income		1 770 825	923 404
Other receipts		3 235 296	5 357 639
		291 301 022	299 910 508
Payments			
Employee costs		(151 483 049)	(136 547 108)
Suppliers		(104 302 052)	(133 332 842)
Finance costs		(4 995 255)	(12 703 339)
		(260 780 356)	(282 583 289)
Net cash flows from operating activities	32	**30 520 666**	**17 327 219**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(39 058 678)	(18 665 312)
Proceeds from sale of property, plant and equipment	9	-	42 774
Proceeds from sale of investment property	8	137 400	-
Net movements in financial assets		2 228 900	-
Net cash flows from investing activities		**(36 692 378)**	**(18 622 538)**
Cash flows from financing activities			
Repayment of long term liabilities		(731 712)	(1 243 420)
Finance lease payments		(679 992)	(1 118 144)
Net cash flows from financing activities		**(1 411 704)**	**(2 361 564)**
Net increase/(decrease) in cash and cash equivalents		**(7 583 416)**	**(3 656 883)**
Cash and cash equivalents at the beginning of the year		11 621 579	15 278 462
Cash and cash equivalents at the end of the year	7	**4 038 163**	**11 621 579**

* See Note 46

Statement of Budget and Actual Amounts

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2020											
Financial Performance											
Property rates	68 931 629	-	68 931 629	-		68 931 629	40 524 933		(28 406 696)	59 %	59 %
Service charges	128 466 112	-	128 466 112	-		128 466 112	78 744 299		(49 721 813)	61 %	61 %
Investment revenue	1 021 484	(826 883)	194 601	-		194 601	1 770 825		1 576 224	910 %	173 %
Transfers recognised - operational	180 876 000	(1 886 000)	178 990 000	-		178 990 000	174 021 000		(4 969 000)	97 %	96 %
Other own revenue	22 977 670	-	22 977 670	-		22 977 670	14 567 160		(8 410 510)	63 %	63 %
Total revenue (excluding capital transfers and contributions)	**402 272 895**	**(2 712 883)**	**399 560 012**	**-**		**399 560 012**	**309 628 217**		**(89 931 795)**	**77 %**	**77 %**
Employee costs	(123 373 992)	(17 577 606)	(140 951 598)	-	-	(140 951 598)	(139 444 353)	-	1 507 245	99 %	113 %
Remuneration of councillors	(15 561 589)	591 518	(14 970 071)	-	-	(14 970 071)	(13 829 417)	-	1 140 654	92 %	89 %
Debt impairment	(51 386 000)	11 730 510	(39 655 490)			(39 655 490)	(6 965 561)	-	32 689 929	18 %	14 %
Depreciation and asset impairment	(29 040 996)	565 956	(28 475 040)			(28 475 040)	(34 598 527)	-	(6 123 487)	122 %	119 %
Finance charges	(1 500 000)	(2 700 000)	(4 200 000)	-	-	(4 200 000)	(11 367 404)	-	(7 167 404)	271 %	758 %
Materials and bulk purchases	(54 150 000)	90 000	(54 060 000)	-	-	(54 060 000)	(56 172 898)	-	(2 112 898)	104 %	104 %
Other expenditure	(78 747 111)	(8 649 468)	(87 396 579)	-	-	(87 396 579)	(87 362 271)	-	34 308	100 %	111 %
Total expenditure	**(353 759 688)**	**(15 949 090)**	**(369 708 778)**	**-**	**-**	**(369 708 778)**	**(349 740 431)**	**-**	**19 968 347**	**95 %**	**99 %**
Surplus/(Deficit)	**48 513 207**	**(18 661 973)**	**29 851 234**	**-**		**29 851 234**	**(40 112 214)**		**(69 963 448)**	**(134)%**	**(83)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	45 449 300	(166 300)	45 283 000		-	45 283 000	53 328 119		8 045 119	118 %	117 %
Surplus (Deficit) after capital transfers and contributions	**93 962 507**	**(18 828 273)**	**75 134 234**		**-**	**75 134 234**	**13 215 905**		**(61 918 329)**	**18 %**	**14 %**
Surplus/(Deficit) for the year	**93 962 507**	**(18 828 273)**	**75 134 234**		**-**	**75 134 234**	**13 215 905**		**(61 918 329)**	**18 %**	**14 %**
Capital expenditure and funds sources											
Total capital expenditure	(45 693 000)	(2 877 000)	(48 570 000)		-	(48 570 000)	10 050 868		58 620 868	(21)%	(22)%

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.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

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

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revisions affects only that period of the revision and future periods if the revision affects both the current and future periods. The nature and reasons of the uncertainty, judgement made and the impact to the amounts presented in the financial statements are disclosed in the notes to the annual financial statements. Significant judgements include:

Impairment of trade receivables

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. This was performed per service identifiable category across all debtor classes. The concentration of credit risk is limited, as the customer base is large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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 19 - Provisions.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values of 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.

The municipality reviews residual values of assets to determine if there is a change in the amount that the municipality would obtain from disposal of the asset, after deducting the estimated costs of disposal, if that asset was already of the age and condition expected at the end of its useful life.

Management has determined that none of its infrastructure assets have any active market value, and the value of the amount at the end of their useful lives would therefore be insignificant.

Post retirement benefits

The present value of the post employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for post employment medical benefits are based on current market conditions. Additional information is disclosed in Note 17.

Going Concern

Management considers key financial metrics and approved budgets, together with the municipality's dependency on grants from National Government and the North West Provincial Government ("Province"), to conclude that the going concern assumption used in the compiling of its annual financial statements, is appropriate.

Distribution losses

The municipality recognizes electricity distribution losses. Management calculates the distribution losses based on energy that was not recovered after deducting internal usage.

The municipality recognizes water distribution losses too.

1.3 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.

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

1.3 Investment property (continued)

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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

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

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

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	20 - 100 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	3 - 10 years
Computer equipment	Straight line	3 - 10 years
Infrastructure	Straight line	20 - 100 years
Community	Straight line	20 - 100 years
Other property, plant and equipment	Straight line	3 - 10 years
Roads & stormwater assets	Straight line	20 - 100 years
Electricity assets	Straight line	20 - 100 years
Other assets	Straight line	3 - 10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate unless expectations differ from previous estimates.

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

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

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

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

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

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Accounting Policies

1.6 Intangible assets

An intangible asset is recognised when:

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

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

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

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

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

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.

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

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

Intangible assets are derecognised:

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

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

1.7 Heritage assets

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

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

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

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

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

Accounting Policies

1.7 Heritage assets (continued)

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.8 Cash and cash equivalents

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short-term bank deposits with a maturity of three months or less from inception, readily convertible to cash without significant change in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any bank overdrafts.

Accounting Policies

1.9 Financial instruments

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

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

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

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

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

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.

Classification

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

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

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.

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.

Subsequent measurement of financial assets and financial liabilities

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

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

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

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.

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.

Accounting Policies

1.9 Financial instruments (continued)

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.

1.10 Leases

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

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

Finance leases - lessee

The municipality leases certain property, plant and equipment. Leases of property, plant and equipment where the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges are included in other long term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. The municipality will not incur a finance lease liability other than that allowed by the MFMA Act (Act 56 of 2003).

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.11 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.

Accounting Policies

1.11 Inventories (continued)

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll or total cost of servicing the land such as direct costs and portion of overhead costs that relates to the development.

1.12 Impairment of cash-generating assets

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

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

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

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

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.

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

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.

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

1.14 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

The municipality and its employees contribute to various pension, provident and retirement funds and its councillors contribute to the Pension Fund for Municipal Councillors. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirements of the various funds. Current contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The municipality provides certain post retirement medical benefits by funding the medical aid contributions for retired members of the municipality. According to the rules of the medical aid fund associated with the municipality, when a member who joined the municipality under the current conditions of service retires, she/he is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These funds are classified as defined benefit plans. The cost of providing the benefits is determined using the projected unit credit method prescribed by IAS 19. Future benefit values are projected using specific assumptions, and the liability for in service members is accrued over the expected lifetime. No plan assets exist and any actuarial gains or losses are recognised immediately.

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

Current service costs and interest costs are recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service costs include the expense for the benefits received by the employee currently in service and the cost of funding the employee when no longer in service. The expense for the year is included in the employee benefit expense in the statement of financial performance.

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

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

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

Other long term employee benefits

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality.

The municipality's net obligation in respect of long service awards is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

1.15 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.

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Illegal dumping: The municipality has an obligation to rehabilitate any contaminated land through illegal dumping. A provision has been established and recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

Landfill sites: The municipality has an obligation to rehabilitate its landfill sites in terms of its licensing stipulations. A provision has been established from 2008/9. The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

1.16 Revenue from exchange transactions

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

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

Measurement

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

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimated consumptions are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

Income from agency services: Income from agency services is recognised on a monthly basis once the income collected/received on behalf of agents has been quantified. The income is recognised in terms of the agency agreement.

Interest

Revenue arising from the use by others of municipal assets yielding interest 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.

Accounting Policies

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a 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, a 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.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants and subsidies

Government grants are recognised as revenue when:

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

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

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

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

1.18 Value Added Tax

The municipality accounts for Value Added Tax (VAT) on a cash basis. The municipality is liable to account for VAT at the standard rate of 15% (14% for periods before 1 April 2018) in terms of section 7(1)(a) of the VAT Act in respect of supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.19 Prepaid electricity

Revenue from the sale of electricity using pre-paid meter cards is recognised based on consumption.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

1.20 Investment income

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

1.21 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.

1.22 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

Where accounting errors have been identified in the current financial year, the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly.

Accounting Policies

1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

1.24 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.

1.25 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.

1.26 Related parties

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

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

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

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

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

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

The entity 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.

1.27 Events after reporting date

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

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

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

Accounting Policies

1.27 Events after reporting date (continued)

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.

1.28 Budget information

Variances between budget and actual are regarded as material when there is a variance of:

- 10% in the statement of financial position, statement of financial performance and the cash flow statement.
- 5% in capital expenditure.

1.29 Services in kind

The municipality does not recognise services in kind as revenue or assets, but are disclosed as a note to the annual financial statements.

1.30 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.

1.31 Budget information

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

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

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

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

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

Notes to the Annual Financial Statements

	2020 R	2019 R
2. Inventories		
Consumable stores	6 376 922	5 915 487
3. Other financial assets		
Designated at fair value		
Unit trusts		
Listed Fund - Sanlam	-	2 171 236
Non-current assets		
Designated at fair value	-	2 171 236
4. Receivables from exchange transactions		
Third party vendors	2 431 210	804 537
Creditors with debit balances	1 411 547	1 019 005
Sale of land debtors	3 984 500	3 984 500
Rental debtors	48 921	48 321
	7 876 178	**5 856 363**

Third party vendors

The municipality has a system for prepaid electricity whereby customers can purchase electricity through third party vendors, the money from the customers is received by the third party whom in turn pay over to the municipality the amount received net of commission and transaction fees.

The prepaid electricity vendor, Contour, was replaced by Pamodzi during the current reporting period.

5. Receivables from non-exchange transactions		
Fines	596 428	2 581 773
Till shortages	-	6 140
Employee advances	-	6 799
Sundry debtors	36 753	332 054
	633 181	**2 926 766**

Fines

Traffic fines	27 193 252	25 163 062
Provision for impairment	(26 596 824)	(22 581 289)
	596 428	**2 581 773**
6. Consumer debtors		
Gross balances		
Rates	87 944 119	63 455 326
Electricity	76 437 579	66 319 093
Water and sanitation	12 391 551	8 291 298
Sewerage	11 499 088	9 613 408
Refuse and other	29 991 329	24 037 734
Other services	324 686	342 533
	218 588 352	**172 059 392**

Notes to the Annual Financial Statements

	2020 R	2019 R
6. Consumer debtors (continued)		
Less: Allowance for impairment		
Rates	(58 651 677)	(58 651 677)
Electricity	(31 884 079)	(31 884 079)
Water and sanitation	(7 355 903)	(7 355 903)
Refuse and other	(18 194 639)	(18 194 639)
	(116 086 298)	**(116 086 298)**
Net balance		
Rates	29 292 442	4 803 649
Electricity	44 553 500	34 435 014
Water and sanitation	5 035 648	935 395
Sewerage	11 499 088	9 613 408
Refuse and other	11 796 690	5 843 095
Other services	324 686	342 533
	102 502 054	**55 973 094**
Rates		
Current (0 -30 days)	3 474 412	2 439 069
31 - 60 days	3 057 089	1 876 987
61 - 90 days	2 785 907	1 674 765
91 - 120 days	2 367 171	1 418 883
121 - 150 days	3 341 865	1 552 528
> 150 days	72 917 675	54 493 094
	87 944 119	**63 455 326**
Electricity		
Current (0 -30 days)	2 554 417	2 813 835
31 - 60 days	1 710 369	1 627 985
61 - 90 days	1 474 658	1 059 456
91 - 120 days	1 151 045	879 623
121 - 150 days	1 085 302	566 970
> 150 days	68 461 788	59 371 224
	76 437 579	**66 319 093**
Water		
Current (0 -30 days)	845 697	615 737
31 - 60 days	575 596	458 548
61 - 90 days	565 433	545 449
91 - 120 days	543 964	473 920
121 - 150 days	686 783	420 805
> 150 days	9 174 078	5 776 839
	12 391 551	**8 291 298**
Sewerage		
Current (0 -30 days)	278 971	259 955
31 - 60 days	255 476	189 875
61 - 90 days	242 769	205 213
91 - 120 days	237 373	182 716
121 - 150 days	229 239	177 160
> 150 days	10 255 260	8 598 489
	11 499 088	**9 613 408**

Notes to the Annual Financial Statements

	2020 R	2019 R
6. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	835 352	791 657
31 - 60 days	769 206	653 336
61 - 90 days	728 473	614 592
91 - 120 days	705 341	564 563
121 - 150 days	681 255	540 266
> 150 days	26 271 702	20 873 320
	29 991 329	**24 037 734**
Other		
Current (0 -30 days)	-	140
91 - 120 days	2 734	-
> 150 days	321 952	342 393
	324 686	**342 533**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(116 086 297)	(116 086 297)
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 440 968	908 843
Bank balances	1 503 089	3 842 695
Short-term deposits	1 094 106	6 870 041
	4 038 163	**11 621 579**

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
FNB Bank - 62200495960	28 035	521 375	8 668	28 035	521 375	8 668
FNB Bank - 62224998023	363 705	447 563	161 250	363 705	447 563	161 250
FNB Bank - 54351140693	55 763	112 456	232 508	55 763	112 456	232 508
FNB Bank - 62063144431	1 055 586	2 761 301	2 554 343	1 055 586	2 761 301	2 554 343
Total	**1 503 089**	**3 842 695**	**2 956 769**	**1 503 089**	**3 842 695**	**2 956 769**

Notes to the Annual Financial Statements

	2020 R	2019 R

8. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	55 839 834	(2 342 501)	53 497 333	55 917 639	(2 323 834)	53 593 805

Reconciliation of investment property - 2020

	Opening balance	Disposals	Depreciation	Total
Investment property	53 593 805	(77 804)	(18 667)	53 497 334

Reconciliation of investment property - 2019

	Opening balance	Disposals	Depreciation	Total
Investment property	53 647 537	(35 064)	(18 667)	53 593 806

The municipality entered into a joint arrangement with ABSA Bank for the construction of a building for leasing purposes. The terms of the arrangement were as follows:

- The municipality contributed a piece of land, which was valued at R700,000 whilst ABSA contributed R6 300 000 for the construction of building.
- The municipality's contribution was deemed to be worth 10% and ABSA 90%.
- On completion of the building, ABSA occupied the building and leased additional rental space.
- Building operating costs are deducted from the rental income.
- ABSA is responsible for management of the building and in return compensated with 5% of rental income plus a management fee which will be agreed between the parties.
- The residue is shared in terms of the venturers' contribution.

In terms of GRAP 8 (Interest in Joint Ventures), the municipality's component/share of the building was recognised as Investment property. The nature of this jointly controlled asset is investment property as it is leased to tenants and the municipality earns rentals from it.

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.

Notes to the Annual Financial Statements

	2020 R	2019 R

9. 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	30 506 108	-	30 506 108	30 506 108	-	30 506 108
Buildings	75 623 088	(56 269 799)	19 353 289	75 623 089	(54 255 442)	21 367 647
Plant and machinery	925 154	(827 035)	98 119	900 154	(810 824)	89 330
Furniture and fixtures	475 809	(426 947)	48 862	475 809	(415 506)	60 303
Motor vehicles	13 132 318	(11 092 894)	2 039 424	12 824 072	(10 725 682)	2 098 390
Office equipment	379 410	(289 875)	89 535	379 410	(271 672)	107 738
Computer equipment	5 076 753	(2 943 500)	2 133 253	4 948 994	(2 292 057)	2 656 937
Community	141 483 172	(81 014 742)	60 468 430	133 902 944	(76 803 657)	57 099 287
Leased Assets	2 823 539	(2 823 539)	-	2 823 539	(2 294 125)	529 414
Work in progress	27 817 392	-	27 817 392	28 498 433	-	28 498 433
Landfill sites	12 488 000	(6 493 952)	5 994 048	12 488 000	(5 594 938)	6 893 062
Roads & stormwater assets	802 195 283	(352 494 333)	449 700 950	777 765 140	(334 460 331)	443 304 809
Electricity assets	75 611 782	(34 812 834)	40 798 948	75 611 782	(32 951 509)	42 660 273
Wastewater network	509 942	(411 787)	98 155	509 942	(379 064)	130 878
Other assets	5 336 361	(4 624 310)	712 051	5 336 361	(4 469 527)	866 834
Total	**1 194 384 111**	**(554 525 547)**	**639 858 564**	**1 162 593 777**	**(525 724 334)**	**636 869 443**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	30 506 108	-	-	-	-	30 506 108
Buildings	21 367 647	-	-	-	(2 014 358)	19 353 289
Plant and machinery	89 330	25 000	-	-	(16 211)	98 119
Furniture and fixtures	60 303	-	-	-	(11 441)	48 862
Motor vehicles	2 098 390	460 870	(654)	-	(519 182)	2 039 424
Office equipment	107 738	-	-	-	(18 203)	89 535
Computer equipment	2 656 937	148 477	(14 962)	-	(657 199)	2 133 253
Community	57 099 287	-	(350 234)	8 486 219	(4 766 842)	60 468 430
Leased Assets	529 414	-	-	-	(529 414)	-
Work in progress	28 498 433	38 424 327	-	(39 105 368)	-	27 817 392
Landfill sites	6 893 062	-	-	-	(899 014)	5 994 048
Roads & stormwater assets	443 304 809	-	(2 636 265)	30 619 149	(21 586 743)	449 700 950
Electricity assets	42 660 273	-	-	-	(1 861 325)	40 798 948
Wastewater network	130 878	-	-	-	(32 723)	98 155
Other assets	866 834	-	-	-	(154 783)	712 051
	636 869 443	**39 058 674**	**(3 002 115)**	**-**	**(33 067 438)**	**639 858 564**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	30 506 108	-	-	-	-	30 506 108
Buildings	24 677 315	-	(499 328)	-	(2 810 340)	21 367 647
Plant and machinery	104 190	-	-	-	(14 860)	89 330
Furniture and fixtures	71 744	-	-	-	(11 441)	60 303
Motor vehicles	2 337 225	172 000	-	-	(410 835)	2 098 390
Office equipment	94 418	31 650	-	-	(18 330)	107 738
Computer equipment	3 203 987	124 968	(16 813)	-	(655 205)	2 656 937
Community	51 679 486	-	(2 780 444)	12 842 126	(4 641 881)	57 099 287
Leased Assets	1 470 593	-	-	-	(941 179)	529 414
Work in progress	53 818 522	21 135 733	-	(46 455 822)	-	28 498 433
Landfill sites	9 647 079	-	-	-	(2 754 017)	6 893 062
Roads & stormwater assets	437 495 764	-	(1 534 813)	30 432 863	(23 089 005)	443 304 809
Electricity assets	41 341 286	-	-	3 180 833	(1 861 846)	42 660 273
Wastewater network	163 601	-	-	-	(32 723)	130 878
Other assets	993 873	24 500	-	-	(151 539)	866 834
	657 605 191	**21 488 851**	**(4 831 398)**	**-**	**(37 393 201)**	**636 869 443**

Pledged as security

None of the assets of the municipality have been pledged as security.

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		
Repairs and maintenance	7 457 165	5 741 091

Notes to the Annual Financial Statements

	2020 R	2019 R

10. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4 671 609	(4 284 046)	387 563	4 671 609	(2 771 623)	1 899 986

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	1 899 986	(1 512 423)	387 563

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 412 409	(1 512 423)	1 899 986

Pledged as security

No Intangible assets have been pledged as security.

11. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other	404 550	-	404 550	404 550	-	404 550

Reconciliation of heritage assets 2020

	Opening balance	Total
Other	404 550	404 550

Reconciliation of heritage assets 2019

	Opening balance	Total
Other	404 550	404 550

Pledged as security

No Heritage Asset has been pledged as security.

Notes to the Annual Financial Statements

	2020 R	2019 R
12. Long-term liabilities		
At amortised cost		
DBSA Loan 100121/3 The loan has a fixed interest rate of 15.15% per annum and is repayable in 30 equal half-yearly instalments. The loan period is 15 years and redemption date is 30 June 2019. The loan was paid off during the year.	-	503 655
DBSA Loan 102400/1 The loan has fixed interest rate of 5% per annum and is repayable in 40 equal instalments. The loan period is 20 years expiring in 30 September 2028.	1 650 148	1 800 290
DBSA Loan 100702/1 The loan has a fixed interest rate of 11.73% per annum and is repayable in 40 equal half-yearly instalments. The loan period is 20 years and redemption date is 30 June 2026.	803 398	881 314
	2 453 546	**3 185 259**
Total other financial liabilities	**2 453 546**	**3 185 259**
Non-current liabilities		
At amortised cost	2 121 915	2 348 182
Current liabilities		
At amortised cost	331 632	837 077
13. Finance lease obligation		
Minimum lease payments due		
- within one year	-	703 626
	-	703 626
less: future finance charges	-	(23 634)
Present value of minimum lease payments	**-**	**679 992**
Present value of minimum lease payments due		
- within one year	-	679 992
14. Payables from exchange transactions		
Trade payables	75 088 748	50 658 102
Payments received in advance	1 143 439	887 327
Other payables	572 955	154 163
Unallocated deposits	14 628 274	13 502 222
Accrued leave pay	10 589 809	8 981 030
Accrued bonus	3 244 842	3 062 900
Other deposits	182 070	165 426
Third party payables	17 135 372	16 500 087
Motor fees control	8 116 585	7 737 972
Retentions	3 819 003	2 613 622
Sundry payables	2 605	2 605
Debtors with credit balances	12 712 814	10 157 390
Net clearing salary	3 529	54 315
	147 240 045	**114 477 161**

Notes to the Annual Financial Statements

	2020 R	2019 R
15. VAT payable		
Net balance	6 948 027	8 100 260

The municipality is registered for VAT on a payments basis.

16. Consumer deposits		
Electricity	1 342 834	1 336 366
Water	875 188	770 491
	2 218 022	**2 106 857**

17. Employee benefit obligations

Defined contribution plan

The municipality has a policy to subsidise post-employment health care costs of employees that belonged to medical scheme on their retirement. The subsidy covers the employee as well as the spouse or dependent.

Category		
Current (In Service) Members	239	239
Continuation Members (Pensioners)	17	16
	256	**255**

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	32 929 000	32 041 000
Non-current liabilities	32 049 000	31 144 000
Current liabilities	880 000	897 000
	32 929 000	**32 041 000**

The municipality has no further obligation to cover unfunded benefits.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	32 041 000	38 221 000
Net expense recognised in the statement of financial performance	888 000	(6 180 000)
	32 929 000	**32 041 000**

Net expense recognised in the statement of financial performance

Current service cost	2 107 000	2 446 000
Interest cost	3 588 000	4 130 000
Actuarial (gains) losses	(3 960 695)	(11 999 962)
Settlement	(846 305)	(756 038)
	888 000	**(6 180 000)**

Notes to the Annual Financial Statements

	2020 R	2019 R

17. Employee benefit obligations (continued)

Valuation method

Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables. In order to illustrate the sensitivity of the valuation results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of mortality;

- 1% increase/decrease in the Medical Aid inflation.

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa. The effect of higher and lower mortality rates has been illustrated by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	-20% Mortality rate R	Valuation assumption R	+20% Mortality rate R
Total Accrued Liability	35 738 000	32 929 000	30 604 000
Interest Cost	5 273 000	4 852 000	4 504 000
Service Cost	2 138 000	1 957 000	1 806 000

Medical Aid Inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees. The effect of a 1% p.a. change in the medical aid inflation assumption is as follows:

	-20% Mortality rate	Valuation assumption	-20% Mortality rate
Total Accrued Liability	28 381 000	32 929 000	38 525 000
Interest Cost	4 168 000	4 852 000	5 694 000
Service Cost	1 618 000	1 957 000	2 384 000

Valuation Assumptions

In estimating the liability for post-employment medical aid benefits 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. APN 301 states that 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.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

	Current Valuation at 30 June 2020	Preceding Valuation 30 June 2019
Discount Rate	Yield Curve	Yield Curve
Consumer Price Inflation (CPI)	Difference between nominal and yield curve	Difference between nominal and yield curve
Medical Aid Contribution Inflation	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

Discount Rate

	2020 R	2019 R

17. Employee benefit obligations (continued)

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

We used the nominal and real zero curves as at 30 June 2020 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period. South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post-employment Medical Aid 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.

Valuation of 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.

Notes to the Annual Financial Statements

	2020 R	2019 R

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	1 789 929	10 731 628
Library Grant	-	500 000
LGSETA	745 986	437 855
INEP	-	2 409 051
	2 535 915	**14 078 534**

See note 23 for reconciliation of grants from National/Provincial Government.

19. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions/Redu ctions	Utilised during the year	Actuarial gain/loss	Change in discount factor	Total
Environmental rehabilitation	37 961 131	(5 615 192)	-	-	2 063 905	34 409 844
Long service award	7 388 000	697 000	(579 000)	(637 000)	718 000	7 587 000
	45 349 131	**(4 918 192)**	**(579 000)**	**(637 000)**	**2 781 905**	**41 996 844**

Reconciliation of provisions - 2019

	Opening Balance	Additions/Redu ctions	Utilised during the year	Actuarial gain/loss	Change in discount factor	Total
Environmental rehabilitation	36 633 918	(1 461 573)	-	-	2 788 786	37 961 131
Long service award	7 108 000	727 000	(1 008 751)	(164 249)	726 000	7 388 000
	43 741 918	**(734 573)**	**(1 008 751)**	**(164 249)**	**3 514 786**	**45 349 131**

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act, 28 of 2002). The provision was determined by an independent expert as at 30 June 2020 and approximates the discounted expected future cash flows using reasonable estimation techniques.

Notes to the Annual Financial Statements

	2020 R	2019 R

19. Provisions (continued)

Long service award

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

Completed years of service	Total Long Service Benefit Award (% of Annual Salary	Formula used to Long Service Benefit Award
Ten (10)	4%	(10/250)* Annual Salary
Fifteen (15)	8%	(20/250)* Annual Salary
Twenty plus (20+)*	12%	(30/250)* Annual Salary

* Twenty(20), twenty-five (25), thirty(30), thirty-five(35), forty(40) and forty-five(45)

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.

20. Service charges

Sale of electricity	58 762 845	58 474 164
Sale of water	8 897 815	9 376 489
Sewerage and sanitation charges	343 432	185 835
Refuse removal	10 740 207	9 867 638
	78 744 299	**77 904 126**

21. Investment revenue

Interest revenue		
Bank	1 770 825	1 024 901

22. Property rates

Rates received

Residential	23 340 766	13 205 090
Commercial	15 511 436	9 408 645
State	757 562	561 109
Agriculture	915 169	8 023 502
	40 524 933	**31 198 346**

Property rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2019. Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

	2020 R	2019 R
23. Government grants and subsidies		
Operating grants		
Equitable share	174 021 000	153 173 000
Capital grants		
Municipal infrastructure grant	44 490 750	38 408 936
Financial management grant	2 215 000	2 215 000
INEP	1 053 000	6 859 949
LGSETA	71 369	837 956
NMMDM water grant	3 000 000	3 000 000
Library grant	1 230 000	670 000
Extended public works programme	1 000 000	1 094 000
Disaster Management Grant	268 000	-
	53 328 119	**53 085 841**
	227 349 119	**206 258 841**

Equitable Share

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

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	10 731 628	1 636 564
Current-year receipts	37 154 000	47 504 000
Conditions met - transferred to revenue	(44 490 750)	(38 408 936)
Roll over declined	(1 604 949)	-
	1 789 929	**10 731 628**

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

Financial management grant

Current-year receipts	2 215 000	2 215 000
Conditions met - transferred to revenue	(2 215 000)	(2 215 000)
	-	-

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

Library Grant

Balance unspent at beginning of year	500 000	500 000
Current-year receipts	730 000	670 000
Conditions met - transferred to revenue	(1 230 000)	(670 000)
	-	**500 000**

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

EPWP

Current-year receipts	1 000 000	1 094 000
Conditions met - transferred to revenue	(1 000 000)	(1 094 000)
	-	-

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

Notes to the Annual Financial Statements

	2020 R	2019 R
23. Government grants and subsidies (continued)		
LGSETA		
Balance unspent at beginning of year	437 855	437 855
Current-year receipts	379 500	-
Conditions met - transferred to revenue	(71 369)	-
	745 986	**437 855**
Conditions still to be met - remain liabilities (see note 18).		
INEP		
Balance unspent at beginning of year	2 409 051	-
Current-year receipts	1 053 000	9 269 000
Conditions met - transferred to revenue	(1 053 000)	(6 859 949)
Roll over declined	(2 409 051)	-
	-	**2 409 051**
Conditions still to be met - remain liabilities (see note 18).		
NMMDM Water Grant		
Current-year receipts	3 000 000	3 000 000
Conditions met - transferred to revenue	(3 000 000)	(3 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
Disaster Management Grant		
Current-year receipts	268 000	-
Conditions met - transferred to revenue	(268 000)	-
	-	-
Conditions still to be met - remain liabilities (see note 18).		
24. Revenue		
Service charges	78 744 299	77 904 126
Licences and permits	1 099 943	1 230 714
Royalties received	686 859	782 911
Rental income	130 971	113 263
Sale of tender documents	675 836	775 042
Sale of Land	59 595	440 833
Gain on sale of other financial assets	57 664	-
Interest received - investment	1 770 825	1 024 901
Property rates	40 524 933	31 198 346
Government grants & subsidies	227 349 119	206 258 841
Fines, penalties and forfeits	3 022 100	4 274 450
	354 122 144	**324 003 427**

Notes to the Annual Financial Statements

	2020 R	2019 R
24. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	78 744 299	77 904 126
Licences and permits	1 099 943	1 230 714
Royalties received	686 859	782 911
Rental income	130 971	113 263
Sale of tender documents	675 836	775 042
Sale of land	59 595	440 833
Other income	57 664	-
Interest received - investment	1 770 825	1 024 901
	83 225 992	**82 271 790**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	40 524 933	31 198 346
Transfer revenue		
Government grants & subsidies	227 349 119	206 258 841
Fines, penalties and forfeits	3 022 100	4 274 450
	270 896 152	**241 731 637**
25. Bulk purchases		
Electricity	56 092 120	49 826 862
Water	80 778	80 325
	56 172 898	**49 907 187**
26. Contracted services		
Outsourced Services		
Meter Management	278 876	241 999
Security Services	9 908 193	9 458 012
27. Depreciation and amortisation		
Property, plant and equipment	33 067 437	37 393 201
Investment property	18 667	18 667
Intangible assets	1 512 423	1 512 423
	34 598 527	**38 924 291**

Notes to the Annual Financial Statements

	2020 R	2019 R
28. Employee related costs		
Basic	83 626 146	78 116 561
13th Cheque	6 197 551	5 944 892
Medical aid - company contributions	9 330 403	8 354 182
UIF	591 309	588 691
SDL	928 331	1 041 442
(Decrease) / Increase in leave pay provision charge	1 608 779	1 205 915
Pension fund contributions	16 061 522	15 251 292
Travel, motor car, accommodation, subsistence and other allowances	6 787 572	6 312 805
Overtime payments	8 675 217	8 423 225
Long-service awards	596 496	562 751
Acting allowances	605 097	322 731
Arbitration payout	-	122 734
Housing benefits and allowances	886 313	841 360
Cellphone allowance	400 321	377 889
Bargaining council	35 258	34 055
Leave payout	506 066	680 867
Standby allowance	2 426 030	1 881 833
(Decrease) / Increase in bonus provision	181 942	(44 173)
	139 444 353	**130 019 052**
Remuneration of Director Technical Services		
Annual Remuneration	860 020	382 231
Car Allowance	286 673	95 558
Contributions to UIF, Medical and Pension Funds	1 785	744
SDL and Bargain Council	9 228	4 662
Cellphone Allowance	18 000	7 200
	1 175 706	**490 395**

Notes to the Annual Financial Statements

	2020 R	2019 R
28. Employee related costs (continued)		
Remuneration of Director Community Services		
Annual Remuneration	860 020	382 231
Car Allowance	286 673	95 558
Contributions to UIF, Medical and Pension Funds	1 785	744
SDL and Bargain Council	9 228	4 671
Cellphone Allowance	18 000	7 500
	1 175 706	**490 704**
Remuneration of Director Local Economic Development		
Annual Remuneration	860 020	286 673
Car Allowance	286 673	95 558
Contributions to UIF, Medical and Pension Funds	1 785	595
SDL and Bargain Council	7 866	3 147
Cellphone Allowance	18 000	6 000
	1 174 344	**391 973**
Remuneration of Chief Audit Executive		
Annual Remuneration	772 483	810 394
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	1 785	1 785
SDL and Bargain Council	8 508	9 349
Cellphone Allowance	10 500	18 000
Leave Payout	107 925	-
	1 021 201	**959 528**
Remuneration of Municipal Manager		
Annual Remuneration	1 402 824	693 668
Car Allowance	-	10 000
Contributions to UIF, Medical and Pension Funds	1 785	744
SDL and Bargain Council	11 890	5 945
Cellphone Allowance	24 000	-
	1 440 499	**710 357**
Chief Finance Officer		
Annual Remuneration	860 020	143 337
Car Allowance	286 673	47 779
Contributions to UIF, Medical and Pension Funds	1 785	297
SDL and Bargain Council	9 228	1 846
Cellphone Allowance	18 000	3 000
	1 175 706	**196 259**
Director Corporate Services		
Annual Remuneration	864 922	815 965
Car Allowance	271 980	271 980
Contributions to UIF, Medical and Pension Funds	1 785	1 785
SDL and Bargain Council	9 897	11 565
Cellphone Allowance	18 000	18 000

Notes to the Annual Financial Statements

	2020 R	2019 R
28. Employee related costs (continued)		
Backpay	9 791	-
	1 176 375	**1 119 295**
Remuneration of Executive Manager		
Annual Remuneration	520 404	543 994
Car Allowance	-	220 000
Contributions to UIF, Medical and Pension Funds	1 338	1 785
SDL and Bargain Council	4 131	9 006
Cellphone Allowance	-	11 000
Leave Payout	-	160 022
	525 873	**945 807**

The Executive manager was appointed on 1 October 2019.

29. Finance costs		
Long-term liabilities	177 965	442 108
Trade and other payables	4 819 534	4 616 445
Landfill site	2 063 905	2 788 786
Employee benefits	4 306 000	4 856 000
	11 367 404	**12 703 339**
30. Remuneration of councillors		
Mayor	911 492	879 661
Speaker	737 900	720 725
Chief Whip	407 286	392 431
Executive Council	2 840 732	2 651 141
Councillors	8 932 007	8 596 959
	13 829 417	**13 240 917**

In-kind benefits

The Mayor and Speaker are full time. Each is provided with an office and secretarial administration support at the cost of the Council. The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.The Mayor has one full-time bodyguard.

Notes to the Annual Financial Statements

	2020 R	2019 R
31. General expenses		
Advertising	219 398	157 841
Commission paid	1 478 207	1 224 152
Auditors remuneration	5 156 143	2 651 252
Bank charges	1 014 437	806 124
Cleaning	1 384 212	470 080
Community development and training	228 962	514 286
Conferences and seminars	403 671	1 072 260
Consulting and professional fees	32 056 360	23 508 148
Consumables	218 453	104 772
Discount allowed	-	(1 546)
Electricity	72 639	71 411
Entertainment	30 000	138 151
Extended public works program	512 896	5 443 824
Fines and penalties	2 086 997	-
Fuel and oil	2 211 598	2 046 961
Funeral costs	643 190	182 608
Hire	642 367	256 211
IT expenses	477 052	352 178
Indigent subsidy	579 509	-
Insurance	1 636 284	461 398
Other expenses	4 789 935	8 316 947
Pest control	-	29 870
Postage and courier	-	1 709
Printing and stationery	559 844	3 338 168
Research and development costs	235 155	-
Software expenses	959 337	1 209 099
Staff welfare	65 413	1 500
Inventory adjustment	69 741	255 428
Subscriptions and membership fees	1 742 926	1 281 260
Telephone and fax	681 534	657 772
Title deed search fees	8 256	-
Training	627 777	353 945
Travel - local	940 058	952 351
Uniforms	30 670	508 658
Sitting allowance	2 903 949	2 688 600
	64 666 970	**59 055 418**

Notes to the Annual Financial Statements

	2020 R	2019 R
32. Cash generated from operations		
Surplus	13 215 905	9 018 490
Adjustments for:		
Depreciation and amortisation	34 598 527	38 924 291
Gain on sale of assets and liabilities	3 002 120	5 313 913
Fair value adjustments	(57 664)	25 006
Debt impairment	6 965 561	2 020 180
Actuarial gains/losses	(8 834 192)	(6 180 000)
Actuarial financiial costs	6 369 905	1 607 213
Inventory adjustment	69 741	255 428
Sale of land	(59 595)	-
Errors adjusted	6 800 360	6 621 982
Leave and bonus accrual	1 790 721	1 485 884
Changes in working capital:		
Inventories	(531 176)	992 065
Receivables from exchange transactions	(2 645 014)	(24 953 087)
Consumer debtors	(46 528 960)	(27 632 754)
Other receivables from non-exchange transactions	(2 024 049)	(3 517 575)
Payables from exchange transactions	30 972 163	(1 609 139)
VAT	(1 152 233)	4 211 698
Unspent conditional grants and receipts	(11 542 619)	10 666 159
Consumer deposits	111 165	77 465
	30 520 666	**17 327 219**
33. Auditors' remuneration		
Fees	5 156 143	2 651 252

Notes to the Annual Financial Statements

	2020 R	2019 R
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	69 853 310	4 422 859
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	-	34 832 041
Total capital commitments		
Already contracted for but not provided for	69 853 310	4 422 859
Not yet contracted for and authorised by accounting officers	-	34 832 041
	69 853 310	**39 254 900**
Authorised operational expenditure		
Already contracted for but not provided for		
• Professional fees	19 358 744	5 996 653
• Security	39 261 030	6 973 680
	58 619 774	**12 970 333**
Total operational commitments		
Already contracted for but not provided for	58 619 774	12 970 333

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

35. Contingencies

Various contractual claims are by contractors/suppliers, customers, community members and previous employees are currently in dispute and are subject to mediation. The potential extent of the liability cannot be determined, since its subject to litigation however, an estimate for the expected outflow is as per below. A list of all case files are kept within the municipality.

Litigation and claims		
Breach of contract	-	190 000
Unfair conduct	2 988 000	2 988 000
Other matters	3 319 068	4 008 125
	6 307 068	**7 186 125**

Notes to the Annual Financial Statements

	2020 R	2019 R

36. Risk management

Financial risk management

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

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

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

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

Liquidity risk

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

The following are contractual liabilities :

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	-	-	-	2 453 546
Trade payables	73 813 453	-	-	-

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	-	-	-	3 185 259
Trade payables	48 514 028	-	-	-

	2020 R	2019 R

36. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the municipality's investments, receivables, and cash and cash equivalents.

Financial instrument	2020	2019
Investments	-	2 171 236
Consumer debtors	218 588 352	172 059 392
Cash and cash equivalents	2 385 249	11 621 579
Traffic fines	27 193 252	25 163 062

Investments, and cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and within specific guidelines set in accordance with Council's approved investment policy. Consequently, the municipality does not consider there to be any significant exposure to credit risk.

Consumer debtors

Consumer debtors are amounts owing by consumers, and are presented on the Statement of Financial Position net of impairment losses. The municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness. There were no material changes in its objectives, policies and processes for managing and measuring the risk during the year in review. The municipality's strategy for managing its risk includes encouraging residents to install prepaid electricity meters. A deposit is required for new service connections.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position. The municipality has no significant concentration of credit risk, with exposure spread over multiple consumers and not concentrated in any particular sector or geographic area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. The outstanding amounts of the ten largest debtors represent 5,08% (2019:xxx%) of the total outstanding balance. The average credit period on services rendered is 30 days from date of invoice. No interest is raised on overdue accounts. The Entity has provided fully for all receivables outstanding over 365 days. Receivables up to 365 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience. Additional information relating to the analysis of receivables is given in note 6.

Traffic fines

Traffic fines are disclosed net of impairment loss on the Statement of financial position. Impairment calculation is based on expected recovery rate calculated from averaged prior year recovery rates. Traffic fines can be contested in writing and can lead to a renegotiated fine.

Market risk

Interest rate risk

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

Price risk

The Entity is not exposed to commodity price risk.

37. 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.

Notes to the Annual Financial Statements

	2020 R	2019 R

37. Going concern (continued)

As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Non-compliance (30 days) - The municipality is currently not paying all their creditors within the accepted 30 days. This also resulted in fruitless and wasteful expenditure due to interest on overdue creditors account. Debtors are currently not paying as their debt falls due with most of the debtors sitting in the 180+ days bracket

There was an outbreak of COVID-19 which was declared an epidemic by the World Health Organisation and following that, the South Africa Government declared 21 days of lockdown which will continue to have impact on municipality cash flow. These factors indicate the existence of material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern. Despite of the COVID-19 outbreak, the municipality will continue as a going concern as it is part of the institutions that supply critical services to the communities it serves. The President of South Africa also pledged support for all institutions that supply critical services and a fund has also been set up to support these institutions. Unemployment Insurance Fund (UIF) will also be used to support salaries during this period.

Despite the above negative indicators, the municipality is a going concern because of the following:It is a state entity set up by the Constitution of the Republic of South Africa to provide basic services to the community and is also funded by the state for that purpose. Failure to provide these services will prompt National Government intervention to ensure it stays functional and able to deliver basic services and consequently compliance with the Constitution.

In addition, the municipality collects revenue for services rendered and this will augment their cash flows in subsequent years. Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.

38. Unauthorised expenditure

Opening balance	195 278 450	153 788 882
Current year	13 039 645	41 489 568
	208 318 095	**195 278 450**

No steps have been taken as a consequence of above expenditure

39. Fruitless and wasteful expenditure

Opening balance	21 323 121	16 244 338
Current year	6 744 467	5 078 783
Interest credit note	(20 355)	-
	28 047 233	**21 323 121**

Fruitless and wasteful expenditure has been reported to Council and the matter is still under investigation by Sec 32 Committee. The information required per MFMA s125(2)(d)(i)-(iii) is not available.

Eskom	2 749 731	1 996 762
Auditor general	237 693	80 293
Telkom	25 213	38 015
Municipal Gratuity Fund	4 032	273 365
SARS	3 084 579	2 230 181
DBSA	944	12 453
Department of Transport	642 275	447 714
	6 744 467	**5 078 783**

Notes to the Annual Financial Statements

	2020 R	2019 R
40. Irregular expenditure		
Opening balance	210 852 128	153 138 291
Add: Irregular Expenditure - current year	21 729 334	57 713 837
	232 581 462	**210 852 128**
Analysis of irregular expenditure - current year		
Tenders/Quotations not advertised	-	14 311 852
SCM procedures not followed	18 827 088	28 108 984
Gaps in SCM process	-	9 107 939
Expired contracts	-	2 093 444
Evaluation criteria inconsistent	2 902 246	2 873 166
Not registered on CSD	-	1 218 452
	21 729 334	**57 713 837**
41. Additional disclosure in terms of Municipal Finance Management Act		
41.1. Contributions to organised local government		
Current year subscription / fee	1 717 710	1 276 260
Amount paid - current year	(1 372 420)	(1 276 260)
	345 290	**-**
41.2. Audit fees		
Opening balance	494 735	141 326
Current year subscription / fee	5 157 621	3 589 536
Amount paid - current year	(2 359 424)	(3 236 127)
	3 292 932	**494 735**
41.3. PAYE, SDL and UIF		
Opening balance	12 740 699	5 743 922
Current year subscription / fee	23 004 984	22 046 771
Amount paid - current year	(26 151 939)	(15 049 994)
Other	2 981 463	-
	12 575 207	**12 740 699**
41.4. Pension and Medical Aid Deductions		
Opening balance	3 139 111	2 996 299
Current year subscription / fee	38 728 274	36 063 142
Amount paid - current year	(38 686 593)	(35 920 330)
	3 180 792	**3 139 111**
41.5. VAT		
VAT payable	6 948 027	8 100 260

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

Notes to the Annual Financial Statements

	2020 R	2019 R

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

41.6. Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding as at 30 June 2020:

30 June 2020

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Modibetsane SI	835	-	835
Mothoagae PK	1 010	-	1 010
Phetwe RSB	446	-	446
Sapala TN	937	-	937
Suliman IS	2 488	-	2 488
Moloantoa IT	593	-	593
Thembo S	2 072	40 188	42 260
Suliman Y	1 258	232	1 490
Cassanga AB	6 292	26 950	33 242
	15 931	**67 370**	**83 301**

30 June 2019

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Dreyer R	1 885	-	1 885
Mothoagae PK	333	-	333
Moloantoa IT	493	-	493
Suliman Y	5 173	7 129	12 302
Sapala TN	841	-	841
Phetwe RSB	367	-	367
	9 092	**7 129**	**16 221**

42. Service in kind

During the current year, the municipality received assistance from the North West Provincial Government - Treasury. This took the form of appointment consultants to assist the munipality with the preparation of the audit and also audit support.

43. Distribution Losses

Electricity losses		
kWH	19 594 051	15 520 253
Cost of loss	22 725 781	15 547 444
Water losses		
m3/HA	535 611	446 916
Cost of loss	25 424	21 094

The main reason for incurring water losses relates to burst water pipes, leaks and unmetered water sites. Average cost per m3/HA R0.04746

The main reason for incurring electricity losses relates to heat dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering. Average cost per kWH R1.15983 (2019: R1.00175).

44. New standards and interpretations

44.1 Standards and interpretations effective and adopted in the current year

In the current year, there were no new standards and interpretations that are effective for the current financial year and that are relevant to the municipality's operations.

Notes to the Annual Financial Statements

	2020 R	2019 R

45. Related parties

Key management and councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

List of all councillors is available on the information page and list of all directors is as per Note 28.

The councillors that have outstanding debt have been included as part of the MFMA disclosure.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

46. Prior-year adjustments

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

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from exchange		4 945 890	(108 531)	1 019 004	5 856 363
Receivables from non-exchange		2 872 476	54 290	-	2 926 766
Consumer debtors		87 695 262	(29 699 440)	(2 022 728)	55 973 094
Other assets		-	-	2 022 728	2 022 728
Investment Property		53 930 538	(336 733)	-	53 593 805
Property, plant and equipment		601 336 045	35 533 398	-	636 869 443
Payables from exchange transactions		(111 564 095)	(1 894 062)	(1 019 004)	(114 477 161)
VAT Payable		(6 216 737)	(1 883 523)	-	(8 100 260)
Effect on accumulated surplus		**632 999 379**	**1 665 399**	**-**	**634 664 778**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges		(78 102 791)	198 665	-	(77 904 126)
Sundry Income		(556 023)	(219 019)	-	(775 042)
Sale of land		(475 897)	35 064	-	(440 833)
Interest received		(1 041 295)	16 394	-	(1 024 901)
Contracted services		8 610 415	1 089 596	-	9 700 011
Depreciation and amortization		27 046 552	11 877 739	-	38 924 291
Employee costs		130 030 666	(11 614)	-	130 019 052
Finance costs		12 840 504	(137 165)	-	12 703 339
Loss on disposal of assets		4 814 585	499 328	-	5 313 913
General expenditure		63 808 435	1 087 298	(5 840 315)	59 055 418
Repairs and maintenance		-	-	5 840 315	5 840 315
Employee benefit acturial gain		(10 327 270)	-	10 327 270	-
Provision for landfill site movement		(1 461 573)	-	1 461 573	-
Acturial valuation movement		-	-	(11 788 843)	(11 788 843)
Effect on profit or loss		**155 186 308**	**14 436 286**	**-**	**169 622 594**

Notes to the Annual Financial Statements

Figures in Rand

47. Deviations

Deviations less than 200, 000	4 037 003	12 650 139
Deviations greater than 200,000	6 806 094	822 707
	10 843 097	**13 472 846**

The register is available at the main office of the municipality.

Analysis of deviations

Sole providers	987 425	1 096 405
Emergencies	5 426 673	723 405
Impractical	2 046 220	616 571
Other	2 382 779	11 036 465
	10 843 097	**13 472 846**

48. Fines, Penalties and Forfeits

Municipal Traffic Fines	3 022 100	4 274 450

49. Lease rentals on operating lease

Equipment

Contingent amounts	2 011 709	24 151