



**Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements
for the year ended 30 June 2018**

Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2018

General Information

| | |
|------------------------------------|--|
| Grading of local authority | Grade 3 |
| Accounting Officer | I Sikhulu-Nqwena |
| Chief Finance Officer (CFO) | L Manjingolo |
| Registered office | 12 Maclean Street Stutterheim 4930 |
| Postal address | Private Bag X 4002 Stutterheim 4930 |
| Bankers | First National Bank Stutterheim |
| Auditors | Auditor-General South Africa |
| Mayoral Committee | P Qaba (Mayor) X Mngxaso (Exco) NC Nongqayi (Exco) N Busika (Exco) N Monti (Exco) T Balindlela (Exco) |
| Ward Councillors | NP Mlahleki (Speaker) S Malawu (MPAC chair) NA Kato-Manyika N Pose N Monti A Hobo RB Pickering N Ngxakangxaka GD Mxosa T Ngxingxolo P Ntwanambi D Mzili DS Gxekwa MN Ngcofe M Mjikelo EN Brukwe XM Tokwe NP Jikazayo X Nqata M Nqini VW Tshaka SG Venkile RT Desi GP Noxeke NA Mtati |

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General Information

Traditional leaders

AE Daka
SN Mdledle
NG Mekuto
Z Ngudle
K Sandile
X Zake

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

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| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

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 operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 81, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

I Sikhulu-Nqwena
Accounting Officer

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

| | | 2018 | 2017 |
|--|---------|--------------------|--------------------|
| | Note(s) | | Restated* |
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 1 449 961 | 1 368 347 |
| Consumer debtors and other debtors | 4 | 5 987 139 | 11 893 979 |
| Receivables from non-exchange transactions | 5 | 11 892 289 | 3 787 624 |
| VAT receivable | 6 | - | 3 968 304 |
| Short-term portion of long term receivables | 7 | - | 138 722 |
| Cash and cash equivalents | 8 | 6 922 101 | 72 049 611 |
| | | 26 251 490 | 93 206 587 |
| Non-Current Assets | | | |
| Long-term receivables | 7 | 346 227 | 217 368 |
| Biological assets that form part of an agricultural activity | 9 | 3 620 874 | 1 358 970 |
| Investment property | 10 | 53 206 581 | 55 001 082 |
| Property, plant and equipment | 11 | 391 352 322 | 391 990 674 |
| Intangible assets | 12 | 1 137 791 | 1 569 609 |
| Heritage assets | 13 | 610 183 | 610 183 |
| | | 450 273 978 | 450 747 886 |
| Total Assets | | 476 525 468 | 543 954 473 |
| Liabilities | | | |
| Current Liabilities | | | |
| Finance lease obligation | 14 | 85 272 | 211 882 |
| Payables from exchange transactions | 15 | 21 858 703 | 25 664 557 |
| Consumer deposits | 16 | 1 846 920 | 1 765 529 |
| Employee benefit obligation | 17 | 12 346 657 | 12 826 442 |
| Unspent conditional grants and receipts | 18 | 979 345 | 1 673 566 |
| Provisions | 19 | 3 403 519 | 830 021 |
| VAT payable | 20 | 1 499 851 | - |
| | | 42 020 267 | 42 971 997 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 14 | 6 863 | 60 184 |
| Employee benefit obligation | 17 | 33 388 676 | 36 471 718 |
| Provisions | 19 | 404 176 | 404 176 |
| | | 33 799 715 | 36 936 078 |
| Total Liabilities | | 75 819 982 | 79 908 075 |
| Net Assets | | 400 705 486 | 464 046 398 |
| Accumulated surplus | | 400 705 486 | 464 046 398 |

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

| | | 2018 | 2017 Restated* |
|--|---------|----------------------|----------------------|
| | Note(s) | | |
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 21 | 35 419 364 | 38 005 716 |
| Rental of facilities and equipment | | 474 076 | 826 666 |
| Interest received - debtors | | 4 524 154 | 2 302 179 |
| Licences and permits | | 915 085 | - |
| Other revenue | | 1 574 487 | 502 711 |
| Administration and management fees received | | 29 088 | - |
| Interest received - investment | 22 | 4 096 127 | 8 441 923 |
| Total revenue from exchange transactions | | 47 032 381 | 50 079 195 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 23 | 16 893 468 | 14 013 298 |
| Transfer revenue | | | |
| Government grants and subsidies | 24 | 133 811 298 | 146 621 652 |
| Fines, Penalties and Forfeits | | 571 605 | 171 680 |
| Motor vehicle registrations | | 354 727 | 3 051 706 |
| Total revenue from non-exchange transactions | | 151 631 098 | 163 858 336 |
| Total revenue | | 198 663 479 | 213 937 531 |
| Expenditure | | | |
| Employee related costs | 25 | (120 079 772) | (112 135 015) |
| Remuneration of councillors | 26 | (12 242 827) | (11 561 289) |
| Vending management fee | 27 | (553 413) | (545 185) |
| Depreciation and amortisation | 28 | (29 536 488) | (29 037 532) |
| Impairment loss on non-current assets | | (316 391) | (1 304 752) |
| Finance costs | 29 | (37 782) | (2 506 888) |
| Rentals - Printing machines | | (81 266) | (193 757) |
| Debt Impairment | 30 | (10 352 410) | (7 916 439) |
| Leave pay provision | | (367 328) | (1 654 652) |
| Bulk purchases | 31 | (27 072 041) | (26 164 717) |
| General expenses | 32 | (61 288 000) | (60 548 406) |
| Total expenditure | | (261 927 718) | (253 568 632) |
| Operating deficit/Surplus | | (63 264 239) | (39 631 101) |
| Loss on disposal of assets | | (2 338 580) | (45 941 511) |
| Fair value gain on biological assets | | 2 261 904 | 542 667 |
| Loss on disposal of biological assets and agricultural produce | | - | (1 186 561) |
| | | (76 676) | (46 585 405) |
| (Deficit) / Surplus for the period | | (63 340 915) | (86 216 506) |

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Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

| | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Restated*Balance at 30 June 2016 | 550 262 904 | 550 262 904 |
| Changes in net assets | | |
| Deficit for the period | (86 216 506) | (86 216 506) |
| Total changes | (86 216 506) | (86 216 506) |
| Opening balance as previously reported | 467 441 901 | 467 441 901 |
| Adjustments | | |
| Prior year adjustments (refer to note 39) | (3 395 500) | (3 395 500) |
| Restated* Balance at 30 June 2017 | 464 046 401 | 464 046 401 |
| Changes in net assets | | |
| Deficit for the period | (63 340 915) | (63 340 915) |
| Total changes | (63 340 915) | (63 340 915) |
| Balance at 30 June 2018 | 400 705 486 | 400 705 486 |

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

| | | 2018 | 2017 |
|--|---------|----------------------------|----------------------------|
| | Note(s) | | Restated* |
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from customers | | 53 673 974 | 47 848 135 |
| Grants | | 133 811 298 | 146 621 652 |
| Interest income | | 4 096 127 | 8 441 923 |
| | | <u>191 581 399</u> | <u>202 911 710</u> |
| Payments | | | |
| Employee costs | | (132 322 600) | (117 445 396) |
| Suppliers | | (94 851 675) | (80 225 996) |
| Finance costs | | - | (2 506 888) |
| | | <u>(227 174 275)</u> | <u>(200 178 280)</u> |
| Net cash flows from operating activities | 34 | <u>(35 592 876)</u> | <u>2 733 430</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 11 | (29 326 783) | (34 776 114) |
| Purchase of other intangible assets | 12 | - | (1 069 111) |
| Proceeds from sale of biological assets that form part of an agricultural activity | 9 | - | 2 928 238 |
| Decrease in long term receivables | | 9 863 | 143 288 |
| | | <u>(29 316 920)</u> | <u>(32 773 699)</u> |
| Net cash flows from investing activities | | <u>(29 316 920)</u> | <u>(32 773 699)</u> |
| Cash flows from financing activities | | | |
| Finance lease payments | | <u>(217 713)</u> | <u>(3 735 544)</u> |
| Net decrease in cash and cash equivalents | | <u>(65 127 509)</u> | <u>(33 775 813)</u> |
| Cash and cash equivalents at the beginning of the year | | <u>72 049 611</u> | <u>105 825 424</u> |
| Cash and cash equivalents at the end of the year | 8 | <u>6 922 102</u> | <u>72 049 611</u> |

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|------------------|----------------------|------------------------------------|--|-----------|
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Sale of goods | 10 528 | - | 10 528 | - | (10 528) | |
| Service charges | 51 802 080 | - | 51 802 080 | 35 419 364 | (16 382 716) | FinPerf1 |
| Rendering of services | 52 770 | - | 52 770 | - | (52 770) | |
| Rental of facilities and equipment | 1 394 976 | - | 1 394 976 | 474 076 | (920 900) | FinPerf2 |
| Investment revenue | 2 640 000 | - | 2 640 000 | 4 524 154 | 1 884 154 | FinPerf3 |
| Licences and permits | 2 217 600 | - | 2 217 600 | 915 085 | (1 302 515) | FinPerf4 |
| Miscellaneous other revenue | 577 274 | - | 577 274 | 1 574 487 | 997 213 | FinPerf5 |
| Administration and management fees received | 105 600 | - | 105 600 | 29 088 | (76 512) | |
| Commissions received | 116 160 | - | 116 160 | - | (116 160) | |
| Other income - (rollup) | 66 528 | - | 66 528 | - | (66 528) | |
| Interest received - investment | 6 800 000 | - | 6 800 000 | 4 096 127 | (2 703 873) | FinPerf6 |
| Total revenue from exchange transactions | 65 783 516 | - | 65 783 516 | 47 032 381 | (18 751 135) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 16 770 392 | - | 16 770 392 | 16 893 468 | 123 076 | |
| Transfer revenue | | | | | | |
| Government grants and subsidies | 133 309 000 | 1 137 477 | 134 446 477 | 133 811 298 | (635 179) | FinPerf7 |
| Fines, Penalties and Forfeits | 54 912 | 201 088 | 256 000 | 571 605 | 315 605 | FinPerf8 |
| Motor vehicle registrations | 1 848 000 | - | 1 848 000 | 354 727 | (1 493 273) | FinPerf9 |
| Total revenue from non-exchange transactions | 151 982 304 | 1 338 565 | 153 320 869 | 151 631 098 | (1 689 771) | |
| Total revenue | 217 765 820 | 1 338 565 | 219 104 385 | 198 663 479 | (20 440 906) | |
| Expenditure | | | | | | |
| Employee related costs | (114 036 182) | - | (114 036 182) | (120 079 772) | (6 043 590) | FinPerf10 |
| Remuneration of councillors | (13 243 862) | - | (13 243 862) | (12 242 827) | 1 001 035 | FinPerf11 |
| Vending management fee | (532 250) | - | (532 250) | (553 413) | (21 163) | |
| Depreciation and amortisation | (26 000 000) | - | (26 000 000) | (29 536 488) | (3 536 488) | FinPerf12 |
| Impairment loss on non-current assets | - | - | - | (316 391) | (316 391) | FinPerf13 |
| Finance costs | (100 500) | 50 000 | (50 500) | (37 782) | 12 718 | |
| Lease rentals on operating lease | (340 000) | - | (340 000) | (81 266) | 258 734 | |
| Debt Impairment | (5 000 000) | - | (5 000 000) | (10 352 410) | (5 352 410) | FinPerf14 |
| Leave pay provision | (41 865) | - | (41 865) | (367 328) | (325 463) | FinPerf15 |
| Bulk purchases | (28 020 000) | (566 500) | (28 586 500) | (27 072 041) | 1 514 459 | FinPerf16 |
| Other expenditure | (66 632 568) | 672 023 | (65 960 545) | (61 288 000) | 4 672 545 | FinPerf18 |
| Total expenditure | (253 947 227) | 155 523 | (253 791 704) | (261 927 718) | (8 136 014) | |

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|---------------------|---------------------|---------------------|------------------------------------|--|-----------|
| Operating deficit | (36 181 407) | 1 494 088 | (34 687 319) | (63 264 239) | (28 576 920) | |
| Loss on disposal of assets and liabilities | - | - | - | (2 338 580) | (2 338 580) | FinPerf19 |
| Fair value gain on biological assets | - | - | - | 2 261 904 | 2 261 904 | FinPerf20 |
| | - | - | - | (76 676) | (76 676) | |
| Deficit | (36 181 407) | 1 494 088 | (34 687 319) | (63 340 915) | (28 653 596) | |
| Deficit for the year from continuing operations | (36 181 407) | 1 494 088 | (34 687 319) | (63 340 915) | (28 653 596) | |
| Discontinued operations | 68 346 707 | (68 346 707) | - | - | - | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 32 165 300 | (66 852 619) | (34 687 319) | (63 340 915) | (28 653 596) | |

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|--------------------|---------------------|--------------------|------------------------------------|--|-----------|
| Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Inventories | 1 023 000 | 345 000 | 1 368 000 | 1 449 961 | 81 961 | |
| Receivables from non-exchange transactions | 3 796 000 | 3 960 000 | 7 756 000 | 11 892 289 | 4 136 289 | FinPos1 |
| Consumer debtors | 6 905 000 | 4 989 000 | 11 894 000 | 5 987 139 | (5 906 861) | FinPos2 |
| Cash and cash equivalents | 105 218 000 | (33 175 000) | 72 043 000 | 6 922 101 | (65 120 899) | FinPos3 |
| | 116 942 000 | (23 881 000) | 93 061 000 | 26 251 490 | (66 809 510) | |
| Non-Current Assets | | | | | | |
| Biological assets that form part of an agricultural activity | 4 931 000 | (3 572 000) | 1 359 000 | 3 620 874 | 2 261 874 | FinPos4 |
| Investment property | 57 166 000 | (2 165 000) | 55 001 000 | 53 206 581 | (1 794 419) | FinPos5 |
| Property, plant and equipment | 416 502 000 | 9 603 000 | 426 105 000 | 391 352 322 | (34 752 678) | FinPos6 |
| Intangible assets | 759 000 | 811 000 | 1 570 000 | 1 137 791 | (432 209) | FinPos7 |
| Heritage assets | 610 000 | - | 610 000 | 610 183 | 183 | |
| Long-term receivables | 499 000 | (138 000) | 361 000 | 346 227 | (14 773) | |
| | 480 467 000 | 4 539 000 | 485 006 000 | 450 273 978 | (34 732 022) | |
| Total Assets | 597 409 000 | (19 342 000) | 578 067 000 | 476 525 468 | (101 541 532) | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Finance lease obligation | 160 000 | - | 160 000 | 85 272 | (74 728) | |
| Payables from exchange transactions | 19 000 000 | 8 396 000 | 27 396 000 | 21 858 701 | (5 537 299) | FinPos8 |
| VAT payable | - | - | - | 1 499 851 | 1 499 851 | FinPos9 |
| Consumer deposits | 429 000 | 1 337 000 | 1 766 000 | 1 846 920 | 80 920 | |
| Employee benefit obligation | 14 452 000 | (14 400 000) | 52 000 | 12 346 657 | 12 294 657 | FinPos10 |
| Unspent conditional grants and receipts | - | - | - | 979 345 | 979 345 | |
| Provisions | 5 500 000 | 8 155 000 | 13 655 000 | 3 403 519 | (10 251 481) | FinPos11 |
| | 39 541 000 | 3 488 000 | 43 029 000 | 42 020 265 | (1 008 735) | |
| Non-Current Liabilities | | | | | | |
| Finance lease obligation | 8 000 | - | 8 000 | 6 863 | (1 137) | |
| Employee benefit obligation | 242 000 | (190 000) | 52 000 | 33 388 677 | 33 336 677 | FinPos12 |
| Provisions | 33 816 000 | 3 060 000 | 36 876 000 | 404 176 | (36 471 824) | FinPos13 |
| | 34 066 000 | 2 870 000 | 36 936 000 | 33 799 716 | (3 136 284) | |
| Total Liabilities | 73 607 000 | 6 358 000 | 79 965 000 | 75 819 981 | (4 145 019) | |
| Net Assets | 523 802 000 | (25 700 000) | 498 102 000 | 400 705 487 | (97 396 513) | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Accumulated surplus | 523 802 000 | (25 700 000) | 498 102 000 | 400 705 487 | (97 396 513) | |

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|---------------------|----------------------|------------------------------------|--|-----------|
| Cash Flow Statement | | | | | | |
| Cash flows from operating activities | | | | | | |
| Receipts | | | | | | |
| Cash receipts from customers | 115 016 000 | 201 000 | 115 217 000 | 51 695 094 | (63 521 906) | C1 |
| Grants | 133 309 000 | 1 138 000 | 134 447 000 | 132 763 766 | (1 683 234) | |
| Interest income | 9 440 000 | (2 640 000) | 6 800 000 | 4 303 880 | (2 496 120) | C2 |
| | 257 765 000 | (1 301 000) | 256 464 000 | 188 762 740 | (67 701 260) | |
| Payments | | | | | | |
| Suppliers and employees | (225 520 000) | 2 759 000 | (222 761 000) | (224 362 323) | (1 601 323) | C3 |
| Finance costs | (100 000) | 50 000 | (50 000) | - | 50 000 | |
| | (225 620 000) | 2 809 000 | (222 811 000) | (224 362 323) | (1 551 323) | |
| Net cash flows from operating activities | 32 145 000 | 1 508 000 | 33 653 000 | (35 599 583) | (69 252 583) | |
| Cash flows from investing activities | | | | | | |
| Purchase of property, plant and equipment | (32 145 000) | 229 000 | (31 916 000) | (29 327 215) | 2 588 785 | C4 |
| Decrease in long term receivables | - | - | - | 9 869 | 9 869 | |
| Net cash flows from investing activities | (32 145 000) | 229 000 | (31 916 000) | (29 317 346) | 2 598 654 | |
| Cash flows from financing activities | | | | | | |
| Finance lease payments | - | - | - | (210 582) | (210 582) | |
| Net increase/(decrease) in cash and cash equivalents | - | 1 737 000 | 1 737 000 | (65 127 511) | (66 864 511) | |
| Cash and cash equivalents at the beginning of the year | 105 825 000 | (33 776 000) | 72 049 000 | 72 049 611 | 611 | |
| Cash and cash equivalents at the end of the year | 105 825 000 | (32 039 000) | 73 786 000 | 6 922 100 | (66 863 900) | |

Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 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:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest method

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

1.4 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Biological assets that form part of an agricultural activity (continued)

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.5 Investment property

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

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

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

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

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

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

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

Cost model

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

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

| Item | Useful life |
|----------------------|---------------|
| Property - land | indefinite |
| Property - buildings | 20 - 30 years |
| Roads and Paving | 10 - 80 years |
| Air-conditioners | 10 - 15 years |
| Other components | 5 - 50 years |

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

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1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Useful life |
|----------------------------|---------------------|-----------------|
| Infrastructure | Straight line | |
| • Roads and paving | | 10 - 80 years |
| • Cemeteries | | 25 - 30 years |
| • Airports | | 25 - 30 years |
| Community | Straight line | |
| • Capital work in progress | | Not depreciated |
| • Land | | Not depreciated |
| • Electricity | | 10 - 60 years |
| • Landfill sites | | 15 - 40 years |

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1.6 Property, plant and equipment (continued)

| Other | Straight line | |
|------------------------------------|---------------|---------------|
| • Buildings | | 25 - 30 years |
| • Machinery and equipment | | 4 - 15 years |
| • Computer equipment | | 3 - 5 years |
| • Furniture and office equipment | | 5 - 7 years |
| • Transport assets | | 4 - 7 years |
| • Office equipment - Leased Asset | | 3 - 15 years |
| • Buildings airconditioning system | | 10 - 15 years |
| • Leased plant | | 3 - 15 years |

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

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

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

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

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

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

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

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

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

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

Self Constructed Assets

The municipality changed its accounting policy for property, plant and equipment in 2018. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2019.

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1.6 Property, plant and equipment (continued)

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of two years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2018 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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.

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Accounting Policies

1.7 Intangible assets (continued)

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, other | Straight line | 2 - 5 years |

Intangible assets are derecognised:

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

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Accounting Policies

1.8 Heritage assets

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

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

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

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

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

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Accounting Policies

1.8 Heritage assets (continued)

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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Accounting Policies

1.9 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.9 Financial instruments (continued)

Classification

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

| Class | Category |
|---|--|
| Trade and other receivables from exchange transaction | Financial asset measured at amortised cost |
| Other receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Long term receivables | Financial asset measured at amortised cost |
| Investments | Financial asset measured at amortised cost |
| Bank and cash | Financial asset measured at amortised cost |

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

| Class | Category |
|---|--|
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Finance lease obligation | Financial liability measured at amortised cost |
| Unspent conditional grants and receipts | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement

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

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Reclassification

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

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

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1.9 Financial instruments (continued)

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

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Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Presentation

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

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

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Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

1.10 Leases

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

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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1.11 Inventories

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

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

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

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

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

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

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

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

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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1.12 Impairment of cash-generating assets (continued)

Identification of a potential impairment

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

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

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

Value in use

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

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

Recognition and measurement (cash-generating units)

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

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

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

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

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

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

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

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

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

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

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1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification of a potential impairment

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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

Recognition and measurement of non-cash generating units

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

1.14 Employee benefits

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

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

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

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

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

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

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

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

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1.14 Employee benefits (continued)

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

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

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1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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1.14 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

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1.15 Provisions (continued)

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

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

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

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

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

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

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Accounting Policies

1.15 Provisions (continued)

- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest

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

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

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

Rates, including collection charges, penalties and interest

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

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

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Public Contributions

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

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

Government Grants

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

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

Other grants and donations

A concessionary loan is a loan granted to or received by a property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Comparative figures

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

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Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Revenue from recovery of Unauthorised, Irregular, Fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery from the responsible Councilors or officials is virtually certain. Such revenue is based on legislated procedures.

1.25 Conditional grants and receipts

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

1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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

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Accounting Policies

1.27 Related parties

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

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

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 entity and a related party, regardless of whether a price is charged.

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

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

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

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

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 entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 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.

1.29 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

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Accounting Policies

1.29 Change in accounting policy, estimates and errors (continued)

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note 45 to the financial statements where applicable.

1.30 Commitments

Items are classified as a commitment when the Municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note 36 to the financial statements.

1.31 Contingent Assets and Liabilities

The municipality does not recognise contingent liabilities or contingent assets, but discloses them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefits is probable. Contingent assets and contingent liabilities are disclosed in note 37.

1.32 Value added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

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Notes to the Annual Financial Statements

2018

2017

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---------------------------|--|------------------|
|---------------------------|--|------------------|

2.2 Standards and interpretations issued, but not yet effective

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|--|--|--|
| • GRAP 34: Separate Financial Statements | 01 April 2009 | Unlikely there will be a material impact |
| • GRAP 35: Consolidated Financial Statements | 01 April 2009 | Unlikely there will be a material impact |
| • GRAP 36: Investments in Associates and Joint Ventures | 01 April 2009 | Unlikely there will be a material impact |
| • GRAP 37: Joint Arrangements | 01 April 2009 | Unlikely there will be a material impact |
| • GRAP 38: Disclosure of Interests in Other Entities | 01 April 2009 | Unlikely there will be a material impact |
| • Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme | 01 April 2009 | Unlikely there will be a material impact |
| • GRAP 110: Living and Non-living Resources | 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 |
| • 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 |
| • 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 |

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

| | | |
|--|---------------|--|
| • IGRAP 11: Consolidation – Special purpose entities | 01 April 2019 | Unlikely there will be a material impact |
| • 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 |
| • GRAP 12 (as amended 2016): Inventories | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 16 (as amended 2016): Investment Property | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 17 (as amended 2016): Property, Plant and Equipment | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 21 (as amended 2016): Impairment of non-cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 26 (as amended 2016): Impairment of cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 27 (as amended 2016): Agriculture | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 31 (as amended 2016): Intangible Assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 103 (as amended 2016): Heritage Assets | 01 April 2018 | Unlikely there will be a material impact |
| • Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities | 01 April 2018 | Unlikely there will be a material impact |

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|-----------------------|------------------|------------------|
| 3. Inventories | | |
| Electricity | 1 396 340 | 1 303 074 |
| Rates and general | 53 621 | 65 273 |
| | 1 449 961 | 1 368 347 |

3.1 Non - Financial information

| | | |
|--|---------|---------|
| Electricity inventories recognised as an expense during the year | 133 990 | 218 947 |
| Rates and general inventories recognised as an expense during the year | 265 464 | 259 919 |

Included in the inventory balances above are the following types of inventory:

Electricity

Electrical sockets, transformers, plugs, meter boxes and other smaller items.

Rates and general

Cleaning materials, staff refreshments (coffee, tea, milk, etc.), stationery, fuel and other smaller items.

Inventory pledged as security

None of the inventory was pledged as security during the period.

4. Consumer debtors and other debtors

| | | |
|---|------------------|-------------------|
| Other Debtors | 338 180 | 3 023 810 |
| Consumer Debtors - Electricity | 8 125 693 | 6 137 508 |
| Consumer debtors - Refuse | 17 413 699 | 14 517 399 |
| Consumer Debtors - Sundry debtors | 2 018 019 | 1 932 559 |
| Consumer debtors - Impairment of exchange debtors | (21 908 452) | (13 717 297) |
| | 5 987 139 | 11 893 979 |

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 4 361 884 (2017: R6 174 386) were past due but not impaired.

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

| | | |
|-------------------|-----------|-----------|
| 1 month past due | 1 668 382 | 3 359 106 |
| 2 months past due | 1 406 992 | 1 577 790 |
| 3 months past due | 1 286 510 | 1 237 490 |

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 27 557 411 (2017: R 22 587 466) were impaired and provided for.

The amount of the provision was R 21 908 452 as of 30 June 2018 (2017: R 13 717 297).

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|---|-------------------|-------------------|
| 4. Consumer debtors and other debtors (continued) | | |
| Reconciliation of allowance for impairment of consumer debtors | | |
| Opening balance | 13 717 297 | 10 655 128 |
| Provision for impairment | 8 191 155 | 3 212 083 |
| Amounts written off as uncollectible | - | (149 914) |
| | 21 908 452 | 13 717 297 |
| 5. Receivables from non-exchange transactions | | |
| Fines | - | 798 830 |
| Fines - Impairment non-exchange debtors | - | (798 830) |
| Consumer debtors - Rates | 28 231 700 | 17 965 780 |
| Consumer debtors - Impairment non-exchange debtors | (16 339 411) | (14 178 156) |
| | 11 892 289 | 3 787 624 |
| Credit quality of receivables from non-exchange transactions | | |
| The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. | | |
| Receivables from non-exchange transactions past due but not impaired | | |
| Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R 2 858 090 (2017: R2 869 545) were past due but not impaired. | | |
| The ageing of amounts past due but not impaired is as follows: | | |
| 1 month past due | 1 026 139 | 1 205 096 |
| 2 months past due | 944 827 | 894 908 |
| 3 months past due | 887 124 | 769 542 |
| Receivables from non-exchange transactions impaired | | |
| As of 30 June 2018, other receivables from non-exchange transactions of R 28 231 700 (2017: R17 965 780) were impaired and provided for. | | |
| The amount of the provision was R 16 339 411 as of 30 June 2018 (2017: R14 178 156). | | |
| Reconciliation of provision for impairment of receivables from non-exchange transactions | | |
| Opening balance | 14 178 156 | 11 751 684 |
| Provision for impairment | 2 161 255 | 4 585 756 |
| Amounts written off as uncollectible | - | (2 159 284) |
| | 16 339 411 | 14 178 156 |
| 6. VAT receivable | | |
| VAT | - | 3 968 304 |

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| | 2018 | 2017 |
|--------------------------------------|----------------|----------------|
| 7. Long-term receivables | | |
| Cost of HT Lines | 346 227 | 356 090 |
| Less: Short term portion of HT Lines | - | (138 722) |
| | <u>346 227</u> | <u>217 368</u> |

The cost of HT Lines comprise trade debtors and interest is charged at 6% per annum.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------|------------------|-------------------|
| Cash on hand | 6 373 | 6 516 |
| Bank balances | 1 206 362 | 63 587 827 |
| Investments | 5 709 366 | 8 455 268 |
| | <u>6 922 101</u> | <u>72 049 611</u> |

Special terms and conditions - investments

Funds invested relate to call and fixed deposit accounts which earn a return of between 5% and 7%. Investments in fixed deposit do not exceed a term of three months and are either reinvested or utilised at the end of the three month term.

Funds are invested according to National Treasury municipal investment regulations dated 1st August 2005 on Gazette no. 27341 which set out a framework within all municipalities shall conduct their cash management and investments.

Cash and cash equivalents guarantees

The Municipality has a contingent facility of R8,435,800 (2017: R8,435,800) relating to bank and cash balances as follows:

| | | |
|---|-----------|-----------|
| Guarantee for Department of Minerals and Energy | 73 700 | 73 700 |
| New Eskom Guarantee | | |
| Guarantee for Eskom | 8 362 100 | 8 362 100 |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|--|-------------------------|-------------------|--------------------|--------------------|-------------------|--------------------|
| | 30 June 2018 | 30 June 2017 | 30 June 2016 | 30 June 2018 | 30 June 2017 | 30 June 2016 |
| Cash on hand | - | - | - | 6 373 | 6 516 | 6 116 |
| First National Bank Cheque Account (Primary bank account): 53813535227 | 467 959 | 59 468 150 | 93 399 789 | 480 180 | 59 444 424 | 93 400 443 |
| First National Bank Current Account: 62116156987 | 726 145 | 2 578 099 | 3 445 456 | 726 145 | 2 578 099 | 3 445 456 |
| First National Bank Current Account: 62135193770 | 37 | 1 565 304 | 66 043 | 37 | 1 565 304 | 66 043 |
| First National Bank Account: 62063171351 | 249 588 | 241 561 | 232 567 | 249 588 | 241 561 | 232 567 |
| First National Bank Account: 61381739619 | 112 372 | 616 214 | 1 074 799 | 112 372 | 616 214 | 1 074 799 |
| First National Bank Account: 74568809858 | 5 102 900 | 7 597 493 | 7 600 000 | 5 102 900 | 7 597 493 | 7 600 000 |
| Investec Bank Account: 454 | - | - | - | 244 506 | - | - |
| Total | <u>6 659 001</u> | <u>72 066 821</u> | <u>105 818 654</u> | <u>6 922 101</u> | <u>72 049 611</u> | <u>105 825 424</u> |

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Notes to the Annual Financial Statements

| | 2018 | | | 2017 | | |
|------------------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Trees in a plantation forest | 3 620 874 | - | 3 620 874 | 1 358 970 | - | 1 358 970 |

Reconciliation of biological assets that form part of an agricultural activity - 2018

| | Opening balance | Revaluation surplus | Total |
|------------------------------|-----------------|---------------------|-----------|
| Trees in a plantation forest | 1 358 970 | 2 261 904 | 3 620 874 |

Reconciliation of biological assets that form part of an agricultural activity - 2017

| | Opening balance | Decrease due to harvest | Revaluation surplus | Total |
|------------------------------|-----------------|-------------------------|---------------------|-----------|
| Trees in a plantation forest | 4 931 102 | (4 114 799) | 542 667 | 1 358 970 |

Non-financial information

Quantities of each biological asset

| | | |
|------------------------------|--------|--------|
| Trees in a plantation forest | 42 044 | 42 044 |
|------------------------------|--------|--------|

The trees in the plantation have been estimated based on a volume per hectare, which the plantations are a total of 116.1 ha.

Mature biological assets

| | | |
|------------------------------|--------|--------|
| Trees in a plantation forest | 42 044 | 42 044 |
|------------------------------|--------|--------|

The trees in Plots 4-9 on 78.3 ha were harvested during the 2018 financial year.

The trees in Plots 4-9 on 78.3 ha were harvested during the 2017 financial year.

Immature biological assets

| | | |
|------------------------------|-------|-------|
| Trees in a plantation forest | 3 204 | 3 204 |
|------------------------------|-------|-------|

The trees in Plot 1-3,10 have not reached their harvest age of an average age of 1-15 years.

(2017: The trees in Plot 1-3,10 have not reached their harvest age of an average age of 1-15 years.)

Pledged as security

None of the biological assets are pledged as security.

Revaluation

The biological assets were revalued by Mr. Martin Engelbrecht, an independent Forest Economist as at 30 June 2018. The Faustmann valuation technique was applied for the valuation of the biological assets.

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Notes to the Annual Financial Statements

Figures in Rand

10. Investment property

| | 2018 | | | 2017 | | |
|---------------------|---------------------|--|----------------|---------------------|--|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 61 113 333 | (7 906 752) | 53 206 581 | 61 113 333 | (6 112 251) | 55 001 082 |

Reconciliation of investment property - 2018

| | Opening balance | Depreciation | Total |
|---------------------|--------------------|--------------|------------|
| Investment property | 55 001 082 | (1 794 501) | 53 206 581 |

Reconciliation of investment property - 2017

| | Opening balance | Impairments | Depreciation | Total |
|---------------------|--------------------|-------------|--------------|------------|
| Investment property | 56 815 964 | (16 098) | (1 798 784) | 55 001 082 |

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The investment property includes land registered under the name of the municipality and Mlungisi Mall.

The Mlungisi Mall components are the only assets within the the investment properties which are depreciated.

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Notes to the Annual Financial Statements

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11. Property, plant and equipment

| | 2018 | | | 2017 | | |
|---------------------------------|---------------------|--|--------------------|---------------------|--|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 6 933 932 | - | 6 933 932 | 6 933 932 | - | 6 933 932 |
| Buildings | 63 900 757 | (23 870 168) | 40 030 589 | 63 823 644 | (21 317 333) | 42 506 311 |
| Machinery and equipment | 6 236 710 | (3 588 272) | 2 648 438 | 6 253 081 | (2 889 903) | 3 363 178 |
| Furniture and office equipment | 3 080 958 | (2 371 711) | 709 247 | 3 174 762 | (2 025 491) | 1 149 271 |
| Transport assets | 37 926 374 | (18 175 491) | 19 750 883 | 40 338 891 | (15 268 329) | 25 070 562 |
| Computer equipment | 3 644 416 | (2 576 856) | 1 067 560 | 3 354 454 | (2 013 909) | 1 340 545 |
| Roads | 344 803 511 | (101 161 519) | 243 641 992 | 333 271 641 | (84 654 119) | 248 617 522 |
| Electricity | 44 605 908 | (11 174 014) | 33 431 894 | 44 605 908 | (9 935 579) | 34 670 329 |
| Capital Work in Progress | 36 721 407 | (316 391) | 36 405 016 | 24 521 493 | - | 24 521 493 |
| Office Equipment - Leased Asset | 627 788 | (365 120) | 262 668 | 627 788 | (240 223) | 387 565 |
| Cemeteries | 1 256 961 | (734 109) | 522 852 | 1 256 961 | (689 854) | 567 107 |
| Airports | 1 127 000 | (757 079) | 369 921 | 1 127 000 | (715 869) | 411 131 |
| Landfill sites | 8 033 388 | (2 456 058) | 5 577 330 | 4 629 869 | (2 178 141) | 2 451 728 |
| Total | 558 899 110 | (167 546 788) | 391 352 322 | 533 919 424 | (141 928 750) | 391 990 674 |

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Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Impairment loss | Total |
|---------------------------------|--------------------|-------------------|--------------------|-------------|---------------------|--------------------|--------------------|
| Land | 6 933 932 | - | - | - | - | - | 6 933 932 |
| Buildings | 42 506 311 | 74 113 | - | 3 000 | (2 552 835) | - | 40 030 589 |
| Machinery and equipment | 3 363 178 | 34 168 | (21 979) | - | (726 929) | - | 2 648 438 |
| Furniture and office equipment | 1 149 271 | 10 053 | (13 523) | - | (436 554) | - | 709 247 |
| Transport assets | 25 070 562 | - | (1 629 224) | - | (3 690 455) | - | 19 750 883 |
| Computer equipment | 1 340 545 | 359 323 | (22 105) | - | (610 203) | - | 1 067 560 |
| Roads | 248 617 522 | 6 430 393 | (652 176) | 6 812 732 | (17 566 479) | - | 243 641 992 |
| Electricity | 34 670 329 | - | - | - | (1 238 435) | - | 33 431 894 |
| Work in progress | 24 521 493 | 19 015 646 | - | (6 815 732) | - | (316 391) | 36 405 016 |
| Office Equipment - Leased Asset | 387 565 | - | - | - | (124 897) | - | 262 668 |
| Cemeteries | 567 107 | - | - | - | (44 255) | - | 522 852 |
| Airports | 411 131 | - | - | - | (41 210) | - | 369 921 |
| Landfill sites | 2 451 728 | 3 403 519 | - | - | (277 917) | - | 5 577 330 |
| | 391 990 674 | 29 327 215 | (2 339 007) | - | (27 310 169) | (316 391) | 391 352 322 |

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11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|---------------------------------|--------------------|-------------------|---------------------|-----------------------|---------------------|---------------------|--------------------|--------------------|
| Land | 6 933 932 | - | - | - | - | - | - | 6 933 932 |
| Buildings | 46 879 240 | - | - | 1 903 997 | (3 502 490) | (2 601 086) | (173 350) | 42 506 311 |
| Plant - Leased Asset | 40 240 424 | - | (39 712 879) | - | - | (527 545) | - | - |
| Machinery and equipment | 3 998 956 | 69 089 | - | - | - | (704 867) | - | 3 363 178 |
| Furniture and office equipment | 1 442 361 | 60 115 | - | - | - | (353 205) | - | 1 149 271 |
| Transport assets | 22 561 368 | 6 079 416 | (169 170) | - | - | (3 401 052) | - | 25 070 562 |
| Computer Equipment | 1 721 366 | 154 671 | - | - | - | (535 492) | - | 1 340 545 |
| Roads | 269 478 707 | - | (3 453 287) | 10 536 896 | (9 959 370) | (17 213 350) | (772 074) | 248 617 522 |
| Electricity | 33 791 885 | - | - | 2 432 270 | (28 840) | (1 181 756) | (343 230) | 34 670 329 |
| Work in progress | 10 981 833 | 28 412 823 | - | (14 873 163) | - | - | - | 24 521 493 |
| Office Equipment - Leased Asset | 485 676 | 30 037 | - | - | - | (128 148) | - | 387 565 |
| Cemeteries | 606 551 | - | - | - | - | (39 444) | - | 567 107 |
| Airports | 447 759 | - | - | - | - | (36 628) | - | 411 131 |
| Landfill sites | 2 688 385 | - | - | - | - | (236 657) | - | 2 451 728 |
| | 442 258 443 | 34 806 151 | (43 335 336) | - | (13 490 700) | (26 959 230) | (1 288 654) | 391 990 674 |

Amahlathi Local Municipality

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Notes to the Annual Financial Statements

| | 2018 | 2017 | | |
|--|---------------------------------------|----------------------------------|--------------------------------------|-------------------|
| 11. Property, plant and equipment (continued) | | | | |
| Pledged as security | | | | |
| Carrying value of assets pledged as security: | | | | |
| Office Equipment - Leased Assets | 201 769 | 298 278 | | |
| Assets subject to finance lease (Net carrying amount) | | | | |
| Office Equipment - Leased Assets | <u>262 668</u> | <u>387 565</u> | | |
| Other information | | | | |
| Reconciliation of Work-in-Progress 2018 | | | | |
| | Included within Infrastructure | Included within Community | Property, plant and Equipment | Total |
| Opening balance | 13 998 185 | 5 397 981 | 5 125 327 | 24 521 493 |
| Additions/capital expenditure | 13 705 399 | - | 5 310 247 | 19 015 646 |
| Impairment | - | - | (316 391) | (316 391) |
| Transferred to completed items | (6 812 732) | - | (3 000) | (6 815 732) |
| | <u>20 890 852</u> | <u>5 397 981</u> | <u>10 116 183</u> | <u>36 405 016</u> |
| Reconciliation of Work-in-Progress 2017 | | | | |
| | Included within Infrastructure | Included within Community | Included within Other PPE | Total |
| Opening balance | 5 229 305 | 5 397 981 | 354 547 | 10 981 833 |
| Additions/capital expenditure | 21 209 775 | 2 432 268 | 4 770 780 | 28 412 823 |
| Transferred to completed items | (12 440 895) | (2 432 268) | - | (14 873 163) |
| | <u>13 998 185</u> | <u>5 397 981</u> | <u>5 125 327</u> | <u>24 521 493</u> |

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

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| | 2018 | | | 2017 | | |
|-------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 2 159 163 | (1 021 372) | 1 137 791 | 2 159 163 | (589 554) | 1 569 609 |

Reconciliation of intangible assets - 2018

| | Opening balance | Amortisation | Total |
|-------------------|-----------------|--------------|-----------|
| Computer software | 1 569 609 | (431 818) | 1 137 791 |

Reconciliation of intangible assets - 2017

| | Opening balance | Additions | Amortisation | Total |
|-------------------|-----------------|-----------|--------------|-----------|
| Computer software | 780 017 | 1 069 111 | (279 519) | 1 569 609 |

Pledged as security

None of the intangible assets pledged as security:

13. Heritage assets

| | 2018 | | | 2017 | | |
|----------------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Historical monuments | 610 183 | - | 610 183 | 610 183 | - | 610 183 |

Reconciliation of heritage assets 2018

| | Opening balance | Total |
|----------------------|-----------------|---------|
| Historical monuments | 610 183 | 610 183 |

Reconciliation of heritage assets 2017

| | Opening balance | Total |
|----------------------|-----------------|---------|
| Historical monuments | 610 183 | 610 183 |

Pledged as security

Non of the heritage assets are pledged as security.

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| | 2018 | 2017 |
|--|----------------------|-----------------------|
| 14. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 91 921 | 239 459 |
| - in second to fifth year inclusive | 7 580 | 62 876 |
| | <u>99 501</u> | <u>302 335</u> |
| less: future finance charges | (7 366) | (30 269) |
| Present value of minimum lease payments | <u>92 135</u> | <u>272 066</u> |
| Present value of minimum lease payments due | | |
| - within one year | 85 272 | 211 882 |
| - in second to fifth year inclusive | 6 863 | 60 184 |
| | <u>92 135</u> | <u>272 066</u> |

The finance lease obligation is made up of numerous rental agreements for the office equipment.

Office Equipment Leases

The discount rate used in calculating the present value of the minimum lease payments is the implicit interest rate in the lease, if this is practicable to determine; if not, it is the prime interest rate. Due to the nature of the information provided the implicit rate for copiers could not be determined, as the cost of the copiers is not provided in the agreement. Any initial direct costs of leases are added to the amount recognised as an asset. Only the terms and payment amount are provided. The office equipment finance lease has an implicit interest rate ranging between 7.50% - 19% per annum, by taking into account the market values of the office equipment at initial recognition.

15. Payables from exchange transactions

| | | |
|---------------------------------------|--------------------------|--------------------------|
| Trade and other payables | 18 974 033 | 22 698 372 |
| Consumer debtors with credit balances | 2 001 948 | 1 818 877 |
| Deposits received | - | 86 835 |
| Other payables | 297 239 | 1 060 473 |
| Retention creditors | 161 380 | - |
| Agency fees payable | 424 103 | - |
| | <u>21 858 703</u> | <u>25 664 557</u> |

Consumer receivables with net credit balances have been classified to Payables from exchange transactions.

16. Consumer deposits

| | | |
|-------------|------------------|------------------|
| Electricity | <u>1 846 920</u> | <u>1 765 529</u> |
|-------------|------------------|------------------|

Consumer deposits are made of deposits from consumers from electricity connections, for those making use of conventional electricity.

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|---|---------------------|---------------------|
| 17. Employee benefit obligations | | |
| Defined benefit plan | | |
| The defined benefit plan consists of post retirement medical aid benefit and long service bonus. | | |
| Post retirement medical aid plan | | |
| The Municipality operates six accredited medical aid schemes, namely: Bestmed Bonitas Discovery La Health Hosmed Keyhealth Samwu | | |
| Pensioners continue on the option they belonged to on the day of retirement. | | |
| The independent valuers, Arch Actuaries carried out a statutory valuation on 30 June 2018 (30 June 2017 PriceWaterhouseCoopers Actuarial Services). | | |
| Carrying value | | |
| Present value of the defined benefit obligation | 32 424 718 | 30 152 718 |
| Service costs | 1 937 000 | 2 048 000 |
| Interest costs | 3 291 000 | 2 993 000 |
| Net actuarial gains | (7 399 345) | (2 046 000) |
| Benefits paid | (878 392) | (723 000) |
| | 29 374 981 | 32 424 718 |
| Non-current liabilities | 28 464 435 | 31 648 718 |
| Current liabilities | 910 546 | 776 000 |
| | 29 374 981 | 32 424 718 |
| Key assumptions used | | |
| Assumptions used at the reporting date: | | |
| Discount rates used | 9.62 % | 9.70 % |
| Net discount rates used | 2.08 % | 1.02 % |
| Medical cost trend rates | 7.39 % | 8.86 % |
| Other assumptions | | |
| Pre retirement age | SA 85-90 L | SA 85 - 90 L |
| Post retirement age | PA (90) -1 | PA (90) -1 |
| Normal retirement age | 63 years | 63 years |
| Spouse age differences (male older than female) | 3 years | 3 years |
| AIDS | No assumptions made | No assumptions made |
| Membership data | | |
| Female members | 71 | 77 |

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|---|------------------|------------------|
| 17. Employee benefit obligations (continued) | | |
| Male members | 73 | 77 |
| Healthcare cost inflation sensitivity (R'000) | 1% decrease | Base (8.86%) |
| Defined benefit obligation | (27 640) | (32 425) |
| Service cost (next financial year) | (1 527) | (2 489) |
| Interest cost (next financial year) | (2 793) | (3 921) |
| | 1% increase | (38 470) |
| | | (2 489) |
| | | (3 921) |
| Long Services Awards | | |
| <p>The Long service bonus for the portion of the next interval already rendered by the employee. The employee receives a leave pay and percentage of salary amount for reaching certain interval (5 years, 10 years, 15 years etc.). This provision is accrued in terms of the collective bargain agreement. The Long service bonus plans are defined benefit plans. As at period ended 30 June 2018, 321 (2017: 327) employees were eligible for Long service bonus.</p> | | |
| Carrying value | | |
| Present value of the defined benefit obligation | 5 774 000 | 4 443 000 |
| Service costs | 855 000 | 713 000 |
| Interest costs | 495 000 | 404 000 |
| Net actuarial gains | (564 469) | 526 000 |
| Benefits paid | (951 000) | (312 000) |
| | 5 608 531 | 5 774 000 |
| Non-current liabilities | 4 923 841 | 4 823 000 |
| Current liabilities | 684 690 | 951 000 |
| | 5 608 531 | 5 774 000 |
| Key assumptions used | | |
| Assumptions used at the reporting date: | | |
| Discount rates used | 8.46 % | 8.50 % |
| Net discount rates used | 2.23 % | 1.12 % |
| Salary inflation | 6.09 % | 7.30 % |
| Other assumptions | | |
| Normal retirement age | 63 years | 63 years |
| Number of trading days per year | 252 | 252 |
| Membership data | | |
| Female members | 110 | 106 |
| Male members | 211 | 221 |

Short term employee benefits obligations

Provision for bonuses:

A bonus provision is raised for the amount which the Municipality is obligated to pay employees.

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|--|---------------------|---------------------|
| 17. Employee benefit obligations (continued) | | |
| Accrual for leave gratuity: | | |
| Leave gratuity is raised for the amount which the Municipality is obligated to pay employees in lieu of annual leave, if they are to leave the Municipality. | | |
| Provision for Bonuses | | |
| Opening balance | 4 109 138 | 3 115 878 |
| Performance bonus | 183 832 | 1 141 536 |
| Service bonus | 3 484 275 | 2 967 602 |
| Utilised during the year | (4 109 138) | (3 115 878) |
| | 3 668 107 | 4 109 138 |
| Accrual for leave gratuity: | | |
| Opening balance | 6 990 304 | 5 335 651 |
| Leave gratuity - Obligation | 6 207 870 | 6 990 304 |
| Utilised during the year | (6 114 860) | (5 335 651) |
| | 7 083 314 | 6 990 304 |
| The amounts recognised in the statement of financial position are as follows: | | |
| Carrying value | | |
| Non-current portion of Post Retirement Benefits | (28 464 835) | (31 648 718) |
| Non-current portion of Long Service Awards | (4 923 841) | (4 823 000) |
| Current portion of Post Retirement Benefits | (910 546) | (776 000) |
| Current portion of Long Service Awards | (684 690) | (951 000) |
| Provision for bonus | (3 668 107) | (4 109 138) |
| Accrual for leave gratuity | (7 083 314) | (6 990 304) |
| | (45 735 333) | (49 298 160) |
| Non-current liabilities | (33 388 676) | (36 471 718) |
| Current liabilities | (12 346 657) | (12 826 442) |
| | (45 735 333) | (49 298 160) |
| Net expense recognised in the statement of financial performance | | |
| Current service cost | 2 792 000 | 2 761 000 |
| Interest cost | 3 786 000 | 3 397 000 |
| Actuarial (gains) losses | (7 963 814) | (1 520 000) |
| Settlement | - | 993 260 |
| Assets not recognised | - | 1 654 653 |
| | (1 385 814) | 7 285 913 |

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|--|----------------|------------------|
| 18. Unspent conditional grants and receipts | | |
| Unspent conditional grants and receipts comprises of: | | |
| Unspent conditional grants and receipts | | |
| INEG | 623 323 | 307 089 |
| WCG | 233 712 | 473 420 |
| Waste Grant | - | 770 747 |
| Recycling centre | 122 310 | 122 310 |
| | 979 345 | 1 673 566 |
| Movement during the year | | |
| Balance at the beginning of the year | 1 673 566 | 5 165 730 |
| Surrendered to NRF/Roll over not approved | (229 000) | (3 625 000) |
| Grants received during the year | 133 346 076 | 146 754 488 |
| Income recognition during the year | (133 811 297) | (146 621 652) |
| | 979 345 | 1 673 566 |

See note 24 for reconciliation of grants from National/Provincial Government.

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

19. Provisions

Reconciliation of provisions - 2018

| | Opening Balance | Additions | Reversed during the year | Total |
|------------------------------|--------------------|------------------|--------------------------------|------------------|
| Provision for landfill sites | 404 176 | 3 403 519 | - | 3 807 695 |
| WCA | 830 021 | - | (830 021) | - |
| | 1 234 197 | 3 403 519 | (830 021) | 3 807 695 |

Reconciliation of provisions - 2017

| | Opening Balance | Additions | Overprovision in the previous year | Penalties | Transfer to accrual | Total |
|------------------------------|--------------------|----------------|--|----------------|------------------------|------------------|
| Provision for landfill sites | 393 480 | 10 696 | - | - | - | 404 176 |
| WCA | 4 517 580 | 830 021 | (1 238 850) | 411 717 | (3 690 447) | 830 021 |
| | 4 911 060 | 840 717 | (1 238 850) | 411 717 | (3 690 447) | 1 234 197 |

| | | |
|-------------------------|------------------|------------------|
| Non-current liabilities | 404 176 | 404 176 |
| Current liabilities | 3 403 519 | 830 021 |
| | 3 807 695 | 1 234 197 |

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Notes to the Annual Financial Statements

| | 2018 | 2017 |
|--|-------------------|-------------------|
| 19. Provisions (continued) | | |
| Provision for Landfill Site rehabilitation | | |
| The municipality has an obligation to restore two landfill sites situated in Stutterheim, Erf 80 and Cathcart, Erf 474. The sites are currently licenced and used for general waste disposal (non-hazardous) purposes. | | |
| WCA | | |
| The municipality has an obligation to pay for the Workers Compensation Assurance (WCA), as a result a provision is raised based on the estimated amount to be paid, prior to the formal assessment by the Labour Department. | | |
| 20. VAT payable | | |
| VAT payable | 1 499 851 | - |
| 21. Service charges | | |
| Sale of electricity | 25 175 244 | 28 866 926 |
| Refuse removal | 10 139 504 | 9 133 006 |
| Other service charges | 104 616 | 5 784 |
| | 35 419 364 | 38 005 716 |
| 22. Interest received - investment | | |
| Interest revenue | | |
| Bank | 4 096 127 | 8 441 923 |
| Interest is earned on municipal investments and municipal cheque account in note 8. | | |
| 23. Property rates | | |
| Rates received | | |
| Property rates | 21 172 265 | 16 630 011 |
| Less: Rebates | (4 278 797) | (2 616 713) |
| | 16 893 468 | 14 013 298 |

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| | 2018 | 2017 |
|---------------------------------------|----------------------|----------------------|
| 23. Property rates (continued) | | |
| Valuations | | |
| Residential | 1 361 185 877 | 1 361 185 877 |
| Commercial | 187 860 986 | 187 860 986 |
| State | 246 981 500 | 246 981 500 |
| Municipal | 29 704 332 | 29 704 332 |
| Small holdings and farms | 1 077 198 612 | 1 077 198 612 |
| Public benefit organisations | 73 402 300 | 73 402 300 |
| Vacant land | 1 973 000 | 1 973 000 |
| | 2 978 306 607 | 2 978 306 607 |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R4,278,797 (2017: 0.0098) is applied to property valuations to determine assessment rates. Rebates of R (2017: R2,616,713) are granted to residential and state property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum is levied on rates outstanding monthly.

24. Government grants and subsidies

Operating grants

| | | |
|--|--------------------|--------------------|
| Equitable share | 95 446 000 | 113 780 000 |
| Capacity of Municipality | 37 077 | - |
| Library grant | 1 200 000 | 1 200 000 |
| Municipal Infrastructure Grant (MIG) | 28 574 000 | 23 147 466 |
| Expanded Public Works Programme (EPWP) | 1 389 000 | 1 062 000 |
| Financial Management Grant (FMG) | 1 700 000 | 1 625 000 |
| Staff Training | - | 170 487 |
| Waste collection grant | 770 747 | 647 208 |
| Waste site grant | 239 708 | 296 580 |
| INEG Grant | 4 454 766 | 4 692 911 |
| | 133 811 298 | 146 621 652 |

Equitable Share

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

Operating and maintenance cost of the municipalities that have the least potential to cover these costs from their own revenue.

INEG

| | | |
|---|----------------|----------------|
| Balance unspent at beginning of year | 307 089 | - |
| Current-year receipts | 5 000 000 | 5 000 000 |
| Conditions met - transferred to revenue | (4 454 766) | (4 692 911) |
| Surrendered to NRF/Roll over not approved | (229 000) | - |
| | 623 323 | 307 089 |

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

The grant was obtained from the Department of Energy. The purpose of this grant is to address the electrification backlog of occupied residential dwellings.

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| | 2018 | 2017 |
|--|----------------|----------------|
| 24. Government grants and subsidies (continued) | | |
| Waste site grant | | |
| Balance unspent at beginning of year | 473 420 | - |
| Current-year receipts | - | 770 000 |
| Conditions met - transferred to revenue | (239 708) | (296 580) |
| | <u>233 712</u> | <u>473 420</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| To improve waste site and ensure clean environment. | | |
| Waste Collection Grant | | |
| Balance unspent at beginning of year | 770 747 | 1 417 954 |
| Conditions met - transferred to revenue | (770 747) | (647 207) |
| | <u>-</u> | <u>770 747</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| To promote safe environment and to reduce unemployment. | | |
| Recycling centre | | |
| Balance unspent at beginning of year | 122 310 | 122 310 |
| Conditions still to be met - remain liabilities (see note 18). | | |
| The grant is made to assist the municipality in promotion of clean environment. | | |
| Municipal Infrastructure Grant (MIG) | | |
| Balance unspent at beginning of year | - | 3 625 466 |
| Surrendered to NRF/Roll over not approved | - | (3 625 000) |
| Current year receipts | 28 574 000 | 23 147 000 |
| Conditions met - transferred to revenue | (28 574 000) | (23 147 466) |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| The Grant was received from the Department of Cooperative Governance and Traditional Affairs. The purpose of the grant is to provide specific finance for basic Municipal Infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities. | | |

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| | 2018 | 2017 |
|---|--------------------|--------------------|
| 24. Government grants and subsidies (continued) | | |
| Staff training | | |
| Current-year receipts | 37 077 | 170 487 |
| Conditions met - transferred to revenue | <u>(37 077)</u> | <u>(170 487)</u> |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| The grant was obtained from the Sectoral Education Training Authority (SETA) for training of staff. In terms of the Skills Development Act regarding monies by SETA's published in Government Notice 990 in Government Gazette No. 34940, LG SETA is required to disburse in quarterly intervals. | | |
| Extended Public Works Programme (EPWP) | | |
| Current-year receipts | 1 389 000 | 1 062 000 |
| Conditions met - transferred to revenue | <u>(1 389 000)</u> | <u>(1 062 000)</u> |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| The grant is provided to expand the Public Works programme and job creation efforts. The municipality is incentivised to use labour intensive delivery methods in the following areas: | | |
| - Road maintenance and the maintenance of buildings; | | |
| - Parks beautification; | | |
| - Waste management; | | |
| - Low traffic volume roads and rural roads. | | |
| Financial Management Grant (FMG) | | |
| Current-year receipts | 1 700 000 | 1 625 000 |
| Conditions met - transferred to revenue | <u>(1 700 000)</u> | <u>(1 625 000)</u> |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| The grant is received to ensure sound and sustainable management of the fiscal and financial affairs of the municipality. To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act. | | |
| Library Grant | | |
| Current-year receipts | 1 200 000 | 1 200 000 |
| Conditions met - transferred to revenue | <u>(1 200 000)</u> | <u>(1 200 000)</u> |
| | <u>-</u> | <u>-</u> |
| Conditions still to be met - remain liabilities (see note 18). | | |
| To transform urban and rural community library infrastructure, facilities and services through a recapitalised programme. | | |

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| | 2018 | 2017 |
|--|--------------------|--------------------|
| 25. Employee related costs | | |
| Basic | 85 818 457 | 75 258 570 |
| Bonus | 4 280 228 | 5 353 045 |
| Medical aid - company contributions | 5 010 606 | 3 674 493 |
| UIF | 584 912 | 569 543 |
| Employee benefit movements | (2 229 581) | 4 638 000 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 411 256 | 1 384 671 |
| Overtime payments | 2 073 801 | 2 865 096 |
| Acting allowances | 750 738 | 389 568 |
| Travel allowances | 5 712 011 | 5 012 161 |
| Housing benefits and allowances | 3 242 208 | 3 248 782 |
| Performance Bonus | - | 980 280 |
| Industrial Council Levy | 39 413 | 31 112 |
| Pension Fund Contributions by Council | 13 385 723 | 12 011 405 |
| Less: Employee costs capitalised to PPE | - | (3 281 711) |
| | 120 079 772 | 112 135 015 |
| Remuneration of Municipal Manager | | |
| Annual Remuneration | 584 150 | 953 028 |
| Travelling Allowance | 241 893 | 254 716 |
| Contributions to UIF | 1 338 | 1 785 |
| Cellphone Allowance | 18 000 | 24 000 |
| Other Allowance | 143 185 | 107 099 |
| | 988 566 | 1 340 628 |
| Remuneration of Chief Financial Officer | | |
| Annual Remuneration | 522 590 | 535 017 |
| Travelling Allowance | 80 000 | 250 625 |
| Contributions to UIF, Medical and Pension Funds | 17 257 | 40 197 |
| Cellphone Allowance | 11 200 | 14 000 |
| Other Allowance | 8 590 | 142 436 |
| Backpay | 31 700 | - |
| | 671 337 | 982 275 |
| Remuneration of Corporate Services Manager | | |
| Annual Remuneration | 660 023 | 952 374 |
| Contributions to UIF, Medical and Pension Funds | 17 762 | 209 555 |
| Cellphone Allowance | 1 400 | 16 800 |
| Other | 167 860 | - |
| | 847 045 | 1 178 729 |

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|---|-------------------|-------------------|
| 25. Employee related costs (continued) | | |
| Remuneration of Development and Planning Manager | | |
| Annual Remuneration | 795 173 | 835 590 |
| Travelling Allowance | 121 221 | 127 696 |
| Performance Bonuses | 104 574 | - |
| Contributions to UIF, Medical and Pension Funds | 187 348 | 198 643 |
| Other Allowance | 28 420 | 16 800 |
| Backpay | 14 524 | - |
| Leave | 258 645 | - |
| | 1 509 905 | 1 178 729 |
| Remuneration of Strategic Manager | | |
| Annual Remuneration | 783 208 | 653 049 |
| Travelling Allowance | 242 028 | 233 280 |
| Performance Bonuses | 131 369 | - |
| Contributions to UIF, Medical and Pension Funds | 165 525 | 157 320 |
| Cellphone Allowance | 16 800 | 16 800 |
| Other Allowance | 18 103 | 51 092 |
| | 1 357 033 | 1 111 541 |
| Remuneration of the Community Services Manager | | |
| Annual Remuneration | 848 449 | 689 905 |
| Travelling Allowance | 217 697 | 264 060 |
| Contributions to UIF, Medical and Pension Funds | 131 612 | 156 575 |
| Cellphone Allowance | 14 000 | 16 800 |
| Other Allowance | 10 242 | 51 390 |
| | 1 222 000 | 1 178 730 |
| 26. Remuneration of councillors | | |
| Honourable Mayor | 825 406 | 758 012 |
| Speaker | 667 160 | 606 410 |
| Councillors' Salaries | 7 424 791 | 6 619 937 |
| Contributions to Medical, Pension Funds and UIF | - | 2 712 492 |
| Councillors' allowances | 3 325 470 | 864 438 |
| | 12 242 827 | 11 561 289 |
| 27. Vendor management fee | | |
| Management fees - third party | 553 413 | 545 185 |

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

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

27. Vendor management fee

| | | |
|-------------------------------|---------|---------|
| Management fees - third party | 553 413 | 545 185 |
|-------------------------------|---------|---------|

The municipality pays vendor management fees to Conlog, this service provider owns the system used to manage the sales of prepaid electricity to external outlets and the municipal office cashiers.

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| | 2018 | 2017 |
|---|-------------------|-------------------|
| 28. Depreciation and amortisation | | |
| Property, plant and equipment | 27 310 169 | 27 113 230 |
| Investment property | 1 794 501 | 1 529 641 |
| Intangible assets | 431 818 | 394 661 |
| | 29 536 488 | 29 037 532 |
| 29. Finance costs | | |
| Finance leases | 37 782 | 2 506 888 |
| 30. Debt impairment | | |
| Debt impairment | 10 352 410 | 7 916 439 |
| 31. Bulk purchases | | |
| Electricity | 27 072 041 | 26 164 717 |
| 32. General expenses | | |
| Advertising | 461 700 | 381 890 |
| Audit Committee Fees | 516 720 | 505 327 |
| Audit Fees | 3 261 160 | 3 055 611 |
| Bank charges | 340 349 | 379 428 |
| Community Development and training | - | 1 665 456 |
| Computer expenses | 563 778 | 375 888 |
| Consulting and professional fees | 9 696 808 | 4 982 748 |
| Consumables | 499 561 | 315 934 |
| Electricity | 3 778 474 | 4 524 011 |
| Electricity consumption (Street Lights) | 1 020 779 | 1 024 595 |
| Entertainment | 837 344 | 627 234 |
| Free basic electricity | 8 838 804 | 8 298 716 |
| Fuel and oil | 4 014 406 | 4 535 040 |
| IDP process plan | 642 592 | 610 815 |
| IT expenses | 87 015 | 166 794 |
| Insurance | 1 008 187 | 2 203 214 |
| Motor vehicle expenses | 503 083 | 300 294 |
| Other expenses | 3 591 623 | 3 835 914 |
| Plant hire | 135 558 | 119 949 |
| Postage and courier | 222 625 | 215 780 |
| Printing and stationery | 2 707 754 | 1 254 875 |
| Project maintenance costs | 791 963 | 2 273 312 |
| Promotions of LED | 150 954 | 1 220 056 |
| Refuse | - | 70 700 |
| Repairs and maintenance | 6 640 207 | 6 935 146 |
| Security (Guarding of municipal property) | 1 745 169 | 2 206 896 |
| Skills development levy | 989 944 | 909 497 |
| Staff welfare | 209 007 | 337 170 |
| Subscriptions and membership fees | 1 175 650 | 1 055 876 |
| Telephone and fax | 1 910 259 | 1 433 708 |
| Training | 4 150 621 | 4 026 509 |
| Uniforms | 32 635 | 246 678 |
| Vehicle license fees | 763 271 | 453 345 |
| | 61 288 000 | 60 548 406 |

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| | 2018 | 2017 |
|--|---------------------|------------------|
| 33. Auditors' remuneration | | |
| Auditors Remuneration | 3 261 160 | 3 055 611 |
| 34. Cash flows from operating activities | | |
| Deficit for the year | (63 340 915) | (86 216 506) |
| Adjustments for: | | |
| Depreciation and amortisation | 29 536 488 | 29 037 532 |
| Loss on sale of property, plant and equipment | 2 338 580 | 45 941 511 |
| Loss on disposal of biological assets and agricultural produce | - | 1 186 561 |
| Gain on fair value of biological assets | (2 261 904) | (542 667) |
| Finance costs | 37 782 | - |
| Impairment loss on non-current assets | 316 391 | 1 304 752 |
| Debt impairment | 10 352 410 | 7 916 439 |
| Movements in retirement benefit assets and liabilities | (3 562 827) | 6 250 913 |
| Movements in provisions | 2 573 498 | (3 676 863) |
| Changes in working capital: | | |
| Inventories | (81 614) | (344 920) |
| Consumer debtors and other debtors | (4 445 570) | (4 405 533) |
| Other receivables from non-exchange transactions | (8 104 665) | (5 766 194) |
| Payables from exchange transactions | (3 805 855) | 15 057 965 |
| VAT | 5 468 155 | (854 105) |
| Unspent conditional grants and receipts | (694 221) | (3 492 164) |
| Consumer deposits | 81 391 | 1 336 709 |
| | (35 592 876) | 2 733 430 |

35. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

| | At amortised cost | Total |
|--|----------------------|-------------------|
| Consumer debtors and other debtors | 5 987 139 | 5 987 139 |
| Other receivables from non-exchange transactions | 11 892 289 | 11 892 289 |
| Cash and cash equivalents | 6 922 101 | 6 922 101 |
| Long term receivables | 346 221 | 346 221 |
| | 25 147 750 | 25 147 750 |

Financial liabilities

| | At amortised cost | Total |
|-------------------------------------|----------------------|-------------------|
| Finance lease obligations | 85 272 | 85 272 |
| Payables from exchange transactions | 21 858 703 | 21 858 703 |
| Unspent conditional grants | 979 345 | 979 345 |
| Consumer deposits | 1 846 920 | 1 846 920 |
| | 24 770 240 | 24 770 240 |

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| | 2018 | 2017 |
|---|--------------------------|-------------------|
| 35. Financial instruments disclosure (continued) | | |
| 2017 | | |
| Financial assets | | |
| | At amortised cost | Total |
| Consumer debtors and other debtors | 11 893 979 | 11 893 979 |
| Other receivables from non-exchange transactions | 3 787 624 | 3 787 624 |
| Cash and cash equivalents | 72 049 611 | 72 049 611 |
| Short term portion of long term receivables | 138 722 | 138 722 |
| Long term receivables | 356 090 | 356 090 |
| | 88 226 026 | 88 226 026 |
| Financial liabilities | | |
| | At amortised cost | Total |
| Finance lease obligations | 272 065 | 272 065 |
| Payables from exchange transactions | 25 664 557 | 25 664 557 |
| Unspent conditional grants | 1 673 566 | 1 673 566 |
| Consumer deposits | 1 765 529 | 1 765 529 |
| | 29 375 717 | 29 375 717 |
| 36. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Property, plant and equipment | 10 767 128 | 6 540 627 |
| • Intangible assets | - | 180 176 |
| | 10 767 128 | 6 720 803 |
| Total capital commitments | | |
| Already contracted for but not provided for | 10 767 128 | 6 720 803 |

This committed expenditure relates to property, plant and equipment and intangible assets will be financed by a combination of MIG and funds internally generated.

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2018

2017

37. Contingencies

Contingent Liabilities

There is a claim including legal costs R35 000 (2017: R 103,541) by Sydney Kenene, case number A201 for cattle that disappeared in the municipal pound that is managed by the SPCA.

There is a claim for a damaged vehicle by Hertz Car Rental, case number A262, for a hired vehicle that was in a car accident. The potential liability is R244 452.36.

There is an unfair dismissal case by SALGBC on the municipality, case number A294, for failure to comply with clause 11.3 of the Main Collective. The potential liability amounts to R6 261.

Xolani Mnyakama has issued a summons against the municipality for R126 000 in respect of a payment he made to the municipality on behalf of a Maxwell Peter.

There is a civil claim for damages/retrospective payments as from 2011, R455 000.

Contingent Assets

There is a civil claim against Kwane Capital and Mcebisi Mlonzi R92 487 183

38. Related parties

Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report note

I Sikhulu-Nqwena - Municipal Manager

L Manjingolo - Chief Financial Officer

S Vara - Community Services Manager (Contract expired 30 June 2018)

M Quma - Corporate Services Manager (Contract expired 30 June 2018)

B Ondala - Planning and Development Manager (Contract expired 30 June 2018)

Related party transactions

Copmanies owned by people/spouses/partners/associates in the services of the state

| | | |
|--|---------|---------|
| Cementile Products | - | 52 222 |
| ICT Choice | 520 803 | 913 100 |
| LM Velebesi Trading | 2 650 | 20 000 |
| Nelson Mandela Metropolitan University | 14 338 | 43 230 |
| Sabamdela Trading | 31 300 | 21 600 |
| Shido Logistix | - | 32 780 |
| TFM Manufacturing | 27 707 | 34 496 |
| TH Paul Kruger | 194 883 | 99 992 |

39. Prior period errors

Property, plant and equipment

It was identified in the current year that certain Property, plant and equipment (Roads) were disposed off in the prior year due to the process of demarcation. This has resulted in the adjustment in Property, plant and equipemnt as indicated below.

Workmen's Compensation accrual

It was identified in the current year that the Workmens' Compensation accrual recognised in prior year was overstated. This has resulted in the adjustment to General expenses and Payables from exchange transactions as indicated below.

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| | 2018 | 2017 |
|---|----------------------|------|
| 39. Prior period errors (continued) | | |
| The correction of the error(s) results in adjustments as follows: | | |
| Property, plant and Equipment | | |
| Property, plant and equipment - As previously reported | 395 443 961 | |
| Roads Deregonised - cost | (4 122 710) | |
| Roads Deregonised - accumulated depreciation | 669 423 | |
| | <u>391 990 674</u> | |
| Payables from exchange transactions | | |
| Payables from exchange transactions - As previously reported | 25 722 341 | |
| WCA recognised | (57 784) | |
| | <u>25 664 557</u> | |
| Accumulated Surplus | | |
| Accumulated surplus - As previously reported 30 June 2017 | (467 441 901) | |
| Increase in loss on disposal-demarcations | 3 453 287 | |
| Decrease in General expenses - WCA recognised | (57 784) | |
| | <u>(464 046 398)</u> | |
| General expenses | | |
| As previously reported | 60 663 974 | |
| Decrease in General expenses - WCA recognised | (57 784) | |
| | <u>60 606 190</u> | |
| Loss on disposal of assets | | |
| As previously reported | 42 488 224 | |
| Increase in loss on disposal-demarcations | 3 453 287 | |
| | <u>45 941 511</u> | |

40. Risk management

Financial risk management

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

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40. Risk management (continued)

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.

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

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

| Financial instrument | 2018 | 2017 |
|---|------------|------------|
| Consumer debtors and other debtors | 5 987 139 | 11 893 979 |
| Receivables from non-exchange transactions | 11 892 289 | 3 787 624 |
| Cash and cash equivalents | 6 922 101 | 72 049 611 |
| Long term receivables | 346 227 | 217 368 |
| Short term portion of long term receivables | - | 138 722 |

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40. Risk management (continued)

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in wood prices. The municipality does not anticipate that wood prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in wood prices. The municipality reviews its outlook for wood prices regularly in considering the need for active financial risk management.

Interest rate risk

Liquidity risk

The municipality does not hedge foreign exchange fluctuations.

The municipality risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

The municipality is not exposed to currency as no transactions are negotiated in foreign.

41. Going concern

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

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 is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account government grants. The key financial risks identified include:

- An inability to pay creditors within due dates.
- Negative key financial ratios.
- Net current liability was realised.

The actions taken by management to mitigate the impact of these risks include:

- Management maintains detailed financial plans and manages working capital elements as necessary.
- Budget controls are in place to ensure that over-expenditure is eliminated.
- The treasury will continue to provide funding to the municipality in the foreseeable future.
- Council of the municipality has approved cost containment measures in line with circular 82 of the MFMA.

42. Events after the reporting date

Amahlathi Municipality experienced a fire on the 16th October 2018 due to protest action. This fire affected the Main Administrative & Community Services buildings including the finance department. This included the related movable assets and finance information that was housed in those facilities. On the 17th October 2018, Mlungisi Commercial Park was also subjected to protest action resulting in fire which also caused severe damage.

The extent of this damage has not yet been assessed in full and the municipality is not yet able to quantify the rand value of the damage.

This is treated as a non-adjusting subsequent event as the events and circumstances only occurred after year end.

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| | 2018 | 2017 |
|---|-------------------|-------------------|
| 43. Unauthorised expenditure | | |
| Opening balance | 75 614 217 | 54 972 525 |
| Unauthorised expenditure | 13 273 670 | 20 641 692 |
| | 88 887 887 | 75 614 217 |
| 44. Fruitless and wasteful expenditure | | |
| Opening balance | 6 320 991 | 5 639 866 |
| Fruitless and wasteful expenditure | 262 553 | 681 125 |
| | 6 583 544 | 6 320 991 |
| Analysis of fruitless and wasteful expenditure | | |
| Interest paid | 37 202 | 77 142 |
| Penalties | 225 350 | 603 983 |
| | 262 552 | 681 125 |

No disciplinary action has been taken yet with regards to the expenditure disclosed above.

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| | 2018 | 2017 |
|--|---|-------------------|
| 45. Irregular expenditure | | |
| Opening balance | 40 900 704 | 18 344 971 |
| Add: Irregular Expenditure - current year | 19 073 043 | 22 555 733 |
| | <u>59 973 747</u> | <u>40 900 704</u> |
| Analysis of expenditure awaiting to be certified as irrecoverable per age classification | | |
| Current year | 19 073 043 | 22 555 733 |
| Prior years | 40 900 704 | 18 344 971 |
| | <u>59 973 747</u> | <u>40 900 704</u> |
| Details of irregular expenditure – current year | | |
| Irregular expenditure on payroll | Due processes were not before standirsation of salaries were paid | 11 683 630 |
| Irregular expenditure on contracts | SCM Processes not followed | 7 389 413 |
| Total Irregular Expenditure 2012 | | <u>19 073 043</u> |
| Details of irregular expenditure - prior year | | |
| Irregular expenditure on contracts | SCM Processes not followed | 40 900 704 |
| 46. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government (SALGA) | | |
| Current year subscription / fee | 1 146 463 | 1 168 680 |
| Amount paid - current year | (1 146 463) | (1 168 680) |
| | <u>-</u> | <u>-</u> |
| Material electrical distribution losses | | |
| Electricity distribution loss | 5 095 285 | 3 456 961 |
| The municipality lost 5,314,808 kwhr (2017: 5,300,506 kwhr) representing 18.6% (2017: 18.9%) of total bulk purchases of electricity from Eskom during year. The losses are attributable to normal losses and illegal connections. | | |
| Audit fees | | |
| Current year subscription / fee | 3 261 160 | 3 055 611 |
| Amount paid - current year | (3 261 160) | (3 055 611) |
| | <u>-</u> | <u>-</u> |
| PAYE and UIF | | |
| Current year subscription / fee | 18 321 297 | 16 755 489 |
| Amount paid - current year | (18 321 297) | (16 755 489) |
| | <u>-</u> | <u>-</u> |

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|---|------------------|------------------|
| 46. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Pension and Medical Aid Deductions | | |
| Current year subscription / fee | 29 816 354 | 18 025 436 |
| Amount paid - current year | (29 816 354) | (18 025 436) |
| | <u>-</u> | <u>-</u> |
| VAT | | |
| VAT receivable | - | 3 968 304 |
| VAT payable | 1 499 851 | - |
| | <u>1 499 851</u> | <u>3 968 304</u> |

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

| 30 June 2017 | Outstanding less than 90 days | Outstanding more than 90 days | Total |
|---------------|-------------------------------------|-------------------------------------|---------------|
| Busika N | 881 | 5 261 | 6 142 |
| Monti N | 872 | 581 | 1 453 |
| Pickering RB | 9 648 | 300 | 9 948 |
| Ngxingxolo CT | 730 | 881 | 1 611 |
| | <u>12 131</u> | <u>7 023</u> | <u>19 154</u> |

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| 46. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Supply chain management regulations | | |
| In terms of section 36 of the Municipal Supply Chain Management Regulations the accounting officer may dispense of the official procurement process requirements in certain circumstances (e.g emergency or single procurement) and the accounting officer may ratify minor breaches of the procurement process if the breach is purely of a technical nature. However all such departures need to be approved by the Municipal Manager and noted by Council. | | |
| Incident | | |
| Actom Electrical | 6 557 | - |
| Agri Trac and Auto | - | 23 019 |
| Ahlangane Trading | - | 16 000 |
| Aloe Office and Business Equipment | - | 6 964 |
| Amatola Cleaning Supplies | 2 589 | - |
| Babcock Africa Services | 1 212 468 | 893 048 |
| Bell Equipment | 206 525 | 29 518 |
| Boardmans Hardware | 34 534 | 3 331 |
| Border Internet | - | 7 368 |
| Bose Tyres | 15 395 | 40 478 |
| Buffalo Toyota | 28 085 | 28 990 |
| CB Agencies | - | 18 576 |
| Carnation Deluxe Events (Pty) Ltd | - | 71 200 |
| Cathcart Farm Services | 6 530 | 10 466 |
| Cementile Products | - | 52 223 |
| Chapmar Industries | 37 587 | - |
| Conlog | - | 85 332 |
| Conlog Pty Ltd | 154 285 | - |
| Datnis Nissan | - | 15 795 |
| Datniss Nissam | 6 269 | - |
| Dymot Engineering Company | - | 38 623 |
| East London Truck & Bus | 8 979 | - |
| Ekim Sales CC | - | 43 417 |
| Farm Security Services | - | 6 560 |
| Forte Community Radio | 6 000 | - |
| Government Print | 8 070 | 9 453 |
| H S Enteprise | 4 971 | - |
| Hewu Funerals | - | 10 000 |
| Hlumelo Trading | - | 9 786 |
| JMJ Sales Pty Ltd | 3 097 | - |
| Jambase Security Services | 83 900 | - |
| KYA Security Services | 194 221 | - |
| Kavi Transport Services | - | 2 800 |
| Kemah JCB | 150 903 | 45 743 |
| Kempston Motors | - | 63 266 |
| Khapy General Trading CC | - | 12 500 |
| Khula Duna Trading | - | 5 325 |
| Koloni Energy Solutions | - | 16 000 |
| Komatsu Southern Africa | 99 559 | 18 283 |
| Lavender Leisure | 8 900 | - |
| Lexis Nexis | - | 38 906 |
| Lithotech | 21 788 | 15 016 |
| Lutheran Hall | 2 500 | - |
| MCR Hydraulics CC | - | 19 716 |
| Mak & Mak Arts and Catering | 25 000 | - |
| Manderson Hotel | 226 330 | 388 455 |
| McGormick | 8 648 | 9 293 |
| Media Maestro | 37 500 | - |
| Meyers Motors | 72 225 | 64 665 |

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| 46. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| Mindmuziek Media | - | 7 999 |
| Ndondo's taxi | - | 10 800 |
| New Dimension | - | 12 137 |
| Nkoliso Trading | - | 20 000 |
| North and Robertson | - | 10 089 |
| PayDay | 3 097 | 92 187 |
| Peake Performance | 2 526 | - |
| Peugair Border | 18 992 | 68 896 |
| Picasso Headline | - | 42 476 |
| Pick n Pay | 109 204 | 42 978 |
| Pirate Medical Supplies | - | 9 982 |
| Pollock's Copy Design Print CC | 14 915 | - |
| Qamis Trading | - | 16 500 |
| Queenstown Nissan | 54 895 | 34 051 |
| Red Alert | 18 315 | 27 257 |
| Redifine IT Solutions | 43 858 | - |
| Rencor | 10 952 | 5 665 |
| Resilient Servers and Network | - | 46 204 |
| Ronnies Motors | - | 116 030 |
| Slo Foot Jazz Band | - | 25 000 |
| Sondlo & Knopp | - | 4 760 |
| Southern Fried | 2 570 | - |
| Southern Friend | - | 13 272 |
| Square Deal Engineering | 103 307 | 133 988 |
| Stutt Delta Garage | 365 712 | 796 201 |
| Syco Manufacturing | 6 984 | 14 149 |
| TFM Manufacturer | 27 707 | 21 660 |
| TH Paul Kruger Construction | 48 400 | - |
| TKY Power Products | 2 246 | - |
| Tava Networks | - | 3 534 |
| Thando's Catering & Guest House | - | 2 996 |
| Tractor World | 5 143 | 7 852 |
| Trans Atlantic | 4 554 | 7 062 |
| Transkei Yamaha | - | 2 195 |
| Trillionaire Mind Inc | - | 20 000 |
| Truvelo Manufacturers | 12 757 | 12 856 |
| Tyekana Protection & Cleaning Pty Ltd | 746 756 | - |
| UD Trucks | - | 6 539 |
| Ubuntu Bam Farms | - | 4 700 |
| Umtimza Farmers | 2 616 | - |
| Umtiza Farmer's Corp | - | 14 080 |
| Unakho Business Solution | 49 500 | - |
| Ungavumi Yesu Soyiswe Pty Ltd | 34 950 | - |
| Van Schaik | 9 214 | - |
| Vanguard Fire and Safety Cape | 3 648 | 2 918 |
| Vodacom | - | 2 382 683 |
| Work Dynamics | 43 471 | - |
| | 4 419 704 | 6 159 811 |

47. Budget differences

Management considers that under/overspending of R300,000 to be reasonable as it is the tolerable amount to affect the change on the National Treasury Budget.

Statement of Financial Performance

FinPerf1.

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47. Budget differences (continued)

The reason for the variance between budget and actual is due to the increase in distribution losses relating to electricity and slow payment in refuse service charges.

FinPerf2.

The reason for the variance is due to lease agreements that have expired and currently being renewed.

FinPerf3.

The reason for the variance is due to an improvement in revenue collection which resulted in less interest being accrued from outstanding debtors.

FinPerf4.

The reason for the variance is due to economic factors that affect revenue generation in this component.

FinPerf5.

The reason for the variance is due to an improvement in collection direct income.

FinPerf6.

The reason for the variance is increase in operating expenditure putting pressure on cash flows and the municipality's ability to invest excess cash.

FinPerf7.

The reason for the variance between budget and actual is due to an application for rollover that was disallowed and subsequently deducted from the equitable share.

FinPerf8.

The reason for the variance is due to improved traffic law enforcement by the municipality.

FinPerf9.

The reason for the variance is due to improved traffic law enforcement by the municipality.

FinPerf10.

The reason for the variance between budget and actual is as a result of the implementation of standardisation of salaries which put upward pressure on this class of expenditure.

FinPerf11.

The reason for the variance between budget and actual is a decrease in number of councillors due to demarcation processes.

FinPerf12.

The reason for the variance between budget and actual is assets that were completed during the year due to accelerated service delivery.

FinPerf13.

The reason for the variance between budget and actual is due a hall that was badly constructed and had to be impaired.

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47. Budget differences (continued)

FinPerf14.

The reason for the variance between budget and actual is due to abrupt protests within the municipality that interrupted debt collection processes.

FinPerf15.

The reason for the variance between budget and actual is due to staff shortages in critical areas which affected the ability of employees to take leave.

FinPerf16.

The reason for the variance between budget and actual is due stricter controls being implemented by the municipality to manage expenditure.

FinPerf17.

The reason for the variance between budget and actual is due to increase in use of contracted services during the year as a result of unforeseen circumstances.

FinPerf18.

The reason for the variance between budget and actual is due stricter controls being implemented by the municipality to manage expenditure.

FinPerf19.

The reason for the variance between budget and actual is due the recognition of assets.

FinPerf20.

The reason for the variance between budget and actual is due to a fair value gain in the current financial year.

Statement of Financial Position

FinPos1.

The reason for the variance between budget and actual due to a decrease in collection.

FinPos2.

The reason for the variance between budget and actual due to an increase in debt collection.

FinPos3.

The reason for the variance between budget and actual is due to a decrease in working capital, costs and other expenditure.

FinPos4.

The reason for the variance between budget and actual is due to a fair value adjustment at year-end.

FinPos5.

The reason for the variance between budget and actual is due to the increase in accumulated depreciation for Mlungisi Mall & other municipal buildings.

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Notes to the Annual Financial Statements

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47. Budget differences (continued)

FinPos6.

The reason for the variance between budget and actual is as a result of weaker cash flows which decreases the ability to invest in capital assets.

FinPos7.

The reason for the variance between budget and actual is due to a change in accounting system and related software's.

FinPos8.

The reason for the variance between budget and actual is due to the commitments at year end.

FinPos9.

The reason for the variance between budget and actual is due to early settlement of creditors.

FinPos10.

The reason for the variance between budget and actual is due an increase in revenue from services.

FinPos11.

The reason for the variance between budget and actual is due to the current portion of employee benefit obligation not adequately budgeted for.

FinPos12.

The reason for the variance between budget and actual is due to the current portion of provisions which were over budgeted.

FinPos13.

The reason for the variance between budget and actual is due to the long-term portion of employee benefit obligation not adequately budgeted for.

Cash Flow Statement

C1.

The reason for the variance between budget and actual is due to decrease in payment behaviour of debtors.

C2.

The reason for the variance is due to weaker cash flows which result in less ability to generate interest from investments.

C3.

The reason for the variance between budget and actual is due to early payment of creditors.

C4.

The reason for the variance between budget and actual is due to delays in implementing some capital projects.