Xhariep District Municipality

(Registration number DC16)
Annual Financial Statements for the year ended 30 June 2020

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	South African Category C Municipality as defined by the Municipal Structures Act (Act no 117 of 1998)
Nature of business and principal activities	Xhariep District Municipality is a district municipality performing the function as set out in the constitution(Act no 105 of 1996). Xhariep District Municipality includes the municipal areas of Mohokare Local Municipality, Letsemeng Local Municipality and Kopanong Local Municipality.
Mayoral committee	
Executive Mayor	Cllr Sehanka MJ
MMC: Finance	Cllr Sebeco JK
MMC: Corporate Services	Cllr Moeketsi K
MMC: Planning and Social Development	Cllr Mochechepa TD
Speaker	Cllr Mqungquthu NS
Councillors	Cllr Mogapi ML Cllr Ntwanambi MG Cllr Tseuoa TS Cllr Phaliso MJ Cllr Moitse J Cllr November AN Cllr Riddle IS Cllr Van Wyk RW Cllr Nthapo TV Cllr Van Rensburg AJJ Cllr Matlakala MK
Grading of local authority	3
Accounting Officer	Moletsane LY
Chief Finance Officer (CFO)	Litabe PV
Registered office	20 Louw Street Trompsburg 9913
Business address	20 Louw Street Trompsburg 9913
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa
Other 1	
Fax	051 713 0461
Website address	www.xhariep.fs.gov.za

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

COIDA	Compensation for Occupational Injuries and Diseases Act
EPWP	Expanded Public Works Program
DBSA	Development Bank of South Africa
ASB	Accounting Standards Board
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
RRAMS	Rural Roads Asset Management Grant
FMG	Financial Management Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The Municipality is wholly dependent on the Division of Revenue Act and Free State Provincial Government for continued funding of operations. The annual financial statements are prepared on the basis that the Municipality is a going concern and that the Xhariep District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the Municipality.

Although the accounting officer is primarily responsible for the financial affairs of the Municipality, they are supported by the Municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the Municipality's annual financial statements. The annual financial statements have been examined by the Municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 28 February 2021 and were signed on municipality's behalf by:

Ms. Moletsane LY
Municipal Manager

Accounting Officer's Report

The Accounting Officer submits her report for the year ended 30 June 2020.

1. Incorporation

The municipality was incorporated on 06 December 2001 and obtained its certificate to commence business on the same day.

2. Review of activities

Main business and operations

3. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 9 359 242 and that the municipality's total assets exceed its liabilities by R 9 359 242.

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.

4. Subsequent events

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

5. Accounting policies

The Financial Statement prepared in accordance with the Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statement issued by the Accounting Practices Board as the prescribed framework by National Treasury.

6. Accounting Officer

The Municipal Manager of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Ms. Moletsane LY	South Africa

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	10 676 611	7 370 702
Inventories	3	38 986	28 995
Receivables from exchange transactions	4	3 935 866	1 935 808
VAT receivable	5	2 779 101	2 184 072
		17 430 564	**11 519 577**
Non-Current Assets			
Property, plant and equipment	6	11 542 822	12 928 918
Intangible assets	7	1 021 107	404 759
		12 563 929	**13 333 677**
Total Assets		**29 994 493**	**24 853 254**
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	17 273 016	12 379 873
Finance lease obligation	10	232 688	208 037
Unspent conditional grants and receipts	11	948 108	799 106
Employee benefit obligation	8	157 111	270 472
		18 610 923	**13 657 488**
Non-Current Liabilities			
Finance lease obligation	10	104 910	337 600
Employee benefit obligation	8	1 919 418	1 761 804
		2 024 328	**2 099 404**
Total Liabilities		**20 635 251**	**15 756 892**
Net Assets		**9 359 242**	**9 096 362**
Accumulated surplus		9 359 242	9 096 362

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
REVENUE			
Revenue from exchange transactions			
Interest received (debtors)		290 931	223 809
Interest received (bank/ investments)		650 100	415 498
Rental of facilities	23	543 267	427 266
Actuarial gains		189 084	60 614
Other income	13	661 514	97 513
Total revenue from exchange transactions		**2 334 896**	**1 224 700**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	14	64 739 000	66 042 000
Finance Assistance		796 164	1 607 820
LG SETA Income		92 723	91 238
Total revenue from non-exchange transactions		**65 627 887**	**67 741 058**
Total revenue	12	**67 962 783**	**68 965 758**
EXPENDITURE			
Employee related costs	15	(44 063 039)	(41 687 132)
Remuneration of councillors	16	(4 709 487)	(4 852 529)
Depreciation and amortisation	17	(2 095 288)	(2 597 913)
Impairment loss/ Reversal of impairments	18	(14 050)	(53 267)
Finance costs	19	(426 919)	(323 416)
Lease rentals		-	(34 919)
Debt Impairment & bad debts written off	20	(778 755)	(177 495)
Contracted services	21	(2 710 998)	(4 356 558)
General Expenses	22	(12 901 367)	(7 931 629)
Total expenditure		**(67 699 903)**	**(62 014 858)**
Surplus for the year		**262 880**	**6 950 900**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	**2 145 462**	**2 145 462**
Changes in net assets		
Surplus for the year	6 950 900	6 950 900
Total changes	6 950 900	6 950 900
Opening balance as previously reported	9 453 235	9 453 235
Adjustments		
Prior year adjustments	(356 873)	(356 873)
Restated* Balance at 01 July 2019 as restated*	**9 096 362**	**9 096 362**
Changes in net assets		
Surplus for the year	262 880	262 880
Total changes	262 880	262 880
Balance at 30 June 2020	**9 359 242**	**9 359 242**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		902 837	279 908
Grants		64 888 000	67 649 820
Interest income		650 100	415 498
Other receipts - LG Seta		92 723	91 238
		66 533 660	68 436 464
Payments			
Employee costs		(48 772 525)	(47 160 002)
Suppliers		(12 480 679)	(15 820 545)
Finance costs		(376 044)	(323 416)
		(61 629 248)	(63 303 963)
Net cash flows from operating activities	25	**4 904 412**	**5 132 501**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(318 483)	(142 291)
Purchase of other intangible assets	7	(1 021 107)	-
Net cash flows from investing activities		**(1 339 590)**	**(142 291)**
Cash flows from financing activities			
Finance lease payments		(258 913)	(528 420)
Net increase/(decrease) in cash and cash equivalents		**3 305 909**	**4 461 789**
Cash and cash equivalents at the beginning of the year		7 370 702	2 908 913
Cash and cash equivalents at the end of the year	2	**10 676 611**	**7 370 702**

Xhariep District Municipality

(Registration number DC16)
Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities	25 000	602 180	**627 180**	543 267	**(83 913)**	38
Interest received (trading)	-	20 000	**20 000**	290 931	**270 931**	38
Other income	744 185	(616 685)	**127 500**	661 514	**534 014**	38
Interest received - investment	200 000	600 000	**800 000**	650 100	**(149 900)**	38
Total revenue from exchange transactions	**969 185**	**605 495**	**1 574 680**	**2 145 812**	**571 132**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	68 740 000	148 000	**68 888 000**	64 739 000	**(4 149 000)**	38
Financial Assistance	-	-	**-**	796 164	**796 164**	38
LG SETA Income	-	95 000	**95 000**	92 723	**(2 277)**	38
Total revenue from non-exchange transactions	**68 740 000**	**243 000**	**68 983 000**	**65 627 887**	**(3 355 113)**	
Total revenue	**69 709 185**	**848 495**	**70 557 680**	**67 773 699**	**(2 783 981)**	
Expenditure						
Employee Related Costs	(46 524 918)	540 686	**(45 984 232)**	(44 063 039)	**1 921 193**	38
Remuneration of councillors	(4 864 581)	308 363	**(4 556 218)**	(4 709 487)	**(153 269)**	38
Depreciation and amortisation	(1 652 450)	-	**(1 652 450)**	(2 095 288)	**(442 838)**	38
Impairment loss	-	-	**-**	(14 050)	**(14 050)**	38
Finance costs	(310 000)	155 000	**(155 000)**	(426 919)	**(271 919)**	38
Contracted Services	(4 876 590)	-	**(4 876 590)**	(2 710 998)	**2 165 592**	38
General Expenses	(11 214 646)	(1 872 544)	**(13 087 190)**	(13 680 122)	**(592 932)**	38
Total expenditure	**(69 443 185)**	**(868 495)**	**(70 311 680)**	**(67 699 903)**	**2 611 777**	
Operating surplus	**266 000**	**(20 000)**	**246 000**	**73 796**	**(172 204)**	
Actuarial gains/losses	-	-	**-**	189 084	**189 084**	38
Surplus before taxation	**266 000**	**(20 000)**	**246 000**	**262 880**	**16 880**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**266 000**	**(20 000)**	**246 000**	**262 880**	**16 880**	
Reconciliation						

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.

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and loans and receivables

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

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

Provisions

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

Effective interest rate

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

Useful lives and residual values

The municipality's management determine the useful lives and related depreciation changes for property, plant and equipment . This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Long Service Award

The present value of the long service bonus obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, future inflation, salary inflation, net discount rate and assumed retirement age.

Any changes in these assumption will impact on the carrying amount of long service bonus obligations

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

Leave and Bonus Accrual

The municipality used the leave and bonus paid date to estimate the provisions respectively.

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.

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.

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.

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.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meets 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.

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 shall be depreciated separately

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent to initial recognition, item of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where the municipality replaces parts of an asset, It derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Land is not depreciated and depreciation commence when the asset is ready for intended use.

Subsequent to initial recognition, property , plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Components of an asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

Item	Depreciation method	Average useful life
Buildings	Straight line	25-30 years
Security System	Straight line	5-10 years
Plant and machinery	Straight line	3-15 years
Furniture and fixtures	Straight line	3-15 years
Motor vehicles	Straight line	4-7 years
Office equipment	Straight line	5-10 years
Computer equipment	Straight line	3-10
Finance lease assets	Straight line	The shorter of asset's useful life or the lease term

The residual value, the 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 expectation differ from the previous estimate.

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.

Item 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 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

No item of property, plant and equipment are pledged as security for liabilities.

1.5 Intangible assets

Intangible assets are non current asset that are held for use in the production or supply of goods or services, rental to other or for administrative purposes and are expected to be used during more than one period.

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

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held to maturity investments.
- Loans and receivables.
- Available for sale financial assets.
- Financial liabilities measured at amortised.

Classification depends on the purpose for which the financial instrument were obtained/ incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category:

Accounting Policies

1.6 Financial instruments (continued)

Initial recognition

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

The municipality classifies financial instruments or their component parts on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value except for equity investment for which a fair value is not determinable, which are measured at cost and are classified as available-for sale financial assets.

For financial instruments which are at fair value through surplus or deficit, transaction cost are included in the initial measurement of the instrument.

Subsequent measurement of financial assets and financial liabilities

Loans and receivable are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investment are subsequently measured at amortised cost. Using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This equity investment for which a fair value is not determinable, which is measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets is calculated using the effective interest method is recognised as surplus or deficit as part of other income. Dividends or similar distribution received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for sale financial asset denominated in foreign currency are analysed between translation difference resulting from changes in amortised cost and other changes in carrying amount. Translation difference on monetary items are recognised in surplus or deficit while translation difference on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value measurement considerations

The fair value of a qouted investment is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These includes the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on municipality-specific inputs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as a fair value through surplus or deficit is recognised in surplus or deficit
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net asset, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net asset is recognised in surplus or deficit: and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liabilities is derecognised or impaired, and through the amortisation process

Impairment of financial assets

Accounting Policies

1.6 Financial instruments (continued)

At each of the reporting period the municipality assess all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial asset has been impaired.

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

In the case of equity securities classified as available-for-sale, a significant or prolonged declined in the fair value of the security below its cost is considered an indicator or impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised as surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised as surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivable from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised as surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Payable from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits).Cash equivalents are short-term highly liquid investments, readily convertible to a known amount of cash ,that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loan and receivable.

Bank overdraft and borrowings

Accounting Policies

1.6 Financial instruments (continued)

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Investment

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities

Financial liabilities are classified according to the substance of contractual agreements entered into.

Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities consist of trade payables and borrowings. They are categorized as financial liabilities held at amortised cost, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

1.7 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

1.7 Inventories (continued)

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

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

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

1.8 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. Liabilities for short-term employee benefits that are unpaid at year end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

Defined contribution plans

The municipality contribution to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees unless another standard requires or permits the inclusion of contribution in the cost of an asset. Prepaid contribution are recognised as an asset to the extent that a cash refund or a reduction in future payment is available. Payments to defined contribution retirement benefit plan ae charged as an expense as they fall due.

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

Accounting Policies

1.8 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality 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.

1.9 Provisions and contingencies

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

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

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

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

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

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

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

Accounting Policies

1.9 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating surplus.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

1.10 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation 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 municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.11 Revenue from exchange transactions

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

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

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

Measurement

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

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.

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

1.12 Revenue from non-exchange transactions

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

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.

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

Measurement

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

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

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

Government grants

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

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

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 municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

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

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

Other grants and donations

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

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

1.13 Investment income

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

1.14 Borrowing costs

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

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

Accounting Policies

1.15 Comparative figures

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

1.16 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. Detailed disclosure were in the notes to the financial statement as required by the MFMA

1.17 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. Detailed disclosure were made in the notes to the financial statement as required by the MFMA

1.18 Irregular expenditure

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

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

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

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

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

1.19 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.

Accounting Policies

1.19 Budget information (continued)

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

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

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

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

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 39.

Comparative information is not required.

1.20 Related parties

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

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

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting municipality 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 municipality, 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.

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

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

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the municipality's financial statements to understand the effect of related party transactions on its annual financial statements.

Accounting Policies

1.21 Events after reporting date

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

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

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

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

1.22 Use of Estimates

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

1.23 Going concern

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

The municipality cannot continue to operate without receiving government grants. However the going concern assumption is based on the fact that according to DORA the municipality will continue to receive government grant for the next three years.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	363	-
Bank balances	938 095	194 803
Short-term deposits	9 738 153	7 175 899
	10 676 611	**7 370 702**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA - Cheque Account - 4053 628 182	938 095	194 803	2 822 430	938 095	194 803	2 822 430
ABSA - Call Account - 9309 672 913	2 133 090	7 088 318	2 543	2 133 090	7 088 318	2 543
ABSA - Invest Tracker - 9358 190 966	7 512 160	-	-	7 512 160	-	-
Nedbank - Call Deposit - 03/7662022528/000016	92 903	87 581	82 141	92 903	87 581	82 141
Total	**10 676 248**	**7 370 702**	**2 907 114**	**10 676 248**	**7 370 702**	**2 907 114**

3. Inventories

Stationery & Consumables	19 591	3 381
Cleaning Materials	19 395	25 614
	38 986	**28 995**

Inventory pledged as security

None of the inventory has been pledged as security.

4. Receivable from exchange transactions

Gross balances		
Trade Debtors	5 944 806	2 570 936
Prepaid expenses	10 669	498 960
Other debtors	65 195	454 124
	6 020 670	**3 524 020**
Less: Allowance for impairment		
Trade Debtors	(2 084 804)	(1 588 212)
Net balance		
Trade Debtors	3 860 002	982 724
Prepaid expenses	10 669	498 960
Other debtors	65 195	454 124
	3 935 866	**1 935 808**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

4. Receivable from exchange transactions (continued)

Trade Debtors Ageing

Current (0 -30 days)	2 678 784	56 457
31 - 60 days	-	57 032
61 - 90 days	51 536	57 076
91 - 120 days	77 833	58 195
121 - 365 days	565 717	486 405
> 365 days	2 570 936	1 855 771
Debt impairment	(2 084 804)	(1 588 212)
	3 860 002	**982 724**

Summary of debtors by customer classification

30 June 2020	Other	National and Provincial Government
Current (0 -30 days)	-	2 678 784
61 - 90 days	-	51 536
91 - 120 days	-	77 833
121 - 365 days	-	565 717
> 365 days	296 344	2 274 591
	296 344	**5 648 461**

30 June 2019	Other	National and Provincial Government
Current (0 -30 days)	-	56 457
31 - 60 days	-	57 032
61 - 90 days	-	57 076
91 - 120 days	-	58 195
121 - 365 days	374 835	486 405
> 365 days	-	1 480 936
	374 835	**2 196 101**

Reconciliation of allowance for impairment

Balance at beginning of the year	(1 588 212)	(1 384 093)
Contributions to allowance	(496 592)	(204 119)
	(2 084 804)	**(1 588 212)**

Consumer debtors pledged as security

None of the debtors were pledged as security during the current year.

5. VAT receivable

VAT	2 779 101	2 184 072

The municipality is registered on the payment basis for VAT purposes. This means that VAT is only declared once cash is received or payments are made.

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	16 775 895	(8 138 202)	8 637 693	16 748 905	(7 579 006)	9 169 899
Plant and machinery	2 732 528	(2 306 400)	426 128	2 732 527	(2 032 607)	699 920
Furniture and Office Equipment	6 220 358	(5 318 132)	902 226	6 151 154	(4 979 611)	1 171 543
Motor vehicles	2 033 729	(1 093 676)	940 053	2 033 729	(803 143)	1 230 586
IT equipment	2 369 644	(1 732 922)	636 722	2 148 652	(1 491 682)	656 970
Total	**30 132 154**	**(18 589 332)**	**11 542 822**	**29 814 967**	**(16 886 049)**	**12 928 918**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Depreciation	Impairment loss	Total
Buildings	9 169 899	26 990	(559 196)	-	8 637 693
Plant and machinery	699 920	-	(273 792)	-	426 128
Furniture and Office Equipment	1 171 543	70 501	(326 668)	(13 150)	902 226
Motor vehicles	1 230 586	-	(290 533)	-	940 053
IT equipment	656 970	220 992	(240 340)	(900)	636 722
	12 928 918	**318 483**	**(1 690 529)**	**(14 050)**	**11 542 822**

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Impairment loss	Total
Buildings	9 728 196	-	(558 297)	-	9 169 899
Plant and machinery	679 053	624 668	(603 801)	-	699 920
Furniture and Office Equipment	1 712 022	13 734	(514 813)	(39 987)	1 171 543
Motor vehicles	1 521 119	-	(290 533)	-	1 230 586
IT equipment	467 309	429 550	(226 609)	(13 280)	656 970
	14 107 699	**1 067 952**	**(2 194 053)**	**(53 267)**	**12 928 918**

Pledged as security

There are no assets that are pledged as security:

Assets subject to finance lease (Net carrying amount)

Telephone and Printing Machinery	437 177	745 671

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

General expenses	530 616	212 836

Change in estimate

Aggregate of items valued using deemed cost	252 298	29 016

6. Property, plant and equipment (continued)

Various movable assets and infrastructure assets with original remaining useful lives varying between 1-30 years have been revised in the beginning of the period to reflect a new depreciable amount and the actual pattern of service potential derived from these assets.

The effect on the current and future periods will be a decrease in the depreciation charge of R 252 298 in the current period and an equal increase in the depreciation charge of R 252 298 over the next periods as per the above table

Notes to the Annual Financial Statements

Figures in Rand

7. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	2 233 584	(1 212 477)	1 021 107	1 212 477	(807 718)	404 759

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer Software	404 759	1 021 107	(404 759)	1 021 107

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	808 618	(403 859)	404 759

Pledged as security

None of the intangible assets are pledged as security.

Other information

The additions in the current year is mainly from the new Sage mSCOA financial system which the contract was awarded in the current year after the expiry of the old contract.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. Employee benefit obligations

Defined benefit plan

The long service award liability arises from Xhariep District Municipality being a party to the collective agreement on condition of service for the Free State Division of SALGA. This agreement is effective from 1 July 2010.

Xhariep District Municipality has a policy to provide long service awards to employees who have been in service of the municipality for a certain period of time. The municipality offers bonuses for every 5 years of completed service from 5 years to 45 years.

The long service awards plan is a defined benefit plan. At period end 61 employees were eligible for the long service bonuses.

The Long Service Award valuation was conducted as at 30 June 2020.

The current service cost for the year is estimated to be R290 336 (30 June 2019: R 279 174) whereas the interest cost for the ensuring year is estimated to be R 180 836 (30 June 2019: R 166 466)

Reconciliation of unfunded obligation

	2020	2019
Carrying value		
Present value of unfunded obligation at the beginning of the year	2 032 276	1 676 511
Current service costs	290 336	279 174
Long service awards paid	(237 836)	(29 260)
Interest cost	180 836	166 466
Actuarial gain	(189 083)	(60 615)
	2 076 529	**2 032 276**

The expected value of each employee's long service awards is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The average leave has been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working days year per year and therefore the benefits awarded can be expressed as follows:

Completed Years of Service	Accumulated leave days	Once-off Long service Award Bonus (% of Annual Salary)	Determination of long service Award payment	Total Long service Award Payment (% of Annual Salary)
5	5	2%	[(5/250) +2%] x Annual Salary	4%
10	10	3%	[(10/250*) + 3% x Annual Salary	7%
15	15	4%	[(15/250*) + 4%] x Annual Salary	10%
20	15	5%	[(15/250*) + 5%] x Annual Salary	11%
25,30,35,40 and 45	15	6%	[(15/250*) + 6%] x Annual Salary	12%

* A day of accumulated leave is equivalent to the value of 1/250 of the annual salary.

The long service accumulated leave must be taken within one year or from the date such leave has been received. Alternatively, the leave may be fully or partially converted into a cash payment.

Accrued liabilities are set as the actuarial present value of expected benefits to be paid in future according to accrued service at the valuation date and the benefits that are projected to the expected retirement date. Allowance has been made for expected future increases awards.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

8. Employee benefit obligations (continued)

The liability in respect of active employees is determined by discounting the projected future benefit payments in respect of these employees using assumptions regarding the possibility future experience.

The two most important financial variables used in the valuation are the discount rate and salary inflation. The following variables have been assumed for the following values:

Valuation Assumptions

	Assumed value at 30 June 2020 (Current Valuation)	**Assumed value at 30 June 2019 Preceding Valuation)**
Discount Rate	8.72%	8.32%
Future Inflation	4.10%	5.05%
Salary Inflation	5.10%	6.05
Net Effective Discount Rate	3.45%	2.13

Discount Rate

The discount rate reflects the estimated timing of benefit payments.

Future inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future subsidies will increase.

Future salary inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.

Net discount rate

Even though the actual values used for the discount rate and the expected increase in salary inflation are important, the "gap" between the two assumptions is more important. The "gap" is referred to as the next discount rate. The net discount rate is 3.45% per annum (derived from a discount rate of 8.72% and the expected salary inflation rate of 5.10%).

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

9. Payables from exchange transactions

Trade payables	8 398 433	3 918 254
Retention	-	135 359
COIDA	2 293 114	2 101 612
Auditor General South Africa	1 048 189	775 642
Sundry Creditors	60 643	526 834
Bonus Accrual	1 005 528	1 009 979
Leave pay Accrual	3 801 856	3 316 263
Third party payables	665 253	595 930
	17 273 016	**12 379 873**

10. Finance lease obligation

Minimum lease payments due		
- within one year	258 911	258 913
- in second to fifth year inclusive	107 880	366 792
	366 791	625 705
less: future finance charges	(29 193)	(80 068)
Present value of minimum lease payments	**337 598**	**545 637**

Present value of minimum lease payments due		
- within one year	232 686	208 039
- in second to fifth year inclusive	104 912	337 600
	337 598	**545 639**

Non-current liabilities	104 910	337 600
Current liabilities	232 688	208 037
	337 598	**545 637**

During the financial year the municipality had two finance lease agreement, namely the printers finance lease and telephone finance lease, with an average lease term of 3 years.

All leases have fixed repayments and no arrangements have been entered into for contingent rent.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Motheo Disestablishment, Thetha and Provincial Infrastructure Grant and Other Grants	948 106	799 106

Movement during the year

Balance at the beginning of the year	799 106	799 106
Additions during the year	5 346 000	4 498 000
Income recognition during the year	(5 197 000)	(4 498 000)
	948 106	**799 106**

Notes to the Annual Financial Statements

11. Unspent conditional grants and receipts (continued)

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited;

Additions

1. Covid 19 - Disaster
The grant is intended to subsidise the municipality during the state of the National Disaster due to the COVID pandemic. The grant is conditional. At year-end the grant was not yet utilised as the municipality was still utilising its allocated budget for Disaster Management Unit. The expenditure related to the grant is monitored properly.

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

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

These amounts are kept in the municipal bank or investment accounts until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

12. Revenue

Rental of facilities and equipment	543 267	427 266
Interest received	290 931	223 809
Actuarial gains	189 084	60 614
Other income	661 514	97 513
Interest received - investment	650 100	415 498
Government grants & subsidies	64 739 000	66 042 000
Public contributions and donations	796 164	1 607 820
LGSETA	92 723	91 238
	67 962 783	**68 965 758**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities and equipment	543 267	427 266
Interest received	290 931	223 809
Actuarial gains	189 084	60 614
Other income	661 514	97 513
Interest received	650 100	415 498
	2 334 896	**1 224 700**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue		
Government grants & subsidies	64 739 000	66 042 000
Financial Assistance	796 164	1 607 820
LG SETA Income	92 723	91 238
	65 627 887	**67 741 058**

13. Other income

Staff recoveries	-	100
Bylaw certificates Income	41 755	27 670
Parking fee income	57 365	56 978
Tender documents	16 852	12 765
Creditors write off	545 542	-
	661 514	**97 513**

Revenue from Tender document fees and Parking fees, previously disclosed on the face of the Statement of Financial Performance, has been reclassified to Other Income, in the current year.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

14. Government grants and subsidies

Operating grants		
Equitable share	43 542 000	40 544 000
Financial Management Grant	1 785 000	1 320 000
Expanded Public Works Programme	1 136 000	1 029 000
Rural Roads Asset Management Systems	2 276 000	2 149 000
Provincial Financial Assistance Grant	16 000 000	21 000 000
	64 739 000	**66 042 000**

Equitable Share

The grant is intended to subsidise the municipality while excluding both strategic and operational responsibilities.

Financial Management Grant

Current-year receipts	1 785 000	1 320 000
Conditions met - transferred to revenue	(1 785 000)	(1 320 000)
	-	-

The purpose of the grant is to assist municipalities in building in house capacity, promote and support reform to financial management and implementation of the Municipal Financial Management Act (MFMA) 56 of 2003.

Expanded Public Works Programme

Current-year receipts	1 136 000	1 029 000
Conditions met - transferred to revenue	(1 136 000)	(1 029 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

The purpose of the grant is to expand job creation programs in the district.

Rural Road Asset Management

Current-year receipts	2 276 000	2 149 000
Conditions met - transferred to revenue	(2 276 000)	(2 149 000)
	-	-

The purpose of this grant is to assist the municipality monitor the conditions of the municipal roads.

Provincial Financial Assistance Grant

Current-year receipts	16 000 000	21 000 000

The grant is not a conditional grant and the funds are to assist the municipality with operational expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Employee related costs

Basic	30 235 893	28 380 756
Bonus	1 768 781	1 917 390
Medical aid - company contributions	1 934 616	1 829 019
UIF	146 366	146 510
SDL	359 167	357 472
SALGBC	8 749	8 066
Leave pay	690 194	378 189
Long-service awards	295 324	279 174
Acting allowances	173 426	244 619
Car allowance	3 576 029	3 587 593
Housing benefits and allowances	339 303	346 525
Cellular and Telephone	270 590	265 978
Pension	4 264 601	3 945 841
	44 063 039	**41 687 132**

Remuneration of Municipal Manager (Ms. Moletsane LY)

Annual Remuneration	1 282 337	1 173 321
Car Allowance	180 000	180 000
Annual Bonus - Remuneration structured	95 772	98 113
Contributions to UIF, Medical and Pension Funds	67 415	73 579
Housing	96 000	96 000
Other	-	67 300
	1 721 524	**1 688 313**

Remuneration of Chief Finance Officer (Mr. Litabe PV)

Annual Remuneration	1 045 529	186 787
Car Allowance	120 000	10 000
Contributions to SDL, UIF, Medical and Pension Funds	246 897	24 266
Cellphone Allowance	9 600	800
Other	-	10 937
	1 422 026	**232 790**

Remuneration of Acting Chief Financial Officer (Mr. Mokhele VK)

Annual Remuneration	-	325 875
Contributions to UIF, Medical and Pension Funds	-	3 889
	-	**329 764**

Remuneration of Executive Director: Corporate (Adv. Majenge ZQ)

Annual Remuneration	1 095 555	1 012 514
Car Allowance	108 000	108 000
Contributions to UIF, Medical and Pension Funds	208 261	194 724
Cellphone Allowance	9 600	9 600
Other	-	38 419
	1 421 416	**1 363 257**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

15. Employee related costs (continued)

Remuneration of Executive Director: Planning and Development Services (Mr. MS Mohale)

Annual Remuneration	1 156 034	1 074 139
Car Allowance	110 911	110 911
Annual Bonus - Remuneration structured	89 602	89 676
Contributions to UIF, Medical and Pension Funds	55 940	52 710
Cellphone Allowance	-	30 643
	1 412 487	**1 358 079**

16. Remuneration of councillors

Executive Major	914 322	881 666
Speaker	740 425	716 319
Mayoral Committee Members	1 506 364	1 304 350
Councillors	1 548 376	1 950 194
	4 709 487	**4 852 529**

17. Depreciation and amortisation

Property, plant and equipment	1 690 529	2 194 054
Intangible assets	404 759	403 859
	2 095 288	**2 597 913**

18. Impairment of assets

Impairments		
Property, plant and equipment	14 050	53 267

19. Finance costs

Interest on overdue	412 944	114 222
Bank	13 975	209 194
	426 919	**323 416**

20. Debt impairment and bad debts written off

Debt impairment	496 592	-
Bad debts write off	282 163	177 495
	778 755	**177 495**

21. Contracted services

Presented previously		
Specialist Services - RRAMS, IT Services	2 249 593	2 242 364
Other Contractors - Mscoa, Water Testing	461 405	2 114 194
	2 710 998	**4 356 558**

Other Contractors mainly consist of mSCOA and water testing contractors

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

22. General expenses

Advertising	-	42 416
Auditors remuneration	2 845 944	2 885 674
Bank charges	84 111	89 590
Consulting and professional fees	2 463 577	93 917
Consumables	26 695	12 665
Entertainment	43 479	28 444
Fines and penalties	500	157 644
Insurance	666 273	84 908
Conferences and seminars	11 875	27 475
Motor vehicle expenses	1 518	3 223
Fuel and oil	294 928	305 766
Postage and courier	1 997	2 082
Printing and stationery	220 390	25 432
Protective clothing	45 418	2 870
Repairs and maintenance	530 616	212 836
Software expenses - licenses	805 868	-
Subscriptions and membership fees	132 950	50 255
Telephone and fax	498 058	305 784
Travel - local	1 173 588	1 159 637
Utilities - Other	1 406 974	879 765
Accommodation	286 409	521 126
Disaster Management	173 876	-
Skills Development Training	31 187	79 688
SALGA	552 535	482 500
Other expenses	602 601	477 932
	12 901 367	**7 931 629**

23. Rental of facilities and equipment

Premises		
Rental income	543 267	427 266
	543 267	**427 266**

The municipality lease part of the municipality building to Kopanong Local Municipality and Free State Liquor and Gambling Board. The operating lease rentals are recognised as an income in the statement of financial performance on a straight line basis over the term of the lease.agreement.

24. Auditors' remuneration

Fees	2 845 944	2 885 674

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

25. Cash generated from operations

Surplus	262 880	6 950 900
Adjustments for:		
Depreciation and amortisation	2 095 288	2 597 913
Interest income - debtors	-	(223 809)
Finance costs	50 876	323 416
Impairment loss	14 050	53 267
Debt impairment & bad debts write off	778 755	204 119
Rental of facilities	-	(427 266)
Movements in retirement benefit assets and liabilities	44 253	355 761
Other non-cash items	-	(124 301)
Changes in working capital:		
Inventories	(9 991)	(9 335)
Receivables	(2 778 813)	(291 185)
Payables from exchange transactions	4 893 143	(3 293 532)
VAT	(595 029)	(983 447)
Unspent conditional grants and receipts	149 000	-
	4 904 412	**5 132 501**

26. In-kind donations and assistance

Financial assistance to municipality		
Provincial Treasury contributions and public donations	796 164	1 607 820

The financial assistance is from the Free State Provincial Treasury with regard to the paying of audit fees directly to Auditor General on behalf of the municipality.

27. Contingencies

30 June 2020
Free State Travel CC / Xhariep District Municipality relates to a claim against the municipality whereby Free State Travel CC claiming for services rendered however the municipality did not pay for the services rendered. Should the action be successful the municipality will be liable to cover litigation cost to the approximate value of R 60 000.

Lehlohonolo May / Xhariep District Municipality relates to a debt by the municipality wherein Mr May claims loss of income due to unfair dismissal in terms of Basic Conditions of Employment Act. Should the action be successful the municipality will have to cover litigation costs to the approximate value R 1 509 806.75.

SAMWU obo Tefo Alfred Lebaka/ Xhariep District Municipality relates to a claim in terms of the Basic Employment Equity Act. Should the action be successful, the municipality will be liable to cover litigation costs to the approximate value of R 181 621.41.

30 June 2019
Free State Travel CC / Xhariep District Municipality relates to a claim against the municipality whereby Free Stated Travel CC claiming for services rendered however the municipality did not pay for the services rendered. Should the action be successful the municipality will be liable to cover litigation cost to the approximate value of R 159 974,73.

Lehlohonolo May / Xhariep District Municipality relates to a debt by the municipality wherein Mr May claims loss of income due to unfair dismissal. Should the action be successful the municipality will have to cover litigation costs to the approximate value R2.5 million.

Contingent assets

The Municipality had no contingent asset at the reporting date 30 June 2020 and 30 June 2019.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

28. Related parties

Relationships	
Accounting officer	Refer to Accounting Officer's report note
Compensation to Councillors and key management	Refer to employee related cost and remuneration of councillors note 15 & 16

The municipality had no other related party transactions and balances at period end. The municipality had various process in place to identity and note any related party balances and transactions. This range from disclose on the bid documents to maintenance of conflict register.

Remuneration of Council

Notes to the Annual Financial Statements

Figures in Rand

28. Related parties (continued)

Councillors/Mayoral committee members

2020

Name	Basic salary	Other short-term employee benefits - Medical	Post-employment benefits - Pension	Travel allowances	Telephone allowance	Other benefits received	Total
Executive Mayor	754 803	106 056	-	-	44 400	9 063	914 322
Speaker	688 688	-	-	-	44 400	7 337	740 425
Mayoral committee members	1 360 755	-	-	66 000	64 800	14 808	1 506 364
Councillors	1 162 184	-	77 499	-	294 784	13 909	1 548 376
	3 966 430	**106 056**	**77 499**	**66 000**	**448 384**	**45 117**	**4 709 487**

2019

Name	Basic salary	Other short-term employee benefits - Medical	Post-employment benefits - Pension	Telephone allowances	Other benefits received	Total
Executive Mayor	732 851	94 920	-	44 400	9 494	881 666
Speaker	662 199	-	-	44 400	9 718	716 317
Mayoral committee members	1 132 977	-	-	83 500	87 872	1 304 350
Councillors	1 401 683	-	144 824	300 000	103 689	1 950 196
	3 929 710	**94 920**	**144 824**	**472 300**	**210 773**	**4 852 529**

Refer to note "Remuneration of councillors"

Note: The Medical and Pension benefits are based on the councillors electing to contribute to the schemes by restructuring their salaries.

29. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 9 359 242 and that the municipality's total assets exceed its total liabilities by R 9 359 242.

The municipality notes that the current liabilities as at 30 June 2020 (R 18 610 923) exceeds the current assets (R 17 430 564) by R 1 180 359. This is mainly due to cashflow problems which ends up with creditors not being paid when due. The municipality mainly relies on funding from the Government grants. The excess is mainly from the leave accrual which increased in the current year due to the employees not able to take annual leave during the state of disaster. The municipality has put in place measures to ensure that the municipality is able to pay its short term debts on time.

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

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

The municipality had a surplus for the period ending 30 June 2020 amounting to R 262 880 and as compared to the previous financial year surplus of R 6 950 900 (2018/19).

The impact of COVID pandemic
The municipality assessed the impact of COVID 19 on the Municipality's going concern assessment.

The municipality adhered to the rules of working from home approach as gazetted in the Disaster Management Act, 2002: Amendment of Regulations issued in terms of Section 27(2) for non-essential service workers and this reduced the level of municipal operations. Municipal operations continued during the state of disaster with reduced staff members at the municipal offices so as to comply with the Disaster Management regulations.

The nature of business and services offered by the municipality were not significantly impacted by the pandemic based on the services offered such as Environmental and Health assessments and licenses, EPWP programs, Rural Road Asset Management Systems, support to local municipalities.

The municipality mainly relies on the funding from National and Provincial Government Grants on its day to day operations.

The funding for the municipality is likely to continue as per the approved budget for the 2020/2021 financial year by Council. The approved budget has been assessed and approved by Treasury.

Management also considered in its assessment that the funding from Provincial Treasury was reduced in the 2019/2020 financial year by R 5 million due the pandemic crisis. The 2020/2021 approved budget was subsequently increased by a special adjustment.

Management assessed the revenue streams and notes that the trading revenue accounts for 2% and Grants accounts for 98% of the total revenue.

The major debtors were assessed and noted that they were already in financial difficulties before the pandemic and have been impaired.

The municipality is highly reliant on the grants and if these are significantly reduced, will have impact on the municipality's going concern. However no intention to significantly reduced the grants has been noted and no further intention to close or scale down the municipality has been noted from the government.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

29. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on the fact that the majority of the municipality's funding is from grant funding which is guaranteed to be received as allocated in the Division Of Revenue Act (DORA) and Provincial Gazette. Also this funding is expected to slightly increase in the next financial year as shown in the DORA and this will assist the municipality in incurring what we budget properly in our expenditures.

Based on the above assessment, the municipality incurred a net surplus of R9 359 242 during the year ended 30 June 2020 and, as of that date, the municipality's current liabilities exceeded its current assets by R1 180 359. The municipality is unable to pay its creditors' accounts when they fall due, as it takes the municipality more than 221 days to settle creditors. These events or conditions, along with other matters as set forth above, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

30. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

The impact of COVID pandemic has been considered and no changes have been noted to the municipality's operations.

31. Unauthorised expenditure

Opening balance as previously reported	30 316 719	24 140 810
Opening balance as restated	**30 316 719**	**24 140 810**
Add: Current year unauthorized	455 404	6 175 909
Closing balance	**30 772 123**	**30 316 719**

32. Fruitless and wasteful expenditure

Opening balance as previously reported	2 858 497	2 516 688
Opening balance as restated	**2 858 497**	**2 516 688**
Add: Expenditure	188 793	341 809
Closing balance	**3 047 290**	**2 858 497**

32. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Interest and penalties for late payments of suppliers	The fruitless and wasteful expenditure was identified in the current year and is still under investigation	181 288	333 899
Accommodation and flight bookings cancellations	The fruitless and wasteful expenditure was identified in the current year and is still under investigation	7 005	7 910
Compliance related fines - Motor vehicle	The fruitless and wasteful expenditure was identified in the current year and is still under investigation	500	-
		188 793	**341 809**

33. Irregular expenditure

Opening balance as previously reported	39 752 581	37 285 624
Opening balance as restated	**39 752 581**	**37 285 624**
Add: Current year irregular expenditure	4 381 556	2 466 957
Closing balance	**44 134 137**	**39 752 581**

Notes to the Annual Financial Statements

Figures in Rand

33. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Tender process not followed as required by SCM policy	The expenditure was identified during the current financial year and still need to be investigated	2 478 634	1 191 397
Insufficient quotations obtained as required by SCM policy	The expenditure was identified during the current financial year and still need to be investigated	186 969	61 648
Overpayment of Section 56/57 Managers (Salaries above the municipality regulated threshold)	The expenditure was identified in the prior years and is being assessed on how to regularise the expenditure as it is ongoing	1 715 953	1 213 912
		4 381 556	**2 466 957**

Notes

The full extent of the irregular expenditure will be investigated.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

34. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

For the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy, of which amounted to R 615 730 - 30 June 2020 (30 June 2019: R 400 482).

The reasons for these deviations were documented and reported to the Accounting officer who considered them and approved the deviation from the normal Supply Chain Management policy.

Reasons for deviations	Rand value		No of instances
Emergency	R	49 254	1
Sole supplier	R	186 856	11
Specifications difficult to compile	R	0	0
Acquisition of animals for zoo	R	0	0
Impractical or impossible	R	379 620	31

35. Risk management

Liquidity risk

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

Credit risk

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

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

Financial instrument		
Nedbank: Call Deposit	92 903	87 581
ABSA: Cheque Account	938 095	194 803
Receivable from exchange transaction	3 352 923	2 570 936
ABSA: Call (Investment)	2 133 090	7 088 318
ABSA: Deposit Plus (Investment)	7 512 160	-

Market risk

Interest rate risk

The municipality's interest rate risk arises from short term loans and investment. These are issued at variable rate and expose the Municipality to cash flow interest rate risk.

Financial instruments that are issued at fixed rate expose the municipality to fair value interest rate risk.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	3 935 866	3 935 866
Cash and cash equivalents	10 676 611	10 676 611
Vat receivable	2 779 101	2 779 101
	17 391 578	**17 391 578**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	17 273 016	17 273 016
Taxes and transfers payable (non-exchange) - Unspent Grant	948 108	948 108
Finance lease liability	337 598	337 598
	18 558 722	**18 558 722**

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	1 935 808	1 935 808
Cash and cash equivalents	7 370 702	7 370 702
Vat receivable	2 184 072	2 184 072
	11 490 582	**11 490 582**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	12 379 873	12 379 873
Taxes and transfers payable (non-exchange) - Unspent Grant	799 106	799 106
Finance lease liability	545 637	545 637
	13 724 616	**13 724 616**

Financial instruments in Statement of financial performance

2020

	At amortised cost	Total
Interest income	941 031	941 031
Interest expense	(426 919)	(426 919)
	514 112	**514 112**

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

36. Financial instruments disclosure (continued)

2019

	At amortised cost	Total
Interest income	639 307	639 307
Interest expense	(323 416)	(323 416)
	315 891	**315 891**

37. Prior-year adjustments

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

The prior year adjustment relates to:
1. Accumulated Surplus incorrectly totalled as R 9 453 235 instead of R 9 096 366. This was due to an error in addition on the Statement of Changes in Net Assets by an amount of R 356 873. The Statement of Financial Performance, Assets and Liabilities and Statement of Cashflow are not affected by the prior period disclosure.

2. Commitments Note which was disclosed in the prior year has been removed in the current year as the municipality does not have capital commitments and only operational commitments.

Statement of financial position

2019

	Note	As previously reported	Correction of error	Restated
Accumulated Surplus		(9 453 235)	356 873	(9 096 362)

38. Budget differences

Material differences between budget and actual amounts

The excess of actual over final budget of 5% is deemed to be material and reasons are provided on the differences.

Generally the actual has been lower than the budgeted amounts for the year mainly due to the changes in operations arising from the declared State of disaster.

Statement of Financial Performance

Rental of facilitates and equipment

The variances arises from the rental income being over budgeted for and the other tenant only joining later in the year. The municipality has a contract with Kopanong Local Municipality and FSGLTA for the lease of the building/ office space.

Interest received (trading)

The variances arises from the interested being under budgeted. The local municipality did not pay rental and this resulted in the interest income being accounted for during the year.

Interest received - Investment

The variances arises from the over budgeting of interest income. The investment income depends on how much and when the Grants amounts are received versus the outstanding payments.

Government grants and Subsidies

The difference is mainly from the reduction in the Financial Support Grant from COGTA in the current year.

These are grants and subsidies which were received during the financial year which increased the revenue.

Financial Assistance Income

The income is not budgeted for as it is not expected and the amount cannot be ascertained for each period. The income is from the Free State Provincial Treasury which was received during the financial year for the payment of audit fees on behalf of the municipality.

Employee Related

The difference is mainly from the over budgeting arising from the late and non filling of vacancies during the year.

Remuneration of councillors

The increase was mainly due to the upper limited adjustment for councillors.

Depreciation and amortisation

The increase was mainly due to the under budgeting arising mainly from the full depreciation for the leased assets effected in the current financial year.

38. (continued)

Contracted services

The underspending is mostly from the impact associated with the Covid 19 pandemic as there was reduced activity/ operations by the municipality in the fourth quarter which resulted in the under spending.

General expenses

During the year the municipality place some control on the spending which resulted in the cost cutting in the spending. The Covid 19 pandemic also resulted in the reduction of some expenditures in the last quarter of the financial year as there was reduction in municipal operations.

39. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

	2020	2019
Net surplus per the statement of financial performance	262 880	6 950 900

40. New standards and interpretations

40.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

40. New standards and interpretations (continued)

• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

40.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGBC)

Current year subscription / fee	16 432	17 500
Amount paid - current year	(16 432)	(17 500)
	-	**-**

VAT

Opening balance	2 184 072	1 200 627
Current year additions	1 975 263	1 437 464
Amount paid - current year	(1 380 234)	(454 019)
	2 779 101	**2 184 072**

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

Audit fees

Opening balance	775 642	714 383
Current year fee	3 347 926	3 318 525
Amount paid - current year	(3 075 381)	(3 257 266)
	1 048 187	**775 642**

PAYE UIF and SDL

Opening balance	595 930	1 266 114
Current year raised	9 117 591	9 039 421
Amount paid - current year	(9 050 417)	(9 709 605)
	663 104	**595 930**

Pension and Medical Aid Deductions

Opening balance	-	725 367
Current year raised	9 701 512	9 197 749
Amount paid - current year	(9 701 512)	(9 923 116)
	-	**-**

Appropriation Statement - (Unaudited)

Figures in Rand

	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
2020											
Financial Performance											
Investment revenue	200 000	600 000	800 000	-		800 000	650 100		(149 900)	81 %	325 %
Transfers recognised - operational	68 740 000	243 000	68 983 000	-		68 983 000	64 739 000		(4 244 000)	94 %	94 %
Other own revenue	769 185	5 495	774 680	-		774 680	1 777 519		1 002 839	229 %	231 %
Total revenue (excluding capital transfers and contributions)	**69 709 185**	**848 495**	**70 557 680**	**-**		**70 557 680**	**67 166 619**		**(3 391 061)**	**95 %**	**96 %**
Employee costs	(46 524 918)	540 686	(45 984 232)	-	-	(45 984 232)	(44 063 039)	-	1 921 193	96 %	95 %
Remuneration of councillors	(4 864 581)	308 363	(4 556 218)	-	-	(4 556 218)	(4 709 487)	-	(153 269)	103 %	97 %
Depreciation and asset impairment	(1 652 450)	-	(1 652 450)			(1 652 450)	(2 109 338)	-	(456 888)	128 %	128 %
Finance charges	(310 000)	155 000	(155 000)	-	-	(155 000)	(426 919)	-	(271 919)	275 %	138 %
Other expenditure	(16 091 236)	(1 872 544)	(17 963 780)	-	-	(17 963 780)	(15 594 956)	-	2 368 824	87 %	97 %
Total expenditure	**(69 443 185)**	**(868 495)**	**(70 311 680)**	**-**	**-**	**(70 311 680)**	**(66 903 739)**	**-**	**3 407 941**	**95 %**	**96 %**
Surplus/(Deficit)	**266 000**	**(20 000)**	**246 000**	**-**		**246 000**	**262 880**		**16 880**	**107 %**	**99 %**
Surplus/(Deficit) for the year	**266 000**	**(20 000)**	**246 000**	**-**		**246 000**	**262 880**		**16 880**	**107 %**	**99 %**

Appropriation Statement

Figures in Rand	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
Capital expenditure											
Total capital expenditure	266 000	(20 000)	246 000	-		246 000	318 483		72 483	129 %	120 %
Sources of capital funds											
Internally generated funds	266 000	(20 000)	246 000	-		246 000	262 880		16 880	107 %	99 %

Xhariep District Municipality
Appendix F (Unaudited)
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2020

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expend		
		Sep	Dec	Mar	Jun	Sep	Dec	
COGTA Financial Assistance	Provincial Government (COGTA)	-	-	-	16 000 000	-	-	
Equitable share	National Government	18 143 000	14 513 000	10 886 000	-	16 652 839	13 686 299	1
Financial Management Grant	National Government	277 846	131 253	353 444	1 022 455	277 846	131 253	
EPWP Grant	National Government	227 084	362 875	270 797	275 243	227 084	362 875	
RAMMS Grant	National Government	-	655 967	656 260	963 772	-	655 967	
Disaster Management Grant (Covid)	National Government	-	-	-	-	-	-	
LGSETA Grant	LGSETA	-	45 033	26 610	21 079	-	45 033	
Financial Assistance	Provincial Treasury	-	796 164	-	-	-	796 164	
		18 647 930	16 504 292	12 193 111	18 282 549	17 157 769	15 677 591	1

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.