Setsoto Local Municipality
(Registration number Municipal demarcation code FS191)
Financial statements
for the year ended 30 June 2018
Auditor-General of South Africa (AGSA)

General Information

Legal form of entity	A Municipality which is an organ of state within the local sphere of government exercising legislative and executing authority.
Nature of business and principal activities	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (Act 56 of 2003)
	Local Government: Municipal Systems Act (Act 32 of 2000)
	Local Government: Municipal Systems Amendment Act (No. 44 of 2003)
	Local Government: Municipal Structures Act (Act 117 of 1998)
	Local Government: Municipal Structures Amendment Act (No.33 of 2000)
	Housing Act (Act 107 of 1997)
	Constitution of the Republic of South Africa (Act 108 of 1996)
	Property Rates Act (Act 6 of 2004)
	Annual Division of Revenue Act
	Municipal Demarcation (Act 27 of 1998)
	Local Government: Transition Act Second Amendment Act (No. 97 of 1996)
	Water Services Act (No. 108 of 1997)
	Electricity Act (No. 41 of 1987)
	Intergovernmental Fiscal Relations Act (No. 97 of 1997)
	Intergovernmental Relations Framework Act (No. 13 of 2005)
Mayor / Executive Mayor	Maoke, Nthateng Alice
Executive Committee / Mayoral Committee	Koalane, Komane Elias
	Taylor, Nnini Annie
	Hlakane, Moeketsi
	Selasi, Motsamai William
	Khitsane, Nthatisi Petronella
Councillors	Speaker - Mokhuoane, Krog Sexton
	Koqo, Palesa Elizabeth
	Mokhele, Modise Moses
	De Wet, Pieter Wouter - Resigned 2017/09/30
	Mathuhle Motsamai John - Replaced Cllr De Wet
	Schee, Pulane Constance
	Lipoko, Ratsholwane Shadrack
	Makhubu , Ntahli Selina
	Mohosho, Andronika Modiehi
	Strydom, Evert Phillip
	Matsau, Malefane Patrick
	Makhalanyane, Tieho George
	Moipatli, Chere Daniel
	Mothibeli, Moselantja Mercy
	Selikane , Thabiso Shadrack
	Mthimkulu, Mamotena Lydia
	Ralehlatsi, Mahlomola Klaas
	Makobane, Serame Ishmael
	Khatlake, Ntema Peter
	Jakobo, Tsheliso Bernard
	Mthimkhulu, Thabo Isaac
	Vries, Isak
	Semahla, Mookho Hilda

General Information

	Matobako, Puseletso Constance Sellane, Matieho Theresia Mokoena, Teboho Jacob Mavaleliso, Paka Isaac Bester, Aletta Catharina
Grading of local authority	06 - Meduim Capacity
Accounting Officer	Mr. S T R Ramakarane
Chief Finance Officer (CFO)	Mrs. M Masisi
Registered office	27 Voortrekker Street Ficksburg 9730
Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank, a division of First Rand Bank Limited
Auditors	Auditor-General of South Africa (AGSA)
Legal Manager	Post Vacant P O Box 116. Ficksburg, 9730
Telephone Number	(051) 933 9300
Fax Number	(051) 933 9363
Email Address	manager@setsoto.co.za

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The reports and statements set out below comprise the 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
GRAP	Generally Recognised Accounting Practice
IGRAP	Interpretation of the standard of Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COGTA	Department of Cooperative Governance and Traditional Affairs
CIGFARO	Charted Institute of Government Finance, Audit & Risk Officers
mSCOA	Municipal Standard Chart Of Accounts

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared as required in terms of Section 122 of the Municipal Finance Management Act (Act 56 of 2003) and in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Setsoto Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 8.

The financial statements set out on pages 8 to 94, which have been prepared on the going concern basis (Please refer to Note 53), were approved by the accounting officer on 31 August 2018 .

Mr. S. T. R. Ramakarane
Accounting Officer / Municipal Manager

31 August 2018

Audit & Performance Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet at least 4 times per annum as per its approved terms of reference. During the current year 6 number of meetings were held.

Name of member	Number of meetings attended
Mr H B Mathibela - Chairperson	7
Mr T Zororo	3
Mr L S Mofokeng	5
Ms F Kobo	5
Mrs S Masite	4

All members are independent, with no interest in the management or conduct of the business of the Municipality and the members of the Audit and Performance Audit Committee were appointed on the 26 June 2017. Their contract was extended as it will end 27 July 2022.

Audit and Performance Committee responsibility

The Audit and Performance Audit Committee reports complies with its responsibilities arising from section 166(2)(a) and (b) of the MFMA.

The Audit and Performance Audit Committee has adopted appropriate formal terms of reference as its Audit and Performance Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is considered generally adequate in design and is partially ineffective in its implementation on some entities and this was evident by the reasonable assurance given by the Internal Audit Unit. However, there have been vast improvements on some internal controls. The identification of corrective actions and suggested enhancements to the controls were done through risk management process and interaction with management on the action plan on audited report.

Evaluation of financial statements

The Audit and Performance Audit Committee has:

- reviewed and discussed the unaudited financial statements that will be presented to the Auditor-General South Africa;
- reviewed changes in accounting policies and practices;
- reviewed the adjustment made which appear on notes of prior period error and re-classification;
- reviewed SCM Policy and assets management policy;
- provide assurance on irregular , fruitless and wasteful expenditure;
- provide assurance on the write off on debtors;
- monitors asset management;
- monitor the implementation of the procurement plan;
- monitor the implementation of the SCM policy on deviation;

Internal audit

The Audit and Performance Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The Audit and Performance Audit Committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Audit & Performance Audit Committee Report

Date: ______________________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 47,060,412 (2017: deficit R 124,580,991).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 3,144,114,600 and that the municipality's total assets exceed its liabilities by R 3,144,114,600.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would impact on the financial results as disclosed in these financial statements.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements prepared as required in terms of Section 122 of the Municipal Finance Management Act (Act 56 of 2003) and in accordance with the South African Standards of Generally Recognized Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, as the prescribed framework by National Treasury.

6. Retirement benefit obligation

Management performed an actuarial valuation of the Employee Benefits of the employer's liability as arising from the postretirement healthcare subsidy (“PRHS”) payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and have determined the items required for disclosure in terms of this standard.

Refer to note 20 for detail about these valuations.

7. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year .

8. Accounting Officer

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

Name	Nationality
Mr. S. T. R. Ramakarane	RSA

9. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 R
Assets			
Current Assets			
Inventories	3	2,860,937	2,420,121
Receivables from exchange transactions	5&6	181,268,256	146,501,145
Receivables from non-exchange transactions	5&7	60,252,230	58,946,414
Cash and cash equivalents	9	377,515	2,080,903
		244,758,938	**209,948,583**
Non-Current Assets			
Investment property	10	68,198,668	68,648,208
Property, plant and equipment	11	3,041,432,898	3,114,796,021
Intangible assets	12	1,574,564	2,639,535
Heritage assets	13	15,385,903	15,385,903
Other financial assets	4	3,479,855	3,211,861
		3,130,071,888	**3,204,681,528**
Total Assets		**3,374,830,826**	**3,414,630,111**
Liabilities			
Current Liabilities			
Other financial liabilities	14	7,923,026	2,250,952
Payables from exchange transactions	16	110,158,947	110,538,311
VAT payable	8	8,021,325	1,023,300
Consumer deposits	17	2,787,766	2,513,344
Unspent conditional grants and receipts	18	8,979,260	11,066,877
Provisions	19	1,217,000	1,446,000
		139,087,324	**128,838,784**
Non-Current Liabilities			
Other financial liabilities	14	26,279,899	12,890,162
Employee benefit obligation	20	45,332,000	63,087,000
Provisions	19	20,017,000	18,596,000
		91,628,899	**94,573,162**
Total Liabilities		**230,716,223**	**223,411,946**
Net Assets		**3,144,114,603**	**3,191,218,165**
Accumulated surplus	56	3,144,114,600	3,191,218,166

Setsoto Local Municipality

(Registration number Municipal demarcation code FS191)
Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Note(s)	2018 R	2017 R
Revenue			
Revenue from exchange transactions			
Service charges	21	167,135,018	163,307,063
Rental of facilities and equipment	22	1,191,601	1,901,910
Interest received (trading)		24,176,660	19,524,870
Licences and permits		189,626	39,298
Commissions received		241,353	220,650
Sale of land		109,511	273,674
Other income	23	19,714,297	5,099,251
Interest earned - Investments	24	2,396,348	1,973,314
Dividends received	24	51,142	39,848
Total revenue from exchange transactions		**215,205,556**	**192,379,878**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	52,960,740	44,238,873
Transfer revenue			
Government grants & subsidies	26	246,803,007	273,398,908
Public contributions and donations	50	4,091,554	90,000
Fines, Penalties and Forfeits		1,688,828	2,462,779
Total revenue from non-exchange transactions		**305,544,129**	**320,190,560**
Total revenue	27	**520,749,685**	**512,570,438**
Expenditure			
Employee related costs	28	175,808,088	187,599,213
Remuneration of councillors	29	12,747,829	9,896,389
Repairs and maintenance		1,518,870	11,258,003
Depreciation and amortisation	31	176,925,653	209,967,015
Impairment loss/ Reversal of impairments	32	1,584,887	2,286,791
Finance costs	33	5,960,633	2,288,707
Lease rentals on operating lease		6,449,012	13,192,410
Debt Impairment	34	78,138,083	69,861,412
Collection costs		1,125,593	613,324
Bulk purchases	35	53,990,492	68,977,949
Contracted services	36	13,380,027	11,473,398
Transfers and Subsidies	37	2,110,976	5,618,338
Assets write-off	38	911,500	6,496,905
Actuarial losses	20	424,000	-
General Expenses	39	36,734,455	37,621,574
Total expenditure		**567,810,098**	**637,151,428**
Deficit for the year		**(47,060,412)**	**(124,580,990)**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2016	**3,313,713,230**	**3,313,713,230**
Changes in net assets		
Correction of prior year compensation commisioner expense	(3,206,079)	(3,206,079)
Correction Prior year Retention	5,166,051	5,166,051
Correction of prior period assets	125,954	125,954
Net income (losses) recognised directly in net assets	2,085,926	2,085,926
Surplus/(deficit) for the year	(124,580,990)	(124,580,990)
Total recognised income and expenses for the year	(122,495,064)	(122,495,064)
Total changes	(122,495,064)	(122,495,064)
Balance at 01 July 2017	**3,191,426,197**	**3,191,426,197**
Changes in net assets		
Surplus/(deficit) for the year	(47,060,412)	(47,060,412)
Correction Assets previous year	(251,185)	(251,185)
Total changes	(47,311,597)	(47,311,597)
Balance at 30 June 2018	**3,144,114,600**	**3,144,114,600**

Cash Flow Statement

	Note(s)	2018 R	2017 R
Cash flows from operating activities			
Receipts			
Property Rates		55,060,236	31,394,843
Sale of goods and services		75,448,723	107,055,664
Grants		244,715,390	273,398,907
Interest income		2,396,348	21,498,184
Dividends received		51,142	39,848
Other receipts		4,100,628	9,997,562
Other non-cash item		277,440	90,000
		382,049,907	443,475,008
Payments			
Employee costs		(188,555,917)	(197,495,602)
Suppliers		(109,555,580)	(157,045,465)
Finance costs		(5,960,633)	(2,288,707)
		(304,072,130)	(356,829,774)
Net cash flows from operating activities	40	**77,977,777**	**86,645,234**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(99,117,641)	(96,738,543)
Proceeds from the disposal of property, plant and equipment	11	642,659	3,345,215
Proceeds from sale of investment property	10	-	3,151,692
Purchase of other intangible assets	12	-	(192,968)
Proceeds from sale of financial assets		(267,994)	(145,568)
Purchase of biological assets that form part of an agricultural activity		-	-
Proceeds from sale of non-current receivables and loss on sale of assets		-	(6,496,905)
Net cash flows from investing activities		**(98,742,976)**	**(97,077,077)**
Cash flows from financing activities			
Taken up/Repayment of other financial liabilities		19,061,811	8,856,823
Net cash flows from financing activities		**19,061,811**	**8,856,823**
Net increase/(decrease) in cash and cash equivalents		**(1,703,388)**	**(1,575,021)**
Cash and cash equivalents at the beginning of the year		2,080,903	3,655,924
Cash and cash equivalents at the end of the year	9	**377,515**	**2,080,903**

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
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	167,964,777	6,000,000	**173,964,777**	167,135,018	**(6,829,759)**	Due to economic constrains the expected income decreased.
Rental of facilities and equipment	5,079,297	(2,892,472)	**2,186,825**	1,191,601	**(995,224)**	Income increased due to letting of properties
Interest received (trading)	25,630,364	1,000,000	**26,630,364**	24,176,660	**(2,453,704)**	Improved debt collection and written off of bad debt previous year.
Licences and permits	30,960	-	**30,960**	189,626	**158,666**	Increase in controls
Commissions received	163,092	-	**163,092**	241,353	**78,261**	
Sale of land and erven	-	-	**-**	109,511	**109,511**	
Other income - (rollup)	862,380	(22,108)	**840,272**	19,714,297	**18,874,025**	Increase in sundry services
Interest received - Investment and Debtors	1,860,360	-	**1,860,360**	2,396,348	**535,988**	Increase debtors control resulted in interest
Dividends received	40,000	-	**40,000**	51,142	**11,142**	
Total revenue from exchange transactions	**201,631,230**	**4,085,420**	**205,716,650**	**215,205,556**	**9,488,906**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	43,262,792	10,000,000	**53,262,792**	52,960,740	**(302,052)**	The effect of the implementation of the new valuation roll
Transfer revenue						
Government grants & subsidies	298,885,854	(33,414,004)	**265,471,850**	246,803,008	**(18,668,842)**	Additional Ad Hoc grants received during the year from Government
Public contributions and donations	-	-	**-**	4,091,554	**4,091,554**	Assets donated by donors

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
	R	R	R	R	R	
Fines, Penalties and Forfeits	364,320	-	**364,320**	1,688,828	**1,324,508**	Increase in traffic control
Total revenue from non-exchange transactions	**342,512,966**	**(23,414,004)**	**319,098,962**	**305,544,130**	**(13,554,832)**	
Total revenue	**544,144,196**	**(19,328,584)**	**524,815,612**	**520,749,686**	**(4,065,926)**	
Expenditure						
Personnel	(184,215,909)	-	**(184,215,909)**	(175,808,088)	**8,407,821**	Decrease (gain) in Actuarial value on employee medical benefits
Remuneration of councillors	(11,061,588)	(1,500,000)	**(12,561,588)**	(12,747,829)	**(186,241)**	Yearly allowance increase
Repairs and maintenance	(4,316,116)	558,336	**(3,757,780)**	(1,518,870)	**2,238,910**	Purchase of new assets contribute to lower spending.
Depreciation and amortisation	(223,489,980)	-	**(223,489,980)**	(176,925,653)	**46,564,327**	
Impairment loss/ Reversal of impairments	-	-	**-**	(1,584,887)	**(1,584,887)**	Impairment of fines revenue.
Finance costs	(2,054,004)	(2,780,914)	**(4,834,918)**	(5,960,633)	**(1,125,715)**	Additional interest paid on overdue accounts.
Lease rentals on operating lease	(7,448,456)	(1,461,084)	**(8,909,540)**	(6,449,012)	**2,460,528**	Decrease in renting of additional service delivery equipment.
Debt Impairment	(58,014,496)	-	**(58,014,496)**	(78,138,083)	**(20,123,587)**	Increased outstanding debt contribute to additional impaiment
Collection costs	(2,000,004)	(249,996)	**(2,250,000)**	(1,125,593)	**1,124,407**	Stabilisation of Debt Collectors activities.
Bulk purchases	(64,448,460)	(1,816,580)	**(66,265,040)**	(53,990,492)	**12,274,548**	Implementation of prepaid electricity. Lower user consumption.
Contracted Services	(10,322,696)	(3,096,999)	**(13,419,695)**	(13,380,027)	**39,668**	Decrease in Repair & Maintenance cost
Transfers and Subsidies	(893,604)	(392,084)	**(1,285,688)**	(2,110,976)	**(825,288)**	Additional registration of indigents

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
	R	R	R	R	R	
General Expenses	(52,103,928)	(8,050,449)	**(60,154,377)**	(36,734,455)	**23,419,922**	Strict implementation of cost containment measures
Total expenditure	**(620,369,241)**	**(18,789,770)**	**(639,159,011)**	**(566,474,598)**	**72,684,413**	
Operating deficit	**(76,225,045)**	**(38,118,354)**	**(114,343,399)**	**(45,724,912)**	**68,618,487**	
Loss on disposal of assets and liabilities	-	-	**-**	(911,500)	**(911,500)**	
Actuarial gains/losses	-	-	**-**	(424,000)	**(424,000)**	
	-	**-**	**-**	**(1,335,500)**	**(1,335,500)**	
Deficit before taxation	**(76,225,045)**	**(38,118,354)**	**(114,343,399)**	**(47,060,412)**	**67,282,987**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(76,225,045)**	**(38,118,354)**	**(114,343,399)**	**(47,060,412)**	**67,282,987**	

Accounting Policies

1. Presentation of Financial Statements

The 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 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 financial statements, are disclosed below.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual value on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post-retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that will 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 20.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

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

1.2 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24: Presentation of budget information

Deviations between the budget and actual amounts are regarded as material if they exceed a 10% deviation.

All material differences are explained in the notes/appendices to the annual financial statements.

Operating lease commitments

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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 over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	5 - 30 years

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

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

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

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

1.3 Investment property (continued)

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.4 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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:

Accounting Policies

1.4 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	30 years
Plant and machinery	Straight line	10 years
Furniture and Office Equipment	Straight line	7 - 10 years
Transport Assets	Straight line	5 - 20 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 years
Computer Equipment	Straight line	3 years
Infrastructure - Electricity	Straight line	20 - 50 years
Buildings & Other Structure (Community)	Straight line	30 years
Other property, plant and equipment	Straight line	3 - 7 years
Infrastructure: Waste Management	Straight line	5 - 40 years
Infrastructure: Road, Pavement, Bridges & Storm water	Straight line	5 - 100 years
Infrastructure: Water	Straight line	5 - 100 years
Infrastructure - Wastewater management	Straight line	10 - 60 years
Work in Process	Straight line	Transfer to asset on completion

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 discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.5 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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Computer software, other	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

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

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

1.6 Heritage assets

Assets are resources controlled by the 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 the municipality's operations that is shown as a single item for the purpose of disclosure in the 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 the 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.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

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.

Accounting Policies

1.6 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.

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a 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).

1.7 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.

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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.

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.

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Accounting Policies

1.7 Financial instruments (continued)

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.

1.7 Financial instruments (continued)

Loans to (from) municipal entities

These include loans to municipal entities and recognised at fair value plus any transaction costs and subsequently measured at cost.

An impairment loss is recognised in the Statement of Financial Performance when there is objective evidence that it is impaired. The impairment is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Debtors

Debtors are initially recognised at fair value plus any transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified in the Statement of Financial Performance.

Creditors

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

Cash and cash equivalents

These are initially and subsequently recorded at amortised cost.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other shortterm highly liquid investments, and bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost.

Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

1.7 Financial instruments (continued)

Fixed and Negotiable Deposits

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Fixed and negotiable deposits are initially and subsequently measured at fair value which in the case of investments that have an original maturity date of less than 12 months equates the cost. Fixed and negotiable deposits held for greater than 12 months are fair valued annually and the difference recognised in the statement of financial performance.

On disposal of Fixed and negotiable deposits, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance

1.8 Tax

Current tax assets and liabilities

The Municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

1.9 Leases

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

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.

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

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

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

Operating leases - 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.

1.9 Leases (continued)

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.

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

1.10 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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.

1.11 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.12 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.13 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.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

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

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

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

1.14 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.

1.14 Related parties (continued)

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 financial statements.

1.15 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.16 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.

1.16 Impairment of cash-generating assets (continued)

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 cash-generating assets or non-cash-generating assets, are as follows:

Value in use

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.

1.17 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

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

Value in use

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

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

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 overdesigned or overcapacity asset. Overdesigned 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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units' approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units' expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.18 Employee benefits

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

1.18 Employee benefits (continued)

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

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

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

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

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

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

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

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

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 cell phones) for current employees.

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

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

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

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

1.18 Employee benefits (continued)

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.

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.18 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

1.18 Employee benefits (continued)

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

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

The entity 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 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 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.

1.18 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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.

1.18 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.19 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

1.19 Provisions and contingencies (continued)

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 54.

1.20 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.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

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.

1.20 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

Interest, royalties and dividends

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

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

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

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.

1.21 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.

1.21 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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.

1.21 Revenue from non-exchange transactions (continued)

Assessment Rates

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.

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.

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.

Services in-kind

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.

1.22 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.

1.23 Comparative figures

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

1.24 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.

1.25 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.

1.26 Irregular expenditure

MFMA Circular No 68 and section 32 of the Municipal Finance Management Act No. 56 of 2003 states the following::

Irregular expenditure is defined in section 1 of the MFMA as follows:
“irregular expenditure”, in relation to a municipality or municipal entity, means—

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

In this context ‘expenditure’ refers to any use of municipal funds that is in contravention of the following legislation:
- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality’s supply chain management policy, and any by-laws giving effect to that policy

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

1.26 Irregular expenditure (continued)

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.

1.27 Use of estimates

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

1.28 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the Standard rate (14%) in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

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

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

1.30 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 37: Joint Arrangements

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government’s housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality expects to adopt the guideline for the first time when the Minister sets the effective date for the guideline.

It is unlikely that the guideline will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:
- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:
- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

2. New standards and interpretations (continued)

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

3. Inventories

Consumable Stores	2,860,937	2,420,121

Carrying value of inventories carried at fair value less costs to sell	2,195,563	758,519
Inventories recognised as an expense during the year	2,601,472	1,110,335

Items in the store are booked out against the relevant service expenditure .

Obsolete, redundant and slow moving inventory was identified and written down to estimated economic or realisable values to the relevant service through the statement of financial performance.

Inventory pledged as security

No inventory was pledged as security for the year.

4. Other financial assets

Designated at fair value		
Listed shares Sanlam	1,009,779	933,833
Unlisted shares OVK / EFC Shares	1,235,717	1,116,615
	2,245,496	**2,050,448**
At amortised cost		
Other financial assets Consist of a Sanlam Redemption fund and a housing collateral at ABSA Bank	1,234,359	1,161,413
Total other financial assets	**3,479,855**	**3,211,861**

Notes to the Financial Statements

	2018 R	2017 R

4. Other financial assets (continued)

	2018 R	2017 R
Non-current assets		
Designated at fair value	2,245,496	2,050,448
At amortised cost	1,234,359	1,161,413
	3,479,855	**3,211,861**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

	2018 R	2017 R
Level 1		
Sanlam	1,009,779	933,833

As at 30 June 2018, the Sanlam share value was: R70.07 (2017: R64.80).

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	2018 R	2017 R
Level 3		
OVK	1,235,717	1,116,615

As at 30 June 2018, the OVK share value was as follow:	OVK Operations	R15.20 (2017: R13.20)
	OVK Holdings:	R12.90 (2017: R12.15).

	2018 R	2017 R
	2,245,496	**2,050,448**

Financial assets at amortised cost

Fair values of financial assets measured or disclosed at amortised cost

	2018 R	2017 R
Class 1	1,234,359	1,161,413

	2018 R	2017 R
5. Consumer debtors' disclosure		
Gross balances		
Consumer debtors' - Rates	61,444,176	63,543,672
Consumer debtors' - Electricity	36,438,849	47,247,131
Consumer debtors' - Water	154,510,954	140,778,585
Consumer debtors' - Sewerage	58,202,075	46,897,874
Consumer debtors' - Refuse	75,569,252	59,020,540
Consumer debtors' - Other	2,809,974	3,250,735
	388,975,280	**360,738,537**
Less: Allowance for impairment		
Consumer debtors' - Rates	(11,467,915)	(14,425,675)
Consumer debtors' - Electricity	(12,444,174)	(16,748,523)
Consumer debtors' - Water	(62,047,934)	(64,529,096)
Consumer debtors' - Sewerage	(29,939,465)	(29,156,251)
Consumer debtors' - Refuse	(39,777,038)	(37,193,734)
Consumer debtors' - Other	(2,054,237)	(3,066,116)
	(157,730,763)	**(165,119,395)**
Net balance		
Consumer debtors' - Rates	49,976,261	49,117,997
Consumer debtors' - Electricity	23,994,675	30,498,608
Consumer debtors' - Water	92,463,020	76,249,489
Consumer debtors' - Sewerage	28,262,610	17,741,623
Consumer debtors' - Refuse	35,792,214	21,826,806
Consumer debtors' - Other	755,737	184,619
	231,244,517	**195,619,142**
Rates		
Current (0 -30 days)	(2,832,744)	7,704,744
31 - 60 days	2,814,668	2,746,868
61 - 90 days	2,574,250	2,756,915
91 - 120 days	2,654,361	2,566,209
121 - 365 days	56,233,641	47,768,936
> 365 days	(11,467,915)	(14,425,675)
	49,976,261	**49,117,997**
Electricity		
Current (0 -30 days)	7,972,808	22,052,542
31 - 60 days	2,354,649	2,115,076
61 - 90 days	1,209,621	1,525,845
91 - 120 days	1,591,054	1,318,449
121 - 365 days	23,310,717	20,235,219
> 365 days	(12,444,174)	(16,748,523)
	23,994,675	**30,498,608**

Notes to the Financial Statements

	2018 R	2017 R
5. Consumer debtors' disclosure (continued)		
Water		
Current (0 -30 days)	25,435,530	8,650,431
31 - 60 days	5,029,465	4,694,044
61 - 90 days	4,875,423	4,715,618
91 - 120 days	4,751,157	4,631,674
121 - 365 days	114,419,379	118,086,818
> 365 days	(62,047,934)	(64,529,096)
	92,463,020	**76,249,489**
Sewerage		
Current (0 -30 days)	2,436,411	2,114,609
31 - 60 days	2,307,269	1,904,026
61 - 90 days	2,162,355	1,859,311
91 - 120 days	2,095,229	1,833,195
121 - 365 days	49,200,811	39,186,733
> 365 days	(29,939,465)	(29,156,251)
	28,262,610	**17,741,623**
Refuse		
Current (0 -30 days)	3,240,205	2,861,648
31 - 60 days	3,004,222	2,609,815
61 - 90 days	2,854,449	2,552,039
91 - 120 days	2,798,300	2,525,404
121 - 365 days	63,672,076	48,471,634
> 365 days	(39,777,038)	(37,193,734)
	35,792,214	**21,826,806**
Other		
Current (0 -30 days)	240,250	660,065
31 - 60 days	80,796	107,144
61 - 90 days	(134,316)	199,576
91 - 120 days	54,714	142,128
121 - 365 days	2,568,530	2,141,822
> 365 days	(2,054,237)	(3,066,116)
	755,737	**184,619**

Notes to the Financial Statements

	2018 R	2017 R

5. Consumer debtors' disclosure (continued)

Summary of debtors' by customer classification

	2018 R	2017 R
Consumers		
Current (0 -30 days)	37,083,852	37,327,959
31 - 60 days	11,926,119	11,132,842
61 - 90 days	10,497,394	10,501,644
91 - 120 days	10,965,863	10,257,990
121 - 365 days	261,838,224	233,535,395
	332,311,452	**302,755,830**
Industrial/ commercial		
Current (0 -30 days)	2,355,690	4,640,716
31 - 60 days	1,011,009	974,874
61 - 90 days	846,807	1,099,887
91 - 120 days	754,778	940,594
121 - 365 days	18,165,130	12,821,444
	23,133,414	**20,477,515**
National and provincial government		
Current (0 -30 days)	(2,946,217)	2,021,248
31 - 60 days	2,665,337	2,069,256
61 - 90 days	2,197,580	2,007,773
91 - 120 days	2,224,174	1,818,476
121 - 365 days	29,390,406	29,534,323
	33,531,280	**37,451,076**
Total		
Current (0 -30 days)	36,493,326	43,989,924
31 - 60 days	15,602,464	14,176,972
61 - 90 days	13,541,781	13,609,303
91 - 120 days	13,944,815	13,017,060
121 - 365 days	309,392,892	275,891,162
	388,975,278	360,684,421
Less: Allowance for impairment	(157,730,761)	(165,119,394)
	231,244,517	**195,565,027**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(165,119,394)	(148,406,865)
Contributions to allowance	(78,138,083)	(69,861,411)
Debt impairment written off against allowance	85,526,716	53,148,882
	(157,730,761)	**(165,119,394)**

6. Receivables from exchange transactions

	2018 R	2017 R
Consumer debtors' - Electricity	23,994,675	30,498,608
Consumer debtors' - Water	92,463,020	76,249,489
Consumer debtors' - Sewerage	28,262,610	17,741,623
Consumer debtors' - Refuse	35,792,214	21,826,806
Consumer debtors' - Other	755,737	184,619
	181,268,256	**146,501,145**

Notes to the Financial Statements

	2018 R	2017 R

6. Receivables from exchange transactions (continued)

Trade and other receivables pledged as security

No consumer debtors' were pledged as security for overdraft facilities.

Credit quality of trade and other receivables

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from the date credit was initially granted up to the reporting date. Furthermore the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers, and is not concentrated in any particular sector or geographical area. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

Fair value of trade and other receivables

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ration over 12 months per service type. No further credit provision is required in excess of the Provision for impairment.

7. Receivables from non-exchange transactions

	2018 R	2017 R
Fines	216,121	307,238
Cashiers short banking	381,528	-
Sundry Debtors	6,812,522	6,812,522
Prepayments (Eskom and Fuel Deposits)	2,865,798	2,708,657
Rates (Details as per Note 5 above)	49,976,261	49,117,997
	60,252,230	**58,946,414**

8. VAT payable

	2018 R	2017 R
VAT payable	11,993,114	5,578,128
VAT receivable	(3,971,789)	(4,554,828)
	8,021,325	**1,023,300**

The Municipality is registered on the payment basis; therefore VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018 R	2017 R
Cash on hand	9,207	9,207
Bank balances	292,530	1,089,984
Short-term deposits	75,778	981,712
	377,515	**2,080,903**

Notes to the Financial Statements

	2018 R	2017 R

9. Cash and cash equivalents (continued)

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

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

Credit rating	2018 R	2017 R
BB	368,308	2,088,362

Cash and cash equivalents pledged as collateral

The Municipality has an overdraft facility of R3,000,000

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
FNB BANK - Current Account - 620 480 92647	298,587	1,115,314	3,557,178	292,530	1,089,984	3,587,897
FNB BANK - Business Money Market - 621 517 83563	9,245	79,526	33,760	9,245	79,526	33,760
FNB BANK - NSTD Account - 620 490 46205	10,000	837,313	24,561	10,000	837,313	24,561
FNB BANK - Call Account - 623 105 40465	10,000	64,873	1,000	10,000	64,873	1,000
Total	**327,832**	**2,097,026**	**3,616,499**	**321,775**	**2,071,696**	**3,647,218**

Notes to the 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	93,982,953	(25,784,285)	68,198,668	93,982,953	(25,334,745)	68,648,208

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	68,648,208	(449,540)	68,198,668

Reconciliation of investment property - 2017

	Opening balance	Disposals	Transfers	Depreciation	Total
Investment property	74,574,176	(3,151,692)	(1,559,926)	(1,214,350)	68,648,208

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.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Notes to the Financial Statements

Figures in Rand

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	56,167,677	(484,898)	55,682,779	56,167,677	-	56,167,677
Furniture and Office Equipment	6,160,599	(5,838,494)	322,105	6,225,073	(5,817,227)	407,846
Transport Assets	47,538,847	(10,360,126)	37,178,721	24,068,915	(10,868,053)	13,200,862
Computer Equipment	7,534,087	(5,372,753)	2,161,334	7,723,920	(5,329,200)	2,394,720
Infrastructure - Electricity	290,745,287	(118,401,663)	172,343,624	285,383,359	(107,907,296)	177,476,063
Buildings & Other Structure (Community)	445,134,290	(144,556,727)	300,577,563	438,738,656	(135,189,475)	303,549,181
Infrastructure: Waste Management	23,736,262	(4,061,113)	19,675,149	23,606,321	(3,026,635)	20,579,686
Infrastructure: Road, Pavement, Bridges & Storm water	2,887,692,059	(1,616,057,518)	1,271,634,541	2,864,398,728	(1,500,191,975)	1,364,206,753
Machinery & Equipment	5,046,628	(3,414,972)	1,631,656	5,357,726	(3,258,827)	2,098,899
Infrastructure - Wastewater management	537,841,101	(134,319,850)	403,521,251	513,866,323	(120,614,976)	393,251,347
Infrastructure - Water	952,476,338	(175,772,163)	776,704,175	939,417,609	(157,954,622)	781,462,987
Total	**5,260,073,175**	**(2,218,640,277)**	**3,041,432,898**	**5,164,954,307**	**(2,050,158,286)**	**3,114,796,021**

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Work in Progress - additions / (tranfers completed projects)	Depreciation	Impairment reversal	Total
Land	56,167,677	-	-	-	(484,898)	-	55,682,779
Furniture and Office Equipment	407,846	9,606	8,557	-	(103,904)	-	322,105
Transport Assets	13,200,862	26,801,270	(4,655)	-	(2,818,756)	-	37,178,721
Computer Equipment	2,394,720	470,838	(63,422)	-	(640,802)	-	2,161,334
Infrastructure - Electricity	177,476,063	-	-	5,361,935	(10,494,374)	-	172,343,624
Buildings & Other Structure (Community)	303,549,181	550,000	255,300	3,844,516	(8,377,746)	756,312	300,577,563
Infrastructure: Waste Management	20,579,686	-	-	-	(904,537)	-	19,675,149
Infrastructure: Road, Pavement, Bridges & Storm water	1,364,206,753	23,932,758	-	(639,426)	(115,865,544)	-	1,271,634,541
Machinery & Equipment	2,098,899	166,740	(38,271)	-	(595,712)	-	1,631,656
Infrastructure - Wastewater management	393,251,347	-	-	23,974,778	(13,704,874)	-	403,521,251
Infrastructure - Water	781,462,987	59,460,315	(800,168)	(44,815,689)	(18,603,270)	-	776,704,175
	3,114,796,021	**111,391,527**	**(642,659)**	**(12,273,886)**	**(172,594,417)**	**756,312**	**3,041,432,898**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Work in Progress - additions / (tranfers completed projects)	Depreciation	Total
Land	54,607,900	-	(149)	1,559,926	-	-	56,167,677
Furniture and Office Equipment	504,406	3,430	(54)	-	-	(99,936)	407,846
Transport Assets	6,736,115	7,903,121	(9,027)	-	-	(1,429,347)	13,200,862
Computer Equipment	2,574,068	1,747,135	(264,418)	-	(1,461,657)	(200,408)	2,394,720
Infrastructure - Electricity	183,859,518	6,974,845	(357,605)	-	(1,315,789)	(11,684,906)	177,476,063
Buildings & Other Structure (Community)	307,813,160	1,683,891	(1,066,825)	-	8,407,666	(13,288,711)	303,549,181
Infrastructure: Waste Management	23,154,852	90,000	(1,646,844)	-	-	(1,018,322)	20,579,686
Infrastructure: Road, Pavement, Bridges & Storm water	1,479,290,473	38,768,914	-	-	(9,948,467)	(143,904,167)	1,364,206,753
Machinery & Equipment	978,764	1,651,257	(293)	-	-	(530,829)	2,098,899
Infrastructure - Wastewater management	402,893,050	-	-	-	5,054,694	(14,696,397)	393,251,347
Infrastructure - Water	751,266,974	-	-	-	51,113,839	(20,917,826)	781,462,987
	3,213,679,280	**58,822,593**	**(3,345,215)**	**1,559,926**	**51,850,286**	**(207,770,849)**	**3,114,796,021**

Pledged as security

Carrying value of assets pledged as security:

Transport Assets	29,612,879	9,417,181

Transport assets purchase as instalment agreement and financed through ABSA and FNB

	2018 R	2017 R

11. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance.

Contracted services - Repair and maintenance	1 518 869	11 258 003

The repairs and maintenance on the property, plant and equipment incurred as follows in the categories, Buildings & Other structure (Community) R 417 705 (2017: R 5 976 952), Transport Assets R 1 041 871 (2017: R 990 894), Machinery & Equipment R 59 293 (2017: R 1 766 512), Furniture & Equipment R 0 (2017: R 18 818), Infrastructure Water R 0 (2017: R 2 504 825).

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	118,256,924	118,256,924
Additions/capital expenditure	71,119,185	71,119,185
Transferred to completed items	(83,393,072)	(83,393,072)
	105,983,037	**105,983,037**

Description	Opening Balance	Cost Addition	Transfer Out	Closing Balance
Building and Other structure (Community)	11,343,361	3,844,516	-	15,187,877
Infrastucture Electricity	-	5,361,935	-	5,361,935
Infrastructure Roads, Pavements Bridges	26,733,358	23,293,332	(23,932,758)	26,093,932
Infrastructure Waste Management	1,529,652	-	-	1,529,652
Infrastructure Waste Water Management	5,054,695	23,974,779	-	29,029,474
Infrastructure Water	73,595,858	14,644,624	(59,460,314)	28,780,168
	118,256,924	**71,119,186**	**(83,393,072)**	**105,983,038**

Notes to the Financial Statements

	2018	2017
	R	R

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	66,406,637	66,406,637
Additions/capital expenditure	99,181,651	99,181,651
Transferred to completed items	(47,331,364)	(47,331,364)
	118,256,924	**118,256,924**

Description	Opening Balance	Cost Addition	Transfer Out	Closing Balance
Building and Other structure (Community)	2,935,695	8,407,666	-	11,343,361
Computer Equipment	1,461,657	125,957	(1,587,614)	-
Infrastructure Electricity	1,315,789	5,659,047	(6,974,836)	-
Infrastructure Roads, Pavements Bridges	36,681,825	28,820,447	(38,768,914)	26,733,358
Infrastructure Waste Management	1,529,652	-	-	1,529,652
Infrastructure Waste Water Management	-	5,054,695	-	5,054,695
Infrastructure Water	22,482,019	51,113,839	-	73,595,858
	66,406,637	**99,181,651**	**(47,331,364)**	**118,256,924**

Expenditure incurred on halted projects

	2018	2017
Clocolan landfill Disposal site	-	1,529,652
Senekal Bulk water upgrade	-	4,555,347
Ficksburg/ Meqheleng Equipment of Boreholes for emergency water supply	783,654	-
Water Demand Management and Water Conservation	3,457,018	-
	4,240,672	**6,084,999**

Abovementioned project are at design and planning stage. The progress of the projects depend on the availability of funds from the relevant National Department.

With the physical verification process that was done to correct the infrastructure asset register and the movable asset register during the current financial year, new classifications was used and therefore certain figures changed from the prior year to the current year. There were also assets found that were omitted from last year’s asset register and these were subsequently added, also resulting in a change of prior period figures.

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

Notes to the Financial Statements

Figures in Rand

12. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	5,797,589	(4,223,025)	1,574,564	5,797,590	(3,158,055)	2,639,535

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	2,639,535	(1,064,971)	1,574,564

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software, other	3,190,780	192,968	(44,068)	(700,145)	2,639,535

Details of valuation

The Municipality had assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption because information about the acquisition cost of the assets was not available, and the Municipality applied Directive 7 to those assets. The effective date of the revaluations was . After that date assets are carried at cost.

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

These assumptions were based on current market conditions at the date of recalculation.

Notes to the Financial Statements

	2018 R	2017 R

13. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	15,385,903	-	15,385,903	15,385,903	-	15,385,903

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical buildings	15,385,903	15,385,903

Reconciliation of heritage assets 2017

	Opening balance	Total
Historical buildings	15,385,903	15,385,903

Change in accounting estimate

The annual review of the useful lives and residual valuesof assets resulted in a decrease of R 33.042 million (2017/2018) in the depreciation charge to the statement of financial performance. It is impracticable to estimate the effect of these changes in estimates on future periods.

14. Other financial liabilities

	2018 R	2017 R
At amortised cost		
Bank loan	4,962,691	5,666,599
Financial liabilities	29,240,234	9,474,515
	34,202,925	**15,141,114**
Total other financial liabilities	**34,202,925**	**15,141,114**

Refer to Appendix A for further details on the borrowings.

	2018 R	2017 R
Non-current liabilities		
At amortised cost	26,279,899	12,890,162
Current liabilities		
At amortised cost	7,923,026	2,250,952

Notes to the Financial Statements

	2018 R	2017 R

15. Finance lease obligation

	2018 R	2017 R
Minimum lease payments due		
- within one year	9,107,194	2,312,200
- in second to fifth year inclusive	28,983,293	7,227,734
- later than five years	-	2,506,155
	38,090,487	12,046,089
less: future finance charges	(8,850,253)	(2,628,908)
Present value of minimum lease payments	**29,240,234**	**9,417,181**

	2018 R	2017 R
Present value of minimum lease payments due		
- within one year	7,120,706	1,438,609
- in second to fifth year inclusive	22,119,528	5,608,085
- later than five years	-	2,370,487
	29,240,234	**9,417,181**

Finance lease obligations is included and form part of total financial liabilities disclosed in above note.

It is municipality policy to lease certain vehicles, computers, faxes, equipment and photo copy machines under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 11% (2017: 11%).

During the current financial year there were financial leases and new lease agreements entered into.

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

16. Payables from exchange transactions

	2018 R	2017 R
Trade payables	51,075,207	73,608,791
Payments received in advance	17,524,096	13,847,152
Bonus	4,025,646	3,833,938
Accrued leave pay	12,971,939	10,986,559
Salary Control	14,976,672	(714,269)
Retention monies	6,979,276	7,171,899
Unallocated Deposits	1,778,106	1,804,241
Payments received in advance - Prepaid Electricity	828,005	-
	110,158,947	**110,538,311**

The increase in Trade Payables was due to the non-payment of Creditors at year end.
The Salary control, Unallocated deposits and Other payables has been separately disclosed to provide more detail.

Fair value of trade and other payables

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

The management of the municipality is of the opinion that the carrying value of creditors approximate their fair values.

Notes to the Financial Statements

	2018 R	2017 R

17. Consumer deposits

	2018 R	2017 R
Electricity	2,540,477	2,350,243
Water	60,760	127,659
Rental Deposits	186,529	35,442
	2,787,766	**2,513,344**

Guarantees held in lieu of electricity and other deposits

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2018 R	2017 R
Provincial Government - Free State	8,979,260	9,479,260
INEG grant	-	1,351,517
SETA / TETA	-	236,100
	8,979,260	**11,066,877**

Movement during the year

	2018 R	2017 R
Balance at the beginning of the year	11,066,877	952,460
Additions during the year	246,770,007	273,881,246
Income recognition during the year	(247,006,107)	(263,766,829)
Repayment of Unspent Grants	(1,851,517)	-
	8,979,260	**11,066,877**

Notes to the Financial Statements

	2018 R	2017 R

19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	10,496,000	768,000	-	11,264,000
Long service bonus (short term portion)	1,446,000	-	(229,000)	1,217,000
Long service bonus (long term portion)	8,100,000	653,000	-	8,753,000
	20,042,000	**1,421,000**	**(229,000)**	**21,234,000**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reversed during the year	Total
Environmental rehabilitation	9,870,000	626,000	-	10,496,000
Long service bonus (short term portion)	1,278,000	168,000	-	1,446,000
Long service bonus (long term portion)	9,250,136	-	(1,150,136)	8,100,000
	20,398,136	**794,000**	**(1,150,136)**	**20,042,000**

Non-current liabilities	20,017,000	18,596,000
Current liabilities	1,217,000	1,446,000
	21,234,000	**20,042,000**

1. Long Service Bonus

An actuarial valuation of the liability in respect of the long service awards was performed by an independent company. The primary purpose of this valuation is to enable the Municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future.

Membership Data

Number of current employees	662	678

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

Carrying value

Present value long service awards liability - wholly unfunded	(9,546,000)	(10,528,000)
Service Cost	(914,000)	(1, 278,000)
Interest Cost	(769,000)	(1 054,000)
Actuarial Benefits paid	1,446,000	1,287,000
Actuarial gains/(losses)	(187 000)	2 027 000
As at 30 June	**(9,970,000)**	**(9,546,000)**

Valuation Assumptions

	2018 R	2017 R

19. Provisions (continued)

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

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

Financial Variables

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

Financial Variable	Assumed Value at 30-06-2018 **(Current Valuation)**	Assumed Value at 30-06-2017 **(Preceding Valuation)**
Discount Rate	8.75%	8.72%
CPI (Consumer Price Inflation)	5.36%	6.01%
Normal Salary Increase Rate	6.36%	7.01%
Net Effective Discount Rate	2.25%	1.60%

Discount Rate

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2017 the duration of liabilities was 5.96 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 29 June 2018 is 8.75% per annum, and the yield on inflation linked bonds of a similar term was about 2.74% per annum. This implies an underlying expectation of inflation of 5.36 % per annum ([1 + 8.75%] / [1 + 2.74%] - 1).

We have assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.36% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.25% per annum ([1 + 8.75%] / [1 + 6.36%] - 1).

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%.

The salaries used in the valuation include an assumed increase on 01 July 2017 of 6.36%. The next salary increase was assumed to take place on 01 July 2018.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

	2018 R	2017 R

19. Provisions (continued)

Promotional Salary Increase Rates:

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

Average Retirement Age

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

Normal Retirement Age

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

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

	2018	2017
	R	R

19. Provisions (continued)

2. Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg, Clocolan, Marquard and Senekal. Provision has been made for this cost based on actual cost calculations received from Consulting Engineers. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Total area expected to be rehabilitated: 329 000 square metres;
- Average rate per square metre: R45 escalating every year by 6.4%;
- Total area to be rehabilitated can be reconciled to the different sites as follows:

Ficksburg	98 000
Senekal	153 000
Marquard	17 000
Clocolan	61 000

Each of the landfill sites have a different lifespan for rehabilitation ranging from 5 years to 10 years and are best estimates provided for by the respective Manager waste management, parks and properties.

Ficksburg	10 Years
Senekal	10 Years
Marquard	3 Years
Clocolan	3 Years

Notes to the Financial Statements

	2018	2017
	R	R

20. Employee benefit obligations

Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below and which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans. The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund
- South African Local Authorities Provident Fund
- National Fund for Municipal Workers
- Municipal Employees Pension Fund
- South African Municipal Workers Union Provident Fund
- Municipal Councillors Pension Fund.

The following are defined benefit plans

- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund are R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund were on 30 June 2015. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund are R1 308 million which is adequately financed by assets of R 1 531 million.

The actuarial valuation determined that the retirement plan was in a sound financial position.

Post-retirement medical aid plan

	2018	2017
	R	R

20. Employee benefit obligations (continued)

The Post-retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	534	529
Continuation members (e.g. Retirees, widows, orphans)	41	41
Total Members	**575**	**570**

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25.

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme; and
- KeyHealth Medical Scheme

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

Present value of the defined benefit obligation - wholly unfunded -	(63,087,000)	(47,224,000)
Service Cost	(3,602,000)	(2,178,000)
Interest Cost	(5,044,000)	(4,716,000)
Actuarial Benefits paid	1,612,000	1,704,000
Actuarial gains/(losses)	24,789,000	(10,673,000)
	----------------	----------------
As at 30 June	**(45,332,000)**	**(63,087,000)**

Valuation Assumptions

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

GRAP 25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2017 the duration of liabilities was 15.89 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 9.80 % per annum, and the yield on the inflation linked bonds of a similar term was about 2.96% per annum, implying an underlying expectation of inflation of 6.64% per annum ([1 + 9.80%] / [1 + 2.96%] - 1).

A healthcare cost inflation rate of 7.64% was assumed. This is 1.00% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.01% per annum ([1 + 9.80%] / [1 + 7.64%] - 1). This year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

Financial Variables

	2018	2017
	R	R

20. Employee benefit obligations (continued)

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

Financial Variable	30-06-2018 Valuation	30-06-2017 Valuation
Discount rate	9.80%	8.10%
Consumer price inflation	6.64%	5.40%
Medical aid Inflation	7.64%	6.40%
Net effective discount rate	2.01%	1.60%

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

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

*Statement of Financial Position (herein referred to as the "balance sheet").

We used the nominal and real zero curves as at 30 June 2018 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

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

Normal Retirement Age

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

Mortality Rates

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

Spouses and Dependants

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

Notes to the Financial Statements

	2018 R	2017 R

20. Employee benefit obligations (continued)

The report is available for inspection at the Municipality.

Calculation of actuarial gains and losses

Actuarial (gains) losses – Plan assets	424,000	982,136

21. Service charges

Sale of electricity	68,344,966	62,934,974
Sale of water	46,965,004	49,378,958
Sewerage and sanitation charges	20,930,724	25,373,925
Refuse removal	30,564,815	25,366,875
Other service charges	329,509	252,331
	167,135,018	**163,307,063**

22. Rental of facilities and equipment

Rental of facilities	1,191,601	1,901,910

23. Other income

Sundry income	1,259,207	3,649,880
Cemetery Fees	700,090	467,235
Post-retirement Medical Actuarial Gain	17,755,000	982,136
	19,714,297	**5,099,251**

Unallocated deposits older than 3 years has been receipted as Sundry income in terms of the implementation of the Council policy

24. Interest and Dividends received - investment

Dividend revenue		
Unlisted financial assets - Local	51,142	39,848
Interest revenue		
Interest earned on cash and bank	185,229	141,160
Investments and short term deposits	2,211,119	1,832,154
	2,396,348	**1,973,314**

	2018 R	2017 R

25. Property rates

Rates received

	2018 R	2017 R
Residential	40,544,501	39,078,856
State	23,943,120	23,860,350
Less: Income forgone	(11,526,881)	(18,700,333)
	52,960,740	**44,238,873**

Valuations

	2018 R	2017 R
Residential	2,386,124,260	2,365,220,999
Commercial	342,612,400	339,327,400
State	306,721,600	307,850,500
Municipal	5,550,100	40,550,100
Small holdings and farms	2,250,847,220	2,431,877,220
Churches	46,134,000	44,284,000
	5,337,989,580	**5,529,110,219**

Valuations on land and buildings are performed every 5 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 R0.04 (2017: R0.04) is applied to property valuations to determine assessment rates of residential.
A general rate of R0.08 (2017: R0.08) is applied to property valuations to determine assessment rates of business.

Rebates of 80.2% (2017: 82%) are granted to residential, commercial and small holdings and farm property owners.

Rates are levied on an annual basis with equal payments over twelve months. Interest at prime plus 1% per annum is levied on outstanding rates.

The general valuation was implemented on 1 July 2014.

Notes to the Financial Statements

	2018 R	2017 R

26. Government grants and subsidies

Operating grants		
Equitable share	157,656,001	158,775,000
EPWP Grant	1,889,000	1,908,000
Financial Management Grant (FMG)	1,700,000	1,625,000
Provincial Government - Free State	-	6,473,200
SETA Funding	1,561,007	1,221,225
	162,806,008	170,002,425
Capital grants		
MIG Grant	47,996,999	49,091,001
Department of Water Affairs Grant	30,000,000	49,656,999
INEG Grant	6,000,000	4,648,483
	83,996,999	103,396,483
	246,803,007	**273,398,908**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

Current-year receipts	157,656,000	158,775,000
Conditions met - transferred to revenue	(157,656,000)	(158,775,000)
	-	-

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

All registered indigents receive a monthly subsidy of R 337 (2017: R 413), which is funded from the grant.

MIG Grant

Current-year receipts	47,997,000	49,091,000
Conditions met - transferred to revenue	(47,997,000)	(49,091,000)
	-	-

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

In terms of the MFMA Circular No.48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The entity reports at year-end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants were used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

EPWP Grant

Current-year receipts	1,889,000	1,908,000
Conditions met - transferred to revenue	(1,889,000)	(1,908,000)
	-	-

Notes to the Financial Statements

	2018 R	2017 R

26. Government grants and subsidies (continued)

This grant is used in respect of job creation projects and programmes. Above the grant received, the Council contribute an additioal amount of R50 123 towards the said project out of own income.

Financial Management Grant (FMG)

	2018 R	2017 R
Current-year receipts	1,700,000	1,625,000
Conditions met - transferred to revenue	(1,700,000)	(1,625,000)
	-	-

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

Department of Water Affairs Grant

	2018 R	2017 R
Current-year receipts	15,000,000	49,656,999
Conditions met - transferred to revenue	(15,000,000)	(49,656,999)
	-	-

This grant were used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

Provincial Government - Free State

	2018 R	2017 R
Balance unspent at beginning of year	9,479,260	952,460
Current-year receipts	-	15,000,000
Conditions met - transferred to revenue	-	(6,473,200)
Repayment of Unspent Grant	(500,000)	-
	8,979,260	**9,479,260**

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

Provincial Treasury give a R10 000 000 for the replacement of a sewer pipeline where only an amount of R1 473 200 was expensed. An additional R 5 000 000 was given towards drought relief which was spent in total in the 2016/17 financial year.

COGTA also contributes R500 000 per year towards the Municipal Manager's salary. This grant allocation was stopped from 1 July 2016 and re-instated from 1 April 2018 amounting to R700 000 per year.

INEG Grant

	2018 R	2017 R
Balance unspent at beginning of year	1,351,517	-
Current-year receipts	6,000,000	6,000,000
Conditions met - transferred to revenue	(6,000,517)	(4,648,483)
Amount repaid due to under spending of grant	(1,351,000)	-
	-	**1,351,517**

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

This grant is provided by the Department of Energy to upgrade the electric network.

SETA Funding

	2018 R	2017 R
Balance unspent at beginning of year	236,100	-
Current-year receipts	1,324,907	1,457,325

	2018 R	2017 R

26. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(1,561,007)	(1,221,225)
	-	**236,100**

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

SETA will ensure that the skill requirements sector is identified and that adequate and appropriate skills are readily given to staff of the Municipality.

Rural Bulk Infrastructure Grant

Current-year receipts	15,000,000	-
Conditions met - transferred to revenue	(15,000,000)	-
	-	**-**

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

The amount received was spent in full during the financial year.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, applicable for the financial year, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

27. Revenue

Service charges	167,135,018	163,307,063
Rental of facilities and equipment	1,191,601	1,901,910
Interest received (trading)	24,176,660	19,524,870
Licences and permits	189,626	39,298
Commissions received	241,353	220,650
Sale of land	109,511	273,674
Other income	19,714,297	5,099,251
Interest received - investment	2,396,348	1,973,314
Dividends received	51,142	39,848
Property rates	52,960,740	44,238,873
Government grants & subsidies	246,803,008	273,398,908
Public contributions and donations	4,091,554	90,000
Fines, Penalties and Forfeits	1,688,828	2,462,779
	520,749,686	**512,570,438**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	167,135,018	163,307,063
Rental of facilities and equipment	1,191,601	1,901,910
Interest received (trading)	24,176,660	19,524,870
Licences and permits	189,626	39,298
Commissions received	241,353	220,650
Sale of land	109,511	273,674
Other income	19,714,297	5,099,251
Interest received - investment	2,396,348	1,973,314
Dividends received	51,142	39,848
	215,205,556	**192,379,878**

Notes to the Financial Statements

	2018 R	2017 R

27. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	52,960,740	44,238,873
Transfer revenue		
Government grants & subsidies	246,803,008	273,398,908
Public contributions and donations	4,091,554	90,000
Fines, Penalties and Forfeits	1,688,828	2,462,779
	305,544,130	**320,190,560**

Notes to the Financial Statements

	2018 R	2017 R

28. Employee related costs

Basic	103,592,298	104,631,082
Medical aid - company contributions	11,908,195	28,270,206
UIF	1,076,686	1,091,321
WCA	755,213	903,550
SDL	1,520,098	1,480,100
Leave pay provision charge	3,739,189	2,591,968
Defined contribution plans	20,638,471	17,074,387
Travel, motor car, accommodation, subsistence and other allowances	12,005,225	10,158,914
Overtime payments	8,527,445	8,670,255
Long-service awards	789,976	646,664
Acting allowances	1,236,156	762,157
Housing benefits and allowances	545,468	1,580,468
Holiday Bonus	8,692,672	8,430,726
Casual wages	-	27,102
Allowance - Telephone	715,120	545,500
Industrial Council Levies	65,876	734,813
	175,808,088	**187,599,213**

Remuneration of Municipal Manager - Mr STR Ramakarane

Annual Remuneration	2,115,471	1,530,960
Travel, accommodation, motor car and other subsistence allowances	173,805	244,449
Other	103,273	92,374
	2,392,549	**1,867,783**

COGTA financed an annual amount of R500,000.00 towards the salary of the Municipal Manager. This grant allocation was stopped from 1 July 2016 and re-instated from 1 April 2018 amounting to R700 000 per year for the durationn of the Municipal Manager's contract. Please refer to note 26

Remuneration of Chief Finance Officer - Mr GT Banda

Annual Remuneration	275,106	1,216,049
Travel, accommodation, motor car and other subsistence allowances	84,282	78,370
	359,388	**1,294,419**

Mr GT Banda resigned on 30 September 2017.

Remuneration of Acting Chief Financial Officer - Mr D J van Tonder

Acting allowance	199,321	-

Mr van Tonder was acting CFO for the period 1 October 2017 till 30 April 2018.

Remuneration of Chief Financial Officer - Mrs M O Masisi

Annual Remuneration	111,978	-
Contributions to UIF, Medical and Pension Funds	25,386	-
Travel, accommodation, motor car and other subsistence allowances	23,634	-
	160,998	**-**

Mrs Mathapelo Masisi was appointed on 1 May 2018.

Notes to the Financial Statements

	2018 R	2017 R

28. Employee related costs (continued)

Remuneration of Director Corporate Services - Mr M Ntheli

	2018 R	2017 R
Annual Remuneration	228,966	-
Travel, accommodation, motor car and other subsistence allowances	63,719	-
	292,685	**-**

Mr M Ntheli was appointed as the Director Corporate Services from 1 January 2018 and resigned the position at 28 February 2018.

Remuneration of Acting Corporate Services Director - Mrs S Mihailescu

	2018 R	2017 R
Acting allowance	163,732	-

Mrs Mihailescu was acting Director Corporate Director for the period 1 August 2017 till 31 December 2017.

Remuneration of Corporate Services Director - Mr T Masejane

	2018 R	2017 R
Annual Remuneration	85,797	1,143,654
Travel, accommodation, motor car and other subsistence allowances	20,355	172,941
	106,152	**1,316,595**

Mr T Masejane ended his contract on 31 July 2017

Remuneration of Acting Corporate Services Director - Mrs B L Mokoena

	2018 R	2017 R
Acting allowance	106,252	-

Mrs Mokoena was acting Director Corporate Director from the period 1 March 2018.

Remuneration of Director Development, Planning, Security Services - Mr M Ntheli

	2018 R	2017 R
Annual Remuneration	397,534	1,162,735
Travel, accommodation, motor car and other subsistence allowances	59,741	192,795
	457,275	**1,355,530**

Mr M Ntheli ended his contract on 30 November 2017.

Remuneration of Acting Director Development, Planning, Security Services - Mr M E Fokane

	2018 R	2017 R
Acting allowance	57,480	-

.Mr M E Fokane act as Director Development, Planning, Security Services for the period 1 November 2017 till 31 December 2017.

Remuneration of Director Development, Planning, Security Services - Mr T Zondo

	2018 R	2017 R
Annual Remuneration	397,163	-
Contributions to UIF, Medical and Pension Funds	78,611	-
Travel, accomodation, motor car and other subsistance allowances	4,796	-
	480,570	**-**

Notes to the Financial Statements

	2018 R	2017 R

28. Employee related costs (continued)

Mr T Zondo was appointed as Director Development, Planning, Security Services from 1 January 2018.

Remuneration of Engineering Services Director - Mrs TF Zondi

	2018 R	2017 R
Annual Remuneration	711,449	918,951
Travel, accommodation, motor car and other subsistence allowances	226,983	282,920
Other	240,672	90,071
	1,179,104	**1,291,942**

Mrs TF Zondi ended her contract on 31 March 2018.

Remuneration for Technical Services Director (Acting) - Mr MA Mokhethoa

	2018 R	2017 R
Acting allowance	85,625	-

Mr T Mohkethoa was appointed as Acting Director Engineering Services from 1 April 2018

29. Remuneration of councillors

	2018 R	2017 R
Mayor/Executive Mayor	871,526	937,944
Speaker	683,212	590,897
Councillors	7,502,901	5,813,665
Executive/Mayoral Committee Members	3,690,188	2,553,883
	12,747,827	**9,896,389**

30. Administrative expenditure

The Excecutive Mayor, Speaker and Mayoral Committee are appointed on a full-time basis. Each is provided with an office and secretarial support at the cost of the Council.

The Excecutive Mayor and Speaker has use of a Council owned vehicle for official duties.

31. Depreciation and amortisation

	2018 R	2017 R
Property, plant and equipment	176,195,937	206,880,480
Investment property	574,875	1,600,762
Intangible assets	154,841	1,485,770
	176,925,653	**209,967,012**

Notes to the Financial Statements

	2018 R	2017 R

32. Impairment of assets

Impairments		
Other financial assets	-	33,711
The impairment are due the the decrease in share price in relation to non listed shares.		
Impairment Fines Debtors	1,584,887	2,253,080
During the period ending 30 June 2014 the Setsoto Local Municipality changed its accounting policy, whereby traffic offence income included under fines, is now recognised on an accrual basis rather than on the cash basis.		
The change in accounting policy did result in a fair presentation of financial information.		
Also refer to Note 4 & 7.		
	1,584,887	**2,286,791**

33. Finance costs

Trade and other payables	3,310,448	1,469,705
Bank	13,392	-
Current borrowings	2,636,793	819,002
	5,960,633	**2,288,707**

34. Debt impairment

Contributions to debt impairment provision	(7,388,633)	69,861,412
Bad debts written off	85,526,716	-
	78,138,083	**69,861,412**

35. Bulk purchases

Electricity	53,990,492	68,977,949

36. Contracted services

Information Technology Services	627,084	69,296
Fleet Services	428,291	152,243
Operating Leases	26,195	28,784
Specialist Services	10,979,434	11,223,075
General Valuation Roll Cost	1,319,023	-
	13,380,027	**11,473,398**

37. Transfers and subsidies

Other subsidies		
Distutional help	2,110,976	5,618,338

38. Assets write-off

Assets write-off during the year	911,536	6,496,905

	2018 R	2017 R

38. Assets write-off (continued)

During the current year the Municipality disposed of old and redundant asset.

There were also assets that were destroyed due to a fire and were paid out through insurance.

Also refer to Note 12.

39. General expenses

	2018 R	2017 R
Advertising	587,865	759,048
Audit and Performance Audit Committee Expenses	529,941	476,266
Bank charges	570,291	702,313
Entertainment	27,467	33,387
Insurance	1,029,328	1,206,677
Town planning	1,453,330	365
Conferences and delegations	1,722,260	1,631,032
IT expenses	1,948,588	59,681
Fuel and oil	5,213,003	3,955,127
Mail and Postage	925,334	1,242,924
Printing and Stationery	162,618	501,724
Protective clothing	810,176	162,924
License Fees	573,682	1,942,957
Security (Guarding of municipal property)	1,024,532	769,967
Pauper funerals	1,893,679	1,741,098
Telephone and fax	967,027	692,456
Travel and subsistence	1,538,350	2,110,130
Tourism development	200,000	3,000
Analysis	393,989	8,853
Departmental consumption	4,206,116	4,122,662
Ward committee expenses	2,115,475	631,170
Water & Chemicals	8,802,118	6,390,839
Other expenses	39,286	8,476,974
	36,734,455	**37,621,574**

40. Cash generated from operations

	2018 R	2017 R
Deficit	(47,060,412)	(124,580,990)
Adjustments for:		
Depreciation and amortization	176,925,653	209,967,015
Assets write-off	911,536	6,496,905
Impairment deficit	1,584,887	2,286,791
Debt impairment	78,138,083	69,861,412
Movements in retirement benefit assets and liabilities	(17,755,000)	15,862,195
Movements in provisions	1,192,000	(356,136)
Prior year correction of Compensation Commissioner expense	-	(4,648,139)
Corrections of Asset Register	-	1,294,052
Changes in working capital:		
Inventories	(440,816)	(533,361)
Receivables from exchange transactions	(119,017,804)	(121,534,789)
Other receivables from non-exchange transactions	(1,305,816)	(11,779,549)
Payables from exchange transactions	(379,364)	34,039,863
VAT	6,998,025	163,651
Unspent conditional grants and receipts	(2,087,617)	10,114,417
Consumer deposits	274,422	(8,103)
	77,977,777	**86,645,234**

Notes to the Financial Statements

	2018 R	2017 R
41. Capital commitments		
Commitments in respect of capital expenditure		
Already contracted		
• Property, plant and equipment	97,599,130	92,521,019
Not yet contracted		
• Property, plant and equipment	13,797,100	17,030,284
Total capital commitments		
Already contracted	97,599,130	92,521,019
Not yet contracted	13,797,100	17,030,284
	111,396,230	**109,551,303**

Property plant and equipment contracted will be expensed in the following year, R 43 950 400 (2018/19), R 39 817 565 (2019/20) and R 2 888 665 (2020/21)

This expenditure will be financed from:		
Grants, subsidies and own funding	111,396,230	109,551,303

42. Related parties

Related party transactions

	2018 R	2017 R
Purchases from (sales to) related parties		
ERB Marketing	135,000	195,000
Itumeleng Building & Training	82,105	255,913
Selane Transport	2,000	42,300
Mohautse Taxis	7,000	-
Mthembana Construction	11,070	-

The IT Specialist have close family relations with the management of ERB Marketing that maintains the web site of Council.

The owner of Itumeleng Building and Training has close relations with the: Manager Human Resources.

The owner of Mthembana Construction has close family relations to Me. S Metithafa in Corperate Services

The owner of Selane Transport is an employee (Me. N M A Selane) in the Traffic division of the Municipality.

The owner of Mohautse Taxis has close family relations to Mr S Mohautse in Finance Services.

43. Comparative figures

Setsoto Municipality was one of the Municipalities selected to implement the newly Municipal Standard Chart of Accounts (mSCOA) introduced by National Treasury. Certain comparative figures have been reclassified to meet with this new chart of accounts and to comply in terms of GRAP 1.

The effects of the reclassification are as follows:

Notes to the Financial Statements

Figures in Rand

43. Comparative figures (continued)

Statement of financial position - extract

	Restatement	After restatement
	-	-
	-	-
Correction Assets previous year	(251,185)	(251,185)
Trade payables	(687,154)	(687,154)
Unallocated deposits	1,804,241	1,804,241
Total	**865,902**	**865,902**

Statement of financial performance - extract

	Comparative figures previously reported	Restatement	After restatement
Salary Control	402,818	(1,117,087)	(714,269)

44. Unauthorized expenditure

Opening balance	483,061,977	237,530,497
Unauthorized expenditure	17,301,739	245,531,480
Unauthorized expenditure approved/condoned by Council	(237,530,497)	-
	262,833,219	**483,061,977**

Unauthorized expenditure derived mainly from depreciation on revalued assets which is a non-cash financial entry against the accumulated surplus account.

Details of unauthorized expenditure				
Overspending of expenditure votes,mainly contributed by depreciation on revalued assets (current replacement cost basis).	-	-	17,301,739	245,531,480

45. Fruitless and wasteful expenditure

Opening balance	723,342	131,799
Fruitless and wasteful expenditure	3,350,092	1,188,124
Less: Amounts written off.	(3,450,224)	(596,581)
	623,210	**723,342**

Due to the fact that the elections was held on 3 August 2016, a council meeting could not be held to condone the expenditure above before submission of the AFS 2015/16.

Details of fruitless and wasteful expenditure				
Payments made on interest and penalties	-	-	301,701	675,012
Interest paid on VAT submission 2017/2018	-	-	273,179	-
Interest paid on VAT submission 2016	-	-	48,330	48,330
	-	**-**	**623,210**	**723,342**

Notes to the Financial Statements

Figures in Rand

46. Irregular expenditure

Opening balance	30,737,009	731,338
Add: Irregular Expenditure - current year	98,765,998	32,972,664
Add: Cashiers short banking - Under investigation	381,527	-
Less: Amounts written off (Previous year)	(26,603,022)	(531,701)
Less: Amounts written off (Current year)	(53,468,378)	(2,435,292)
	49,813,134	**30,737,009**

Overpayments of Councillors to be recouped

Opening balance	531,145	532,145
Less: Amount collected during the year	-	(1,000)
	531,145	**531,145**

During the 2010/11 and 2011/12 financial year Councillors were overpaid and Council's decision were to recouped this money.

Details of irregular expenditure – current year

-

Details of irregular expenditure		
Variation order against other contractor due to tender price	-	1,373,696
Expenditure items identified where the SCM processes and procedures were not followed	9,740,224	1,058,095
Short comings on SCM committee	52,570,892	-
Deviations not approved by the Municipal Manager	2,040,487	3,500
Expenditure still under investigation. No final outcome from MPAC	3,190,349	149,636
Short comings on SCM committee identified during the audit	31,605,573	30,387,737
	99,147,525	**32,972,664**

47. Auditors' remuneration

Audit and Performance Audit Committee	529,941	476,266

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organized local government (SALGA)

Opening balance	(13,613)	(31,184)
Current year subscription / fee	1,829,080	1,757,654
Amount paid - current year	(1,829,080)	(1,740,083)
	(13,613)	**(13,613)**

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

Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

The implementation of prepaid electricity meters contributed positively to the decrease in electricity losses.

The prescribed norm from National Treasury for electricity losses is estimated to be between 7% and 10%

Estimated electricity losses	2,871,219	11,819,161

Electricity		
Percentage loss	4%	15%

Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses included distribution to townships with unmetered water.

The prescribed norm from National Treasury for water losses is estimated to be between 15% and 30%.

Water		
Estimated water losses	7,044,679	3,747,572

Water		
Percentage loss	26%	11%

Audit fees

Opening balance	212,750	138,142
Current year subscription / fee	5,690,211	5,252,980
Amount paid - current year	(5,602,802)	(5,178,372)
	300,159	**212,750**

PAYE and UIF

Opening balance	1,582,328	1,462,612
Current year subscription / fee	20,875,962	19,829,037
Amount paid - current year	(15,678,175)	(19,709,321)
	6,780,115	**1,582,328**

Pension and Medical Aid Deductions

Opening balance	4,687,384	3,621,798
Current year subscription / fee	46,566,915	42,378,285
Amount paid - current year	(47,220,941)	(41,312,699)
	4,033,358	**4,687,384**

Skills Development Levy

Opening balance	234,016	117,020
Current year subscription / fee	1,520,318	1,480,842
Amount paid - current year	(1,138,610)	(1,363,846)
	615,724	**234,016**

Figures in Rand

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

VAT

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

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

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

Councillors' arrear consumer accounts

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

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor TB Jakobo	8,574	48,162	56,736
Councillor PC Matobako	1,903	22,851	24,754
Councillor EM Makobane	1,501	17,315	18,816
Councillor KE Koalane	1,447	17,116	18,563
Councillor TI Mthimkhulu	4,158	16,345	20,503
Councillor RS Liphoko	2,327	15,109	17,436
Councillor TG Makhalanyane	1,399	11,225	12,624
Councillor PE Koqo	1,326	7,331	8,657
Councillor MK Ralehlatsi	3,320	1,410	4,730
Councillor AN Maoke	1,257	3,104	4,361
Councillor CD Moipatli	1,224	3,132	4,356
Councillor A Taylor	1,116	2,420	3,536
	29,552	**165,520**	**195,072**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor A Taylor	1,313	13,103	14,416
Councillor T B Jakobo	10,262	40,908	51,170
Councillor P E Koqo	1,151	3,316	4,467
Councillor R S Liphoko	2,089	6,258	8,347
Councillor T G Makhalanyane	1,277	8,807	10,084
Councillor A N Maoke	492	581	1,073
Councillor T J Matobako	2,215	17,269	19,484
Councillor C D Moipatli	1,316	9,265	10,581
Councillor M M Mokhele	1,443	13,451	14,894
Councillor T I Mthimkulu	4,031	3,119	7,150
Councillor M K Ralehlatsi	3,583	4,275	7,858
	29,172	**120,352**	**149,524**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Aging (in days)
Councillor TB Jakobo	62,843	650
Councillor PC Matobako	25,775	1,175
Councillor TI Mthimkhulu	21,273	472
Councillor EM Makobane	19,814	1,214
Councillor KE Koalane	19,327	1,229
Councillor MM Mokhele	18,470	4,980
Councillor RS Liphoko	17,436	499
Councillor TG Makhalanyane	14,250	922
Councillor CD Moipatli	11,487	807
Councillor MK Ralehlatsi	10,944	274
Councillor MM Khatlake	9,413	581
Councillor PE Koqo	9,158	643

Figures in Rand

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

Councillor A Taylor	5,552	442
Councillor AN Maoke	4,361	320
	250,103	**14,208**

30 June 2017	Highest outstanding amount	Aging (in days)
Councillor A Taylor	15,385	1,200
Councillor T B Jakobo	54,093	1,260
Councillor C	14,172	1,260
Councillor P E Koqo	4,467	1,230
Councillor R S Liphoko	8,346	360
Councillor T G Makhalanyane	10,084	1,140
Councillor A N Maoke	1,073	90
Councillor T J Matobako	19,484	1,260
Councillor C D Moipatli	13,459	1,140
Councillor M M Mokhele	14,894	1,230
Councillor T I Mthimkulu	7,150	180
Councillor M K Ralehlatsi	7,858	210
	170,465	**10,560**

49. Deviation from supply chain management regulations

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

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

Various goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the normal procurement processes as required by paragraph 12(1) of the same gazette. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations were recorded and reported to the meeting of Council.

50. Public contributions and donations

Assets donated		
Refuse skip bins X 4	-	90,000
Tipper truck X 2	1,895,578	-
Hyundai bakkies X 4	939,616	-
Land and Building Erf 132/3 Ficksburg	550,000	-
Funiture and Equipment	3,500	-
Printers X 25, Fax machines X 5	122,860	-
Red Cross/Eskom monetary donation	580,000	-
	4,091,554	**90,000**

The Municipality received in-kind donations and assistance during the financial year from various institutions. These donations was mostly of a capital nature and were accordingly capitalised in Property, Plant and Equipment. The monetary donation was received unconditionally.

51. Events after the reporting date

There are no significant matters to report after reporting date.

52. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a risk management unit under Municipal Manager Department and policies are approve by Council. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and investment of excess liquidity.

Liquidity risk

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

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

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

At 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7,923,026	-	-	26,279,899
Consumer deposits	2,787,766	-	-	-
Unspent conditional grants and receipts	8,979,260	-	-	-

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	2,250,952	-	-	12,890,162
Consumer deposits	2,513,344	-	-	-
Unspent conditional grants and receipts	11,066,877	-	-	-

52. Risk management (continued)

Credit risk

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

With the exception of trade receivables, the economic entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the economic entity uses other publicly available financial information and its own trading records to rate its major customers.

The entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents

The credit exposure to any single counterparty is managed by setting transaction or exposure limits, which are included in the entity's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers.

Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by levying penalty charges, issuing demands for payment, restricting service and handing customers over for collection, whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Financial instrument	2018	2017
FNB BANK - Current Account - 620 480 92647	1,115,314	1,106,650
FNB BANK - Business Money Market - 621 517 83563	9,245	79,526
FNB BANK - Savings Account - 620 490 46205	10,000	837,313
FNB BANK - Call Account - 623 105 40465	10,000	64,873
Sanlam Shares	1,009,779	933,833
OVK / EFC Shares	1,235,717	1,116,615
Other Financial Assets	1,234,359	1,161,413
Receivables from Exchange and Non - exchange transactions	241,520,486	205,447,559

Market risk

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2018 and 2017, the municipality’s borrowings at variable rate were denominated in the Rand.

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk.

53. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of R 3,144,114,600 and that the municipality's total assets exceed its liabilities by R 3,144,114,600.

Although the municipality incure a deficit to the amount of R 47 060 412 during the current year, it relates to the implementation of GRAP 17 and the depreciation regarding assets taken into account. This non-cash related deficit will however not have an impact on the going concern as indicated.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

54. Contingencies

From information received from the municipality's Legal section they indicate that the municipality has outstanding claims that could result in a possible contingent liability of R6 746 029. Legal costs to defend these court cases may be in the region of R 722 659. A register is available at the municipality.

Contingent Liabilities - Pending claims		
Damage to property - register available at Municipality	6,746,029	10,957,934
Cost to defend these cases	722,659	773,000
	7,468,688	**11,730,934**

Contingent assets

There is a civil claim against Sharp Connect a service provider whose contract was terminated in July 2015. They continued deducting money form the municipality’s bank account until December 2015. Civil proceedings have commenced against the Service provider concerned to recover an amount of R 208 280.

55. Operating lease

The municipality have the following significant leasing arrangements:

- Nashua - photocopiers and printers

- there are no existing terms of purchases options on these contracts;
- Leases are negotiated for an average term of 3 years. No sublease contracts exist and no contingent rent is payable for the reporting period. There are no renewal and/or purchase options. The Municipality opt to continue with the lease for another financial year based on the existing conditions.

Operating leases - as lessee (expense)		
Within one year	505,490	505,490

Certain of the municipality's property is held to generate rental income. Rental of property is expected to generate rental yields of 5% on an ongoing basis.

Operating leases - as lessor (income)		
Within one year	797,637	759,655

Notes to the Financial Statements

Figures in Rand

56. Accumulated surplus

Changes to Accumulated Surplus

	Balance	Total
Opening balance	3,191,426,197	3,191,426,197
Correction error	(251,185)	(251,185)
Surplus/(Deficit) for the year	(47,060,412)	(47,060,412)
	3,144,114,600	**3,144,114,600**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2018											
Financial Performance											
Property rates	43,262,792	10,000,000	53,262,792	-		53,262,792	52,960,740		(302,052)	99 %	122 %
Service charges	167,964,777	6,000,000	173,964,777	-		173,964,777	167,135,018		(6,829,759)	96 %	100 %
Investment revenue	1,900,360	-	1,900,360	-		1,900,360	2,447,490		547,130	129 %	129 %
Transfers recognised - operational	163,644,850	-	163,644,850	-		163,644,850	162,806,008		(838,842)	99 %	99 %
Other own revenue	32,130,413	(1,914,580)	30,215,833	-		30,215,833	47,311,876		17,096,043	157 %	147 %
Total revenue (excluding capital transfers and contributions)	**408,903,192**	**14,085,420**	**422,988,612**	**-**		**422,988,612**	**432,661,132**		**9,672,520**	**102 %**	**106 %**
Employee costs	(184,215,909)	-	(184,215,909)	-	-	(184,215,909)	(175,808,088)	-	8,407,821	95 %	95 %
Remuneration of councillors	(11,061,588)	(1,500,000)	(12,561,588)	-	-	(12,561,588)	(12,747,829)	-	(186,241)	101 %	115 %
Debt impairment	(58,014,496)	-	(58,014,496)			(58,014,496)	(78,138,083)	17,301,739	(20,123,587)	135 %	135 %
Depreciation and asset impairment	(223,489,980)	-	(223,489,980)			(223,489,980)	(178,510,540)	-	44,979,440	80 %	80 %
Finance charges	(2,054,004)	(2,780,914)	(4,834,918)	-	-	(4,834,918)	(5,960,633)	-	(1,125,715)	123 %	290 %
Materials and bulk purchases	(64,448,460)	(1,816,580)	(66,265,040)	-	-	(66,265,040)	(53,990,492)	-	12,274,548	81 %	84 %
Transfers and grants	(893,604)	(392,084)	(1,285,688)	-	-	(1,285,688)	(2,110,976)	-	(825,288)	164 %	236 %
Other expenditure	(76,191,200)	(12,300,192)	(88,491,392)	-	-	(88,491,392)	(60,543,457)	-	27,947,935	68 %	79 %
Total expenditure	**(620,369,241)**	**(18,789,770)**	**(639,159,011)**	**-**	**-**	**(639,159,011)**	**(567,810,098)**	**17,301,739**	**71,348,913**	**89 %**	**92 %**
Surplus/(Deficit)	**(211,466,049)**	**(4,704,350)**	**(216,170,399)**	**-**		**(216,170,399)**	**(135,148,966)**		**81,021,433**	**63 %**	**64 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	135,241,004	(33,414,004)	101,827,000	-		101,827,000	83,997,000		(17,830,000)	82 %	62 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	4,091,554		4,091,554	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**(76,225,045)**	**(38,118,354)**	**(114,343,399)**	**-**		**(114,343,399)**	**(47,060,412)**		**67,282,987**	**41 %**	**62 %**
Surplus/(Deficit) for the year	**(76,225,045)**	**(38,118,354)**	**(114,343,399)**	**-**		**(114,343,399)**	**(47,060,412)**		**67,282,987**	**41 %**	**62 %**

Setsoto Local Municipality
(Registration number Municipal demarcation code FS191)
Appendix A
June 2018

Schedule of external loans as at 30 June 2018

	Loan Number	Redeemable	Balance at 30 June 2017 Rand	Interest for the period Rand	(Addition) / Redeemed written off during the period Rand	Balance at 30 June 2018 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa								
DBSA Loan @ 16.75%	13457	2020-06-30	999,389	-	281,207	718,182	-	-
DBSA Loan @ 11.36%	101389	2024-12-31	4,667,210	-	422,701	4,244,509	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			5,666,599	**-**	**703,908**	**4,962,691**	**-**	**-**
Bonds			-	-	-	-	-	-
Other loans								
ABSA @ 10%	89514989, 89515381, 89515861, 89516256, 89516272, 89516779, 89516795	2022-06-01	9,474,514	-	(6,219,834)	15,694,348	-	-
	89644009, 89644076, 89645110		-	-	-	-	-	-
	89882457, 89862260, 89645145		-	-	-	-	-	-

Appendix A

June 2018

Schedule of external loans as at 30 June 2018

	Loan Number	Redeemable	Balance at 30 June 2017 Rand	Interest for the period Rand	(Addition) / Redeemed written off during the period Rand	Balance at 30 June 2018 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
WESBANK @ 12.25%	85265501996, 85265478490, 85264693609, 8564694308, 85266334384, 85266283448, 85266284159, 85265374058	2022-09-01	-	-	(13,545,896)	13,545,896	-	-
			-	-	-	-	-	-
			9,474,514	**-**	**(19,765,730)**	**29,240,244**	**-**	**-**
Lease liability			**-**	**-**	**-**	**-**	**-**	**-**
Annuity loans			**-**	**-**	**-**	**-**	**-**	**-**
Government loans			**-**	**-**	**-**	**-**	**-**	**-**
Total external loans								
Loan Stock			-	-	-	-	-	-
Structured loans			-	-	-	-	-	-
Funding facility			-	-	-	-	-	-
Development Bank of South Africa			5,666,599	-	703,908	4,962,691	-	-
Bonds			-	-	-	-	-	-
Other loans			9,474,514	-	(19,765,730)	29,240,244	-	-
Lease liability			-	-	-	-	-	-
Annuity loans			-	-	-	-	-	-
Government loans			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-
			-	-	-	-	-	-

Appendix A

June 2018

Schedule of external loans as at 30 June 2018

Loan Number	Redeemable	Balance at 30 June 2017 Rand	Interest for the period Rand	(Addition) / Redeemed written off during the period Rand	Balance at 30 June 2018 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		-	-	-	-	-	-
		15,141,113	**-**	**(19,061,822)**	**34,202,935**	**-**	**-**

Appendix G2
Budgeted Financial Performance (revenue and expenditure by municipal vote)
for the year ended 30 June 2018

	2017/2018											2016/2017			
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Revenue by Vote															
Executive & COUNCIL	44,548,469	3,092,513	47,640,982	-		47,640,982	45,597,726		(2,043,256)	96 %	102 %				73,727,183
Bugdet and Treasury office	66,237,804	15,559,808	81,797,612	-		81,797,612	93,394,707		11,597,095	114 %	141 %				52,844,365
CORPORATE SUPPORT SERVICES	1,373,914	-	1,373,914	-		1,373,914	2,652,581		1,278,667	193 %	193 %				399,702
COMMUNITY SERVICES	3,149,937	(2,444,963)	704,974	-		704,974	785,817		80,843	111 %	25 %				186,054
Sport and Recreation	58,128	(30,896)	27,232	-		27,232	16,044		(11,188)	59 %	28 %				33,289
Public Safety	-	-	-	-		-	6,500		6,500	DIV/0 %	DIV/0 %				1,458,499
Housing	487,102	27,887	514,989	-		514,989	17,814		(497,175)	3 %	4 %				3,979,835
Road Transport	29,549,956	(2,400,004)	27,149,952	-		27,149,952	28,462,850		1,312,898	105 %	96 %				25,754,400
Electricity	86,236,160	6,549,928	92,786,088	-		92,786,088	93,624,906		838,818	101 %	109 %				97,338,205
Water	179,101,483	(10,010,670)	169,090,813	-		169,090,813	157,840,701		(11,250,112)	93 %	88 %				138,999,943
Waste Water management	82,440,323	(32,642,485)	49,797,838	-		49,797,838	54,618,530		4,820,692	110 %	66 %				26,533,927
Waste management	54,131,488	872,730	55,004,218	-		55,004,218	58,210,986		3,206,768	106 %	108 %				33,721,904
Total Revenue by Vote	**547,314,764**	**(21,426,152)**	**525,888,612**	**-**		**525,888,612**	**535,229,162**		**9,340,550**	**102 %**	**98 %**				**2,150,394,597**
Expenditure by Vote to be appropriated															
Executive and council	38,653,718	3,384,576	42,038,294	-	-	42,038,294	40,035,483	-	(2,002,811)	95 %	104 %	-	-	-	55,074,137
Budget and treasury office	43,837,995	1,782,117	45,620,112	-	-	45,620,112	48,992,069	3,371,957	3,371,957	107 %	112 %	-	-	-	39,535,930
Corporate services	41,496,000	(7,453,000)	34,043,000	-	-	34,043,000	26,219,994	-	(7,823,006)	77 %	63 %	-	-	-	43,115,477
Community and social services	10,248,555	(324,147)	9,924,408	-	-	9,924,408	6,194,275	-	(3,730,133)	62 %	60 %	-	-	-	10,186,334
Sport and recreation	10,620,593	(164,684)	10,455,909	-	-	10,455,909	9,803,500	-	(652,409)	94 %	92 %	-	-	-	33,599,193
Public safety	4,118,283	(122,707)	3,995,576	-	-	3,995,576	591,657	-	(3,403,919)	15 %	14 %	-	-	-	12,044,693
Housing	14,869,469	(671,640)	14,197,829	-	-	14,197,829	9,043,653	-	(5,154,176)	64 %	61 %	-	-	-	6,912,430
Road transport	31,951,592	222,309,612	254,261,204	-	-	254,261,204	254,261,204	-	-	100 %	796 %	-	-	-	15,567,763
Electricity	87,100,451	(1,624,653)	85,475,798	-	-	85,475,798	74,687,270	-	(10,788,528)	87 %	86 %	-	-	-	69,285,450
Water	48,231,005	12,251,337	60,482,342	-	-	60,482,342	63,812,634	3,330,292	3,330,292	106 %	132 %	-	-	-	261,771,316
Waste water management	39,410,791	(582,471)	38,828,320	-	-	38,828,320	29,999,281	-	(8,829,039)	77 %	76 %	-	-	-	29,442,542
Waste management	38,343,741	1,002,638	39,346,379	-	-	39,346,379	48,559,608	9,213,229	9,213,229	123 %	127 %	-	-	-	39,260,833
Health	553,440	-	553,440	-	-	553,440	1,939,701	1,386,261	1,386,261	350 %	350 %	-	-	-	-
Total Expenditure by Vote	**409,435,633**	**229,786,978**	**639,222,611**	**-**	**-**	**639,222,611**	**614,140,329**	**17,301,739**	**(25,082,282)**	**96 %**	**150 %**	**-**	**-**	**-**	**615,804,102**
Surplus/(Deficit) for the year	**137,879,131**	**(251,213,130)**	**(113,333,999)**	**-**		**(113,333,999)**	**(78,911,167)**		**34,422,832**	**70 %**	**(57)%**				**1,534,590,495**