



**HARRY GWALA DISTRICT MUNICIPALITY AND ITS
CONTROLLED ENTITY
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity	District Municipality
Mayoral committee	
Executive Mayor	M Ndobe
Deputy Mayor	NH Duma
Speaker	TN Jojozi
Member of executive committee	BP Nzimande
Member of executive committee	N Mavuka
Member of executive committee	LG Seja
Councillors	WB Dlamini SS Mavuma NW Dladla TG Soni V Xotongo BL Marncce B Caluza TC Dlamini ZC Khumalo S Nkala S Magaqa SN Madziba BZ Magaqa SV Zulu P Shange VW Zaza ZR Tshazi BC Mncwabe SJ Phakathi
Grading of local authority	Grade 4
Chief Finance Officer (CFO)	Mr M Mkatu
Accounting Officer	Mrs AN Dlamini
Registered office	Harry Gwala District Municipality Main office
Business address	40 Main street Ixopo 3276
Postal address	Private Bag X501 Ixopo 3276
Municipality	Harry Gwala District Municipality
Controlled entity	Harry Gwala Economic Development Agency (Pty) Ltd
Bankers	First National Bank
Auditors	Auditor General South Africa
Telephone number	039 - 834 8700

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

General Information

Harry Gwala Economic Development Agency (Pty) Ltd Board of Directors Dr IB Mkhize - Chairperson

Mr VIV Made

Mr PZ Duma

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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

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Abbreviations

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

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Approval of financial statements

I am responsible for the preparation of these Annual Financial Statements, which are set out in pages 5 to 69 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act..



Mrs AN Dlamini
Municipal Manager

Friday, 28 September 2018

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note(s)	Group		Municipality	
		2018	2017 Restated*	2018	2017 Restated*
Assets					
Current Assets					
Inventories	3	170 584	179 844	170 584	179 844
Receivables from non-exchange transactions	4	6 377 251	5 204 303	5 776 600	4 610 451
VAT receivable	5	39 733 404	18 325 031	38 762 328	17 289 115
Trade and other receivable from exchange transactions	6	21 971 476	22 778 838	21 971 476	22 778 838
Cash and cash equivalents	7	112 335 670	43 023 019	96 962 031	24 272 551
		180 588 385	89 511 035	163 643 019	69 130 799
Non-Current Assets					
Property, plant and equipment	8	1 965 117 303	1 812 852 670	1 942 228 275	1 788 856 638
Intangible assets	9	1 712 026	2 300 056	1 347 031	1 618 761
Investment in entity	10	-	-	100	100
		1 966 829 329	1 815 152 726	1 943 575 406	1 790 475 499
Total Assets		2 147 417 714	1 904 663 761	2 107 218 425	1 859 606 298
Liabilities					
Current Liabilities					
Borrowings	11	6 159 439	5 792 884	6 159 439	5 792 884
Finance lease obligation	12	4 889 039	6 093 624	4 884 263	6 059 905
Payables from exchange transactions	13	169 132 709	136 414 630	168 326 175	135 246 818
Consumer deposits	14	1 605 611	1 441 387	1 605 611	1 441 387
Unspent conditional grants and receipts	15	76 341 874	61 318 223	65 446 466	53 422 815
Provisions	16	732 466	567 617	732 466	567 617
		258 861 138	211 628 365	247 154 420	202 531 426
Non-Current Liabilities					
Borrowings	11	8 656 680	12 353 357	8 656 680	12 353 357
Finance lease obligation	12	8 099 954	13 861 111	8 099 954	13 853 986
Provisions	16	22 216 863	20 947 488	22 216 863	20 947 488
		38 973 497	47 161 956	38 973 497	47 154 831
Total Liabilities		297 834 635	258 790 321	286 127 917	249 686 257
Net Assets		1 849 583 079	1 645 873 440	1 821 090 508	1 609 920 041
Accumulated surplus		1 849 583 079	1 645 873 440	1 821 090 508	1 609 920 041

* See Note 43

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Note(s)	Group		Municipality	
		2018	2017 Restated*	2018	2017 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	17	53 962 321	37 167 578	53 962 321	37 167 578
Operational Revenue	18	755 771	1 268 633	710 231	1 228 230
Interest income	19	21 062 823	18 416 258	20 331 866	17 630 419
Total revenue from exchange transactions		75 780 915	56 852 469	75 004 418	56 026 227
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	20	637 065 945	564 267 238	637 065 945	564 262 100
Total revenue	21	712 846 860	621 119 707	712 070 363	620 288 327
Expenditure					
Bulk purchases	22	(14 319 940)	(12 582 053)	(14 319 940)	(12 582 053)
Operating Leases	23	(100 657)	(109 046)	-	-
Contracted services	24	(153 371 540)	(112 637 855)	(151 949 297)	(112 202 968)
Contribution to bad debt provision	25	(24 717 388)	(34 877 132)	(24 717 388)	(34 877 132)
Depreciation and amortisation	26	(66 065 621)	(58 879 738)	(64 573 975)	(57 398 159)
Directors fees		(279 505)	(321 104)	-	-
Employee related costs	27	(158 856 682)	(152 266 444)	(150 226 814)	(144 809 130)
Interest expense	28	(4 499 247)	(4 320 107)	(4 496 798)	(4 312 810)
Operational costs	29	(50 816 307)	(49 465 085)	(46 561 003)	(44 522 397)
Impairment loss	30	(2 445 022)	(3 876 195)	(2 445 022)	(3 876 195)
Inventory consumed	31	(23 385 051)	(22 539 393)	(23 385 051)	(22 475 025)
Remuneration of councillors	32	(5 963 561)	(5 451 994)	(5 963 561)	(5 451 994)
Transfers and subsidies		(3 850 789)	(654 795)	(11 850 789)	(17 988 128)
Total expenditure		(508 671 310)	(457 980 941)	(500 489 638)	(460 495 991)
Operating surplus		204 175 550	163 138 766	211 580 725	159 792 336
Loss on disposal of assets and liabilities		(465 911)	(59 434)	(410 258)	(40 983)
Surplus for the year		203 709 639	163 079 332	211 170 467	159 751 353

* See Note 43

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Group		
Opening balance as previously reported	1 486 002 379	1 486 002 379
Adjustments		
Prior year adjustments	(3 208 279)	(3 208 279)
Balance at 01 July 2016 as restated*	1 482 794 100	1 482 794 100
Changes in net assets		
Surplus for the year	163 079 332	163 079 332
Total changes	163 079 332	163 079 332
Opening balance as previously reported	1 666 926 697	1 666 926 697
Adjustments		
Prior year adjustments	(21 053 257)	(21 053 257)
Restated* Balance at 01 July 2017 as restated*	1 645 873 440	1 645 873 440
Changes in net assets		
Surplus for the year	203 709 639	203 709 639
Total changes	203 709 639	203 709 639
Balance at 30 June 2018	1 849 583 079	1 849 583 079
Note(s)		
Municipality		
Opening balance as previously reported	1 453 376 965	1 453 376 965
Adjustments		
Prior year adjustments	(3 208 279)	(3 208 279)
Balance at 01 July 2016 as restated*	1 450 168 686	1 450 168 686
Changes in net assets		
Surplus for the year	159 751 366	159 751 366
Total changes	159 751 366	159 751 366
Opening balance as previously reported	1 630 973 298	1 630 973 298
Adjustments		
Prior year adjustments	(21 053 257)	(21 053 257)
Balance at 01 July 2017 as restated*	1 609 920 041	1 609 920 041
Changes in net assets		
Surplus for the year	211 170 467	211 170 467
Total changes	211 170 467	211 170 467
Balance at 30 June 2018	1 821 090 508	1 821 090 508

* See Note 43

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Note(s)	Group		Municipality	
		2018	2017 Restated*	2018	2017 Restated*
Cash flows from operating activities					
Receipts					
Sale of goods and services		43 329 180	21 883 533	43 329 180	21 883 533
Grants		649 089 597	627 467 403	649 089 597	610 134 070
Interest income		9 699 760	6 067 248	8 968 803	5 281 409
Other receipts		478 212	1 703 256	-	-
		<u>702 596 749</u>	<u>657 121 440</u>	<u>701 387 580</u>	<u>637 299 012</u>
Payments					
Employee costs		(165 023 068)	(146 808 590)	(156 166 113)	(139 233 349)
Suppliers		(232 949 034)	(299 451 588)	(237 382 504)	(293 415 156)
Finance costs		(4 499 247)	(4 320 107)	(4 496 798)	(4 312 810)
		<u>(402 471 349)</u>	<u>(450 580 285)</u>	<u>(398 045 415)</u>	<u>(436 961 315)</u>
Net cash flows from operating activities	33	<u>300 125 400</u>	<u>206 541 155</u>	<u>303 342 165</u>	<u>200 337 697</u>
Cash flows from investing activities					
Purchase of property, plant and equipment	8	(220 516 883)	(179 282 421)	(220 392 889)	(178 694 765)
Proceeds from sale of property, plant and equipment	8	-	2 031 750	-	2 031 750
Purchase of other intangible assets	9	-	(498 141)	-	-
Net cash flows from investing activities		<u>(220 516 883)</u>	<u>(177 748 812)</u>	<u>(220 392 889)</u>	<u>(176 663 015)</u>
Cash flows from financing activities					
Repayment of borrowings		(3 330 123)	(2 999 914)	(3 330 122)	(2 999 912)
Finance lease payments		(6 965 744)	(2 259 112)	(6 929 674)	(2 221 195)
Net cash flows from financing activities		<u>(10 295 866)</u>	<u>(5 259 026)</u>	<u>(10 259 796)</u>	<u>(5 221 107)</u>
Net increase/(decrease) in cash and cash equivalents		69 312 651	23 533 317	72 689 480	18 453 575
Cash and cash equivalents at the beginning of the year		43 023 019	19 489 701	24 272 551	5 818 976
Cash and cash equivalents at the end of the year	7	<u>112 335 670</u>	<u>43 023 018</u>	<u>96 962 031</u>	<u>24 272 551</u>

* See Note 43

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Group - 2018											
Financial Performance											
Service charges	55 390 300	12 003 800	67 394 100	-		67 394 100	53 962 321		(13 431 779)	80 %	97 %
Interest Income	14 830 000	6 191 748	21 021 748	-		21 021 748	21 062 823		41 075	100 %	142 %
Transfers recognised - operational	303 218 000	44 147 281	347 365 281	-		347 365 281	372 491 527		25 126 246	107 %	123 %
Operational revenue	3 150 001	1 623 815	4 773 816	-		4 773 816	710 231		(4 063 585)	15 %	23 %
Total revenue (excluding capital transfers and contributions)	376 588 301	63 966 644	440 554 945	-		440 554 945	448 226 902		7 671 957	102 %	119 %
Employee costs	(144 501 761)	(4 000 000)	(148 501 761)	-	-	(148 501 761)	(150 226 814)	(1 725 053)	(1 725 053)	101 %	104 %
Remuneration of councillors	(8 538 696)	2 198 237	(6 340 459)	-	-	(6 340 459)	(5 963 561)	-	376 898	94 %	70 %
Debt impairment	(27 842 812)	(6 255 416)	(34 098 228)			(34 098 228)	(24 717 388)	-	9 380 840	72 %	89 %
Depreciation and asset impairment	(34 285 922)	(15 864 000)	(50 149 922)			(50 149 922)	(67 018 997)	(16 869 075)	(16 869 075)	134 %	195 %
Finance charges	(2 000 000)	404 456	(1 595 544)	-	-	(1 595 544)	(4 496 798)	(2 901 254)	(2 901 254)	282 %	225 %
Materials and bulk purchases	(13 687 780)	(2 537 173)	(16 224 953)	-	-	(16 224 953)	(14 319 940)	-	1 905 013	88 %	105 %
Contracted services	(20 297 904)	(4 206 812)	(24 504 716)	-	-	(24 504 716)	(150 898 522)	(126 393 806)	(126 393 806)	616 %	743 %
Transfers and grants	(23 301 308)	12 000 000	(11 301 308)	-	-	(11 301 308)	(11 850 789)	(549 481)	(549 481)	105 %	51 %
Other expenditure	(112 551 348)	(50 298 986)	(162 850 334)	-	-	(162 850 334)	(69 946 054)	-	92 904 280	43 %	62 %
Total expenditure	(387 007 531)	(68 559 694)	(455 567 225)	-	-	(455 567 225)	(499 438 863)	(148 438 669)	(43 871 638)	110 %	129 %
Surplus/(Deficit)	(10 419 230)	(4 593 050)	(15 012 280)	-		(15 012 280)	(51 211 961)		(36 199 681)	341 %	341 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	387 544 000	(44 174 281)	343 369 719	-		343 369 719	264 574 418		(78 795 301)	77 %	68 %
Surplus (Deficit) after capital transfers and contributions	377 124 770	(48 767 331)	328 357 439	-		328 357 439	213 362 457		(114 994 982)	65 %	57 %
Surplus/(Deficit) for the year	377 124 770	(48 767 331)	328 357 439	-		328 357 439	213 362 457		(114 994 982)	65 %	57 %
Capital expenditure and funds sources											
Sources of capital funds											
Transfers recognised - capital	387 544 000	(44 147 281)	343 396 719	-		343 396 719	264 574 418		(78 822 301)	77 %	68 %
Internally generated funds	11 210 000	(3 556 578)	7 653 422	-		7 653 422	5 605 000		(2 048 422)	73 %	50 %
Total sources of capital funds	398 754 000	(47 703 859)	351 050 141	-		351 050 141	270 179 418		(80 870 723)	77 %	68 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows										
Net cash from (used) operating	404 773 967	(67 983 085)	336 790 882	-		336 790 882		(33 448 717)	90 %	75 %
Net cash from (used) investing	(398 754 000)	47 503 859	(351 250 141)	-		(351 250 141)		130 857 252	63 %	55 %
Net cash from (used) financing	(3 129 763)	-	(3 129 763)	-		(3 129 763)		(7 130 033)	328 %	328 %
Net increase/(decrease) in cash and cash equivalents	2 890 204	(20 479 226)	(17 589 022)	-		(17 589 022)		90 278 502	(413)%	2 515 %
Cash and cash equivalents at the beginning of the year	24 272 551	-	24 272 551	-		24 272 551		-	100 %	100 %
Cash and cash equivalents at year end	27 162 755	(20 479 226)	6 683 529	-		6 683 529		90 278 502	1 451 %	357 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Municipality - 2018											
Financial Performance											
Service charges	55 390 300	12 003 800	67 394 100	-		67 394 100	53 962 321		(13 431 779)	80 %	97 %
Interest Income	14 830 000	6 191 748	21 021 748	-		21 021 748	20 331 866		(689 882)	97 %	137 %
Transfers recognised - operational	303 218 000	44 147 281	347 365 281	-		347 365 281	372 491 527		25 126 246	107 %	123 %
Operational revenue	3 150 001	1 623 815	4 773 816	-		4 773 816	710 231		(4 063 585)	15 %	23 %
Total revenue (excluding capital transfers and contributions)	376 588 301	63 966 644	440 554 945	-		440 554 945	447 495 945		6 941 000	102 %	119 %
Employee costs	(144 501 761)	(4 000 000)	(148 501 761)	-	-	(148 501 761)	(150 226 814)	(1 725 053)	(1 725 053)	101 %	104 %
Remuneration of councillors	(8 538 696)	2 198 237	(6 340 459)	-	-	(6 340 459)	(5 963 561)	-	376 898	94 %	70 %
Debt impairment	(27 842 812)	(6 255 416)	(34 098 228)			(34 098 228)	(24 717 388)	-	9 380 840	72 %	89 %
Depreciation and asset impairment	(34 285 922)	(15 864 000)	(50 149 922)			(50 149 922)	(67 018 997)	(16 869 075)	(16 869 075)	134 %	195 %
Finance charges	(2 000 000)	404 456	(1 595 544)	-	-	(1 595 544)	(4 496 798)	(2 901 254)	(2 901 254)	282 %	225 %
Materials and bulk purchases	(13 687 780)	(2 537 173)	(16 224 953)	-	-	(16 224 953)	(14 319 940)	-	1 905 013	88 %	105 %
Contracted services	(20 297 904)	(4 206 812)	(24 504 716)	-	-	(24 504 716)	(151 949 297)	(127 444 581)	(127 444 581)	620 %	749 %
Transfers and grants	(23 301 308)	12 000 000	(11 301 308)	-	-	(11 301 308)	(11 850 789)	(549 481)	(549 481)	105 %	51 %
Other expenditure	(112 551 348)	(50 298 986)	(162 850 334)	-	-	(162 850 334)	(69 946 054)	-	92 904 280	43 %	62 %
Total expenditure	(387 007 531)	(68 559 694)	(455 567 225)	-	-	(455 567 225)	(500 489 638)	(149 489 444)	(44 922 413)	110 %	129 %
Surplus/(Deficit)	(10 419 230)	(4 593 050)	(15 012 280)	-		(15 012 280)	(52 993 693)		(37 981 413)	353 %	509 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	387 544 000	(44 174 281)	343 369 719	-		343 369 719	264 574 418		(78 795 301)	77 %	68 %
Surplus (Deficit) after capital transfers and contributions	377 124 770	(48 767 331)	328 357 439	-		328 357 439	211 580 725		(116 776 714)	64 %	56 %
Surplus/(Deficit) for the year	377 124 770	(48 767 331)	328 357 439	-		328 357 439	211 580 725		(116 776 714)	64 %	56 %
Capital expenditure and funds sources											
Sources of capital funds											
Transfers recognised - capital	387 544 000	(44 147 281)	343 396 719	-		343 396 719	264 574 418		(78 822 301)	77 %	68 %
Internally generated funds	11 210 000	(3 556 578)	7 653 422	-		7 653 422	5 605 000		(2 048 422)	73 %	50 %
Total sources of capital funds	398 754 000	(47 703 859)	351 050 141	-		351 050 141	270 179 418		(80 870 723)	77 %	68 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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. Final budget council approved policy)	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows										
Net cash from (used) operating	404 773 967	(67 983 085)	336 790 882	-		336 790 882		(33 448 717)	90 %	75 %
Net cash from (used) investing	(398 754 000)	47 503 859	(351 250 141)	-		(351 250 141)		130 857 252	63 %	55 %
Net cash from (used) financing	(3 129 763)	-	(3 129 763)	-		(3 129 763)		(7 130 033)	328 %	328 %
Net increase/(decrease) in cash and cash equivalents	2 890 204	(20 479 226)	(17 589 022)	-		(17 589 022)		90 278 502	(413)%	2 515 %
Cash and cash equivalents at the beginning of the year	24 272 551	-	24 272 551	-		24 272 551		-	100 %	100 %
Cash and cash equivalents at year end	27 162 755	(20 479 226)	6 683 529	-		6 683 529		(90 278 502)	1 451 %	357 %

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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Narration area

.Variance Explanations

Municipality

1. Service charges increased due to the municipality engaging in the process of capturing actual meter readings and adjusting consumer accounts.
2. Interest investment - Higher interest earned on positive bank balances
3. Operational revenue - Actual performance lower due to lower projected debtors book
4. Government grants and subsidies - Variance within limits
5. Employee related costs - Staff increases.
6. Remuneration of councillors - Over budgeting for Councillors allowance due to late determination receipt.
7. Depreciation and asset impairments - Additional assets brought from wip.
8. Finance costs- Under budgeting.
9. Material and bulk purchases - Budget within the limits.
10. Transfers and grants - Budget was cut during the year.
11. Other expenditures - Due to Mscoa and the budget for it is more by contracted.

Agency

1. Sale of tenders - number of prospective bidders were much higher than anticipated.
2. Investment revenue - interest received was more due to interest from Call Accounts.
3. Employees related cost - budget for grant income was reduced by the parent municipality.
4. Directors' fees - the board members held less special meetings than anticipated.
5. Agricultural expenses - this project was budgeted in prior year and implemented in the current year.
6. Enterprise development expenses - this expenditure is inclusive of commitments.
7. Depreciation and amortisation - this was higher than anticipated.
8. Finance charges - certain contracts were closed during the year.
9. Tourism expenses - this expenditure is inclusive of commitments.
10. Operating leases - this was budgeted for under General expenses prior to mSCOA changes.
11. Contribution to staff leave - this is a non-cash item.
12. Audit fees - no internal auditors were appointed for 2017/2018 year end.
13. General expenses - budget for grant income was reduced by the parent municipality

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

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

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

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

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

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

1.1 Presentation currency

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

1.2 Consolidation

Basis of consolidation

Consolidated consolidated annual financial statements are the consolidated annual financial statements of the economic entity presented as those of a single entity.

The consolidated consolidated annual financial statements incorporate the consolidated annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's consolidated annual financial statements at the acquisition date.

The consolidated annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated consolidated annual financial statements are prepared as of the same date.

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional consolidated annual financial statements as of the same date as the consolidated annual financial statements of the controlling entity unless it is impracticable to do so. When the consolidated annual financial statements of a controlled entity used in the preparation of consolidated consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's consolidated annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates is the same from period to period.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.2 Consolidation (continued)

Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets.

A Special purpose entity is consolidated when the substance of the relationship between the economic entity and the Special purpose entity indicates that the Special purpose entity is controlled by the economic entity.

1.3 Significant judgements and sources of estimation uncertainty

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

Revenue Recognition

Accounting Policy on Revenue from Exchange Transactions and Accounting Policy on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. In particular when services are rendered, and whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management..

Impairment of Financial Assets

Accounting Policy on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies on property, plant and equipment and intangible assets, the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge

Impairment: Write down of PPE

Significant estimates and judgments are made relating to PPE impairment tests.

Defined Benefit Plan Liabilities

As described in Accounting Policy on employee benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan.

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 economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years
Computer Equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years

1.4 Property, plant and equipment (continued)

River	Straight line	
• Structure: Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure- buildings		55 years
• Structure-Clarifiers		55 years
• Structure-Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade – Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure – Concrete		50 years
• Structure – Galaxy		30 years
• Structure – Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground: Chambers & Manholes	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years
• Standpipes		20 years
Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure – Drying Beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect.		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 years

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

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

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

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

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.

1.4 Property, plant and equipment (continued)

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.

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 economic entity 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 economic entity; and
- the cost or fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

1.6 Financial instruments

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

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

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

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

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.

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

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

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

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

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

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

1.6 Financial instruments (continued)

Classification

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

Class	Category
Short-term Investment Deposits – Call	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Long-term Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost

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

Class	Category
Long-term Liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost
Short-term loans	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement 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.

1.6 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.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

An allowance for impairment based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year:

An allowance for impairment of trade receivables 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 receivables. Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the year.

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Financial liabilities

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

1.7 Tax

Value added tax

The Municipality accounts for Value Added Tax on the payments basis.

1.8 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 - lessee

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

1.9 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 economic entity 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 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 economic entity.

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.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an economic entity after deducting all of its liabilities.

1.11 Employee benefits

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

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

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

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

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

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

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

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

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

1.11 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

The municipality treats its provision for leave pay as an accrual.

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

Post-employment benefits

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

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

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

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.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KSN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Provident, Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The liability is the aggregate of the present value of the defined obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

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.

1.11 Employee benefits (continued)

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 recognises past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.11 Employee benefits (continued)

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-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

- the economic entity 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 economic entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

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

Provisions are not recognised for future operating deficits.

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

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

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

Service Charges

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff

1.15 Revenue from non-exchange transactions

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

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

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful

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

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity,
- 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.

Income 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 that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.16 Investment income

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

1.17 Borrowing costs

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

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

1.22 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity 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 economic entity.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager

1.23 Events after reporting date

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

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

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

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

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

Group		Municipality	
2018	2017	2018	2017

2. New standards and interpretations

GRAP 32- Service Concession Arrangements: Grantor

GRAP 20 - Related party disclosures - Effective date not yet approved

GRAP 108 - Statutory Receivables - Effective date not yet approved

GRAP 109 - Accounting by principals and agents - Effective date not yet approved

GRAP 34- Seperate Financial Statements - Issued but not yet effective.

GRAP 110-Living and Non-living Resources- Issued but not yet effective

GRAP 36 - Investments in Associates and Joint Ventures- Issued but not yet effective .

GRAP 37- Joint Arrangements - Issued but not yet effective

GRAP 38 -Disclosure of Interests in Other Entities - Issued but not yet effective.

IGRAP 17- Intepretation of the of the Standard of GRAP on Service Concession Arrangements where a Grantor Controls a significant residual interest in the asset

IGRAP 18 Intepretation of the Standard of GRAP on Recognition and Derecognition of Land

IGRAP 19 - Liabilities to Pay Levies

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	Group		Municipality	
	2018	2017	2018	2017
3. Inventories				
Opening balance water	179 843	191 663	179 843	191 663
Water reduction	(9 259)	(11 819)	(9 259)	(11 819)
	170 584	179 844	170 584	179 844
4. Receivables from non-exchange transactions				
Unauthorised expenditure	5 979	5 979	5 979	5 979
Debtor - Kokstad deposits	105 753	105 753	105 753	105 753
Prepayments	13 728	6 929	-	-
Other debtors	3 532 703	2 366 554	2 945 780	1 779 631
Cyclone construction - Farmers market	2 000 000	2 000 000	2 000 000	2 000 000
SARS - debtors/salaries	181 259	181 259	181 259	181 259
ACB/debtors	424 247	424 247	424 247	424 247
Councillors laptops	94 045	94 045	94 045	94 045
Councillors bursary	19 537	19 537	19 537	19 537
	6 377 251	5 204 303	5 776 600	4 610 451
5. VAT receivable				
VAT Control	25 566 465	4 922 986	24 595 389	3 887 070
Year end creditors VAT reclaimable	31 419 878	29 644 755	31 419 878	29 644 755
VAT on consumer accruals	(17 252 939)	(16 242 710)	(17 252 939)	(16 242 710)
	39 733 404	18 325 031	38 762 328	17 289 115
6. Trade and other receivable from exchange transactions				
Gross balances				
Rates	-	2 862	-	2 862
Service charges	2 278 553	1 963 815	2 278 553	1 963 815
Water	113 340 109	107 118 565	113 340 109	107 118 565
Value added taxation	12 102 076	18 249 386	12 102 076	18 249 386
Sewerage	53 930 867	50 048 867	53 930 867	50 048 867
Debtors direct deposits	(10 257)	(55 520)	(10 257)	(55 520)
	181 641 348	177 327 975	181 641 348	177 327 975
Less: Allowance for impairment				
Rates	-	(2 862)	-	(2 862)
Service charges	(2 038 040)	(1 744 766)	(2 038 040)	(1 744 766)
Water	(98 344 717)	(91 161 976)	(98 344 717)	(91 161 976)
Value added taxation	(10 349 182)	(15 300 426)	(10 349 182)	(15 300 426)
Sewerage	(48 937 933)	(46 339 107)	(48 937 933)	(46 339 107)
	(159 669 872)	(154 549 137)	(159 669 872)	(154 549 137)
Net balance				
Service charges	240 513	219 049	240 513	219 049
Water	14 995 392	15 956 589	14 995 392	15 956 589
Value added taxation	1 752 894	2 948 960	1 752 894	2 948 960
Sewerage	4 992 934	3 709 760	4 992 934	3 709 760
Debtors direct deposits	(10 257)	(55 520)	(10 257)	(55 520)
	21 971 476	22 778 838	21 971 476	22 778 838

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
6. Trade and other receivable from exchange transactions (continued)				
Water				
Current (0 -30 days)	10 613 342	11 000 669	10 613 342	11 000 669
31 - 60 days	2 600 706	4 902 934	2 600 706	4 902 934
61 - 90 days	2 825 063	3 551 127	2 825 063	3 551 127
91 - 120 days	82 173 315	129 403 967	82 173 315	129 403 967
	98 212 426	148 858 697	98 212 426	148 858 697
Reconciliation of allowance for impairment				
Balance at beginning of the year	(154 549 136)	(119 940 084)	(154 549 136)	(119 940 084)
Contributions to allowance	(24 717 388)	(34 877 133)	(24 717 388)	(34 877 133)
Debt impairment written off against allowance	19 596 652	268 080	19 596 652	268 080
	(159 669 872)	(154 549 137)	(159 669 872)	(154 549 137)

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	11 019	2 302	10 557	300
Bank balances	6 926 935	8 127 034	2 822 218	1 597 841
Short-term deposits	105 397 716	34 893 683	94 129 256	22 674 410
	112 335 670	43 023 019	96 962 031	24 272 551

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 Ixopo branch Account Number 62022648169	2 793 500	1 597 841	299 557	2 822 218	1 597 841	299 557
FNB Call Account - 62032587331	180 802	13 504 348	2 099	180 802	13 504 348	2 099
FNB Call Account - 62095523281	1 243 741	5 870 388	231 610	1 243 741	5 870 388	231 610
FNB Call Account - 62138538692	34 075 686	1 000	47 173	34 075 686	1 000	47 173
FNB Call Account - 62398395204	17 289 757	1 000	9 922	17 289 757	1 000	9 922
FNB Call Account - 62434145331	2 605	5 076	2 735	2 605	5 076	2 735
FNB Call Account - 62434147072	9 190 531	2 769	11 748	9 190 531	2 769	11 748
FNB Call Account - 62434151239	68 407	1 005	5 243	68 407	1 005	5 243
FNB Call Account - 62414264797	9 600	3 134	8 996	9 600	3 134	8 996
Investec Bank - Call account - 50006688425	32 071 021	3 285 691	5 199 592	32 071 021	3 285 691	5 199 592
FNB - Ixopo Branch - 62313233504	4 104 717	6 529 193	3 041 298	4 104 717	6 529 193	3 041 298
Standard Bank - Kloof branch - 251660419	840 666	846 594	9 852 100	840 666	846 594	9 852 100
FNB - Ixopo branch - 62372506306	399 471	1 828 194	72 588	399 471	1 828 194	72 588
Standard Bank - Kloof branch - 254472435	9 915 188	9 435 082	4 575	9 915 188	9 435 082	4 575
FNB - 62478289989	113 116	109 403	700 164	113 116	109 403	700 164
Total	112 298 808	43 020 718	19 489 400	112 327 526	43 020 718	19 489 400

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group			Municipality		
	2018	2017		2018	2017	
8. Property, plant and equipment						
Group	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	17 080 597	-	17 080 597	17 080 597	-	17 080 597
Buildings	57 812 490	(12 542 775)	45 269 715	57 812 490	(10 655 823)	47 156 667
Machinery and Equipment	2 197 309	(1 812 178)	385 131	3 019 633	(2 309 577)	710 056
Furniture and Office equipment	5 831 230	(4 102 834)	1 728 396	6 716 071	(4 186 720)	2 529 351
Transport assets	8 637 205	(5 822 759)	2 814 446	8 787 204	(4 901 935)	3 885 269
Computer equipment	3 543 067	(1 956 423)	1 586 644	4 027 920	(2 571 586)	1 456 334
Infrastructure: Information and Communication	1 262 002	(817 794)	444 208	1 819 236	(950 568)	868 668
Infrastructure: Roads, Pavements and Bridges	2 319 503 469	(437 439 679)	1 882 063 790	2 090 262 264	(372 998 321)	1 717 263 943
Community assets	5 188 302	(1 870 323)	3 317 979	5 188 302	(1 626 865)	3 561 437
Leased assets	20 006 136	(9 579 739)	10 426 397	27 191 897	(8 851 549)	18 340 348
Total	2 441 061 807	(475 944 504)	1 965 117 303	2 221 905 614	(409 052 944)	1 812 852 670
Municipality	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	17 080 597	-	17 080 597	17 080 597	-	17 080 597
Buildings	31 372 420	(8 403 673)	22 968 747	31 372 420	(7 449 927)	23 922 493
Machinery and Equipment	2 099 060	(1 754 555)	344 505	2 907 848	(2 261 545)	646 303
Furniture and Office equipment	5 149 255	(3 745 552)	1 403 703	6 030 942	(3 920 997)	2 109 945
Transport assets	8 637 205	(5 822 759)	2 814 446	8 787 204	(4 901 935)	3 885 269
Computer equipment	2 995 116	(1 631 213)	1 363 903	3 397 838	(2 220 203)	1 177 635
Infrastructure: Information and Communication	1 262 002	(817 794)	444 208	1 819 236	(950 568)	868 668
Infrastructure: Roads, Pavements and Bridges	2 319 503 469	(437 439 679)	1 882 063 790	2 090 262 264	(372 998 321)	1 717 263 943
Community assets	5 188 302	(1 870 323)	3 317 979	5 188 302	(1 626 865)	3 561 437
Leased assets	20 006 136	(9 579 739)	10 426 397	27 191 897	(8 851 549)	18 340 348
Total	2 413 293 562	(471 065 287)	1 942 228 275	2 194 038 548	(405 181 910)	1 788 856 638

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Notes to the Consolidated Annual Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 30 June 2018

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	47 156 667	-	-	-	(1 886 952)	-	45 269 715
Machinery and Equipment	710 056	2 450	(72 220)	-	(255 173)	-	385 131
Furniture and Office equipment	2 529 351	950	(75 029)	-	(726 876)	-	1 728 396
Transport assets	3 885 269	-	-	-	(1 070 823)	-	2 814 446
Computer equipment	1 456 334	845 139	(115 146)	-	(599 666)	-	1 586 644
Infrastructure: Information and Communication	868 668	-	(152 722)	-	(271 738)	-	444 208
Infrastructure: Roads, Pavements and Bridges	1 717 263 943	219 668 344	-	-	(52 423 475)	(2 445 022)	1 882 063 790
Community assets	3 561 437	-	-	-	(243 458)	-	3 317 979
Leased assets	18 340 348	-	(49 718)	136 271	(8 000 504)	-	10 426 397
	1 812 852 670	220 516 883	(464 835)	136 271	(65 478 665)	(2 445 022)	1 965 117 303

Reconciliation of property, plant and equipment - Group - 30 June 2017

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	48 380 280	637 383	-	-	(1 860 996)	-	47 156 667
Machinery and Equipment	887 086	56 221	(3 170)	-	(230 081)	-	710 056
Furniture and Office equipment	2 941 756	378 766	(50 121)	-	(741 050)	-	2 529 351
Transport assets	5 913 037	-	(638 913)	-	(1 388 855)	-	3 885 269
Computer equipment	1 419 752	547 325	(50 255)	-	(460 488)	-	1 456 334
Infrastructure: Information and Communication	916 509	204 865	(16 454)	-	(236 252)	-	868 668
Infrastructure: Roads, Pavements and Bridges	1 603 276 821	177 303 853	(712 975)	-	(58 727 561)	(3 876 195)	1 717 263 943
Community assets	3 686 178	-	-	-	(124 741)	-	3 561 437
Leased assets	7 459 658	16 642 264	(619 024)	(136 270)	(5 006 280)	-	18 340 348
	1 691 961 674	195 770 677	(2 090 912)	(136 270)	(68 776 304)	(3 876 195)	1 812 852 670

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Notes to the Consolidated Annual Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Municipality - 30 June 2018

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	23 922 493	-	-	-	(953 746)	-	22 968 747
Machinery and Equipment	646 303	-	(70 649)	-	(231 149)	-	344 505
Furniture and Office equipment	2 109 945	-	(74 056)	-	(632 186)	-	1 403 703
Transport assets	3 885 269	-	-	-	(1 070 823)	-	2 814 446
Computer equipment	1 177 635	724 545	(62 039)	-	(476 221)	-	1 363 903
Infrastructure: Information and Communication	868 668	-	(152 722)	-	(271 738)	-	444 208
Infrastructure: Roads, Pavements and Bridges	1 717 263 943	219 668 344	-	-	(52 423 475)	(2 445 022)	1 882 063 790
Community assets	3 561 438	-	-	-	(243 459)	-	3 317 979
Leased assets	18 340 348	-	(49 718)	136 271	(8 000 504)	-	10 426 397
	1 788 856 639	220 392 889	(409 184)	136 271	(64 303 301)	(2 445 022)	1 942 228 275

Reconciliation of property, plant and equipment - Municipality - 30 June 2017

	Opening balance	Additions	Disposals	Lease modification	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	24 672 531	202 583	-	-	(952 621)	-	23 922 493
Machinery and Equipment	855 780	-	(2 273)	-	(207 204)	-	646 303
Furniture and Office equipment	2 422 734	378 766	(49 277)	-	(642 278)	-	2 109 945
Transport assets	5 913 037	-	(638 913)	-	(1 388 855)	-	3 885 269
Computer equipment	1 064 649	450 690	(33 545)	-	(304 159)	-	1 177 635
Infrastructure: Information and Communication	916 509	204 865	(16 454)	-	(236 252)	-	868 668
Infrastructure: Roads, Pavements and Bridges	1 603 276 821	177 303 853	(712 975)	-	(58 727 561)	(3 876 195)	1 717 263 943
Community assets	3 686 178	-	-	-	(124 741)	-	3 561 437
Leased assets	7 459 658	16 642 264	(619 024)	(136 270)	(5 006 280)	-	18 340 348
	1 667 348 494	195 183 021	(2 072 461)	(136 270)	(67 589 951)	(3 876 195)	1 788 856 638

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
8. Property, plant and equipment (continued)				
Work In progress Without Movement				
The following projects did not have movements in the current year:				
Emacabazini	283 845	283 845	283 845	283 845
Horseshoe Sanitation - New Massification	13 699 057	13 699 057	13 699 057	13 699 057
Umzimkhulu Sewer Emergency Intervention	1 101 548	1 101 548	1 101 548	1 101 548
	-	-	-	-
The following projects did not have movements as a result of catastrophic destruction of infrastructure which was under construction. The destruction was caused by vandalism and theft.				
	-	-	-	-
Bulwer Nkelabantwana To Nkumba W.P	-	4 515 225	-	4 515 225
Paninkukhu Water Resource Development	-	1 390 347	-	1 390 347
Ebovini / Emazabekweni Comm Water Supply	622 635	766 920	622 635	766 920
Greater Khilimoni Water Project(Sdm)	-	851 231	-	851 231
Khukhulela Water_(Sdm)	-	499 333	-	499 333
	-	-	-	-
The projects did not have movements as a result of funding mechanism alignment for bulk capital infrastructure and sustainable water reticulation supply				
	-	-	-	-
Chibini Water Supply	-	5 033 760	-	5 033 760
Paninkukhu Water	-	30 688 017	-	30 688 017
Umzimkhulu Bulk Water	3 179 288	-	3 179 288	-
	-	-	-	-
The projects did not have movements during the current financial year as a result of drought which affected projects commission schedule				
	-	-	-	-
Ndwana Water Project	-	803 539	-	803 539
Mangwaneni Water Supply-MIG	-	8 500 042	-	8 500 042
Bulwer Dam	45 896 930	-	45 896 930	-
Umzimkhulu Sewer Emergency Intervention	1 318 735	-	1 318 735	-
Underberg Bulk Water	4 097 540	-	4 097 540	-
	-	-	-	-
The projects did not have movements during the current financial year as a result of defaulting in terms of quality of workmanship and time contractors prolong project duration to complete				
	-	-	-	-
Bhongweni Emergency Sewer Intervention - Trunk	-	4 789 849	-	4 789 849
Khukhulela Water (Sdm)	-	15 553 781	-	15 553 781
Mbululweni Water Supply (Sdm)	-	12 317 337	-	12 317 337
	-	-	-	-
The projects did not have movements during the current financial year as a result of Planning and implementing water and sanitation projects in phases that are interdependent resulting in a number of phases remaining under WIP for longer period				

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

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	Group		Municipality	
	2018	2017	2018	2017
8. Property, plant and equipment (continued)				
Greater Summerfield Water Project	-	7 718 486	-	7 718 486
Gaybrook	-	11 303 652	-	11 303 652
Kwanomandlovu Water Project_(Sdm)	-	34 157 494	-	34 157 494
Moyeni / Teekloof	4 546 974	4 546 974	4 546 974	4 546 974
Kwanomandlovu Water Project (Sdm)	-	34 157 494	-	34 157 494
Makhoba Housing Project	19 554 485	-	19 554 485	-
	-	91 884 100	-	91 884 100

The projects did not have movements during the current financial year as a result of downward adjustment of project allocation in a quest to control accruals.

The previous contractors absconded the works. Decisions where taken to complete projects.

Paninkukhu Water	27 692 139	-	27 692 139	-
Ngwagwane Water Supply - WSIG	1 559 456	-	1 559 456	-
Chancele Water Supply - WSIG	995 198	-	995 198	-
Ngunjini - WSIG	532 390	-	532 390	-
Gaybrook	1 373 681	-	1 373 681	-
Esdadeni water supply	1 081 868	-	1 081 868	-
Nokweja Mashumi	4 185 733	-	4 185 733	-
	37 420 465	-	37 420 465	-

The previous contractors absconded the works. Decisions where taken to complete projects.

Other information

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

Contracted Services	2 649 788	18 805 890	2 593 400	18 680 118
Materials consumed	8 275 840	6 879 650	8 275 840	6 879 650
	10 925 628	25 685 540	10 869 240	25 559 768

Reconciliation of Work-in-Progress Group - 2018

	Included within Infrastructure	Total
Opening balance	824 397 313	824 397 313
Additions/capital expenditure	219 668 344	219 668 344
Transferred to completed items	(635 437 550)	(635 437 550)
	408 628 107	408 628 107

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.

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

9. Intangible assets

Group	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4 643 222	(2 931 196)	1 712 026	4 673 732	(2 373 676)	2 300 056

Municipality	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 598 216	(2 251 185)	1 347 031	3 611 215	(1 992 454)	1 618 761

Reconciliation of intangible assets - Group - 30 June 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	2 300 056	(1 075)	(586 955)	1 712 026

Reconciliation of intangible assets - Group - 30 June 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software, other	1 366 716	498 141	921 054	(485 855)	2 300 056

Reconciliation of intangible assets - Municipality - 30 June 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	1 618 761	(1 075)	(270 655)	1 347 031

Reconciliation of intangible assets - Municipality - 30 June 2017

	Opening balance	Transfers	Amortisation	Total
Computer software, other	888 336	921 053	(190 628)	1 618 761

10. Investment in entity

Residual interest at cost

Unlisted shares	-	-	100	100
100 Ordinary shares @ R1 per share in Harry Gwala Economic Development Agency (Pty) Ltd				

Non-current assets

Residual interest at cost	-	-	100	100
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Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
11. Borrowings				
At amortised cost				
ABSA	14 816 119	18 146 241	14 816 119	18 146 241
The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually				
The loan is redeemable in twenty equal installment bi-annually in arrears on 31 June and 30 December each year until 31 June 2021.				
Non-current liabilities				
At amortised cost	8 656 680	12 353 357	8 656 680	12 353 357
Current liabilities				
At amortised cost	6 159 439	5 792 884	6 159 439	5 792 884
12. Finance lease obligation				
Minimum lease payments due				
- within one year	6 934 241	10 007 264	6 929 465	9 973 545
- in second to fifth year inclusive	9 212 678	16 149 268	9 212 678	16 142 143
Present value of minimum lease payments	16 146 919	26 156 532	16 142 143	26 115 688
Present value of minimum lease payments due				
- within one year	4 889 039	6 093 624	4 884 263	6 059 905
- in second to fifth year inclusive	8 099 954	13 861 111	8 099 954	13 853 986
	12 988 993	19 954 735	12 984 217	19 913 891
Non-current liabilities	8 099 954	13 861 111	8 099 954	13 853 986
Current liabilities	4 889 039	6 093 624	4 884 263	6 059 905
	12 988 993	19 954 735	12 984 217	19 913 891
Harry Gwala District Municipality entered into a new lease with Afrient for the rental of Thirty two (32) vehicles.				
The lease term is 4 years and the interest rate implicit in the lease varies per each vehicle. The lease payments escalate at 6% p.a and no arrangements have been entered into for contingent rent.				
Harry Gwala District Municipality may purchase the leased vehicle at any time during the lease agreement from Afrient as an early termination. The settlement value is the capital balance outstanding plus a "re-purchase fee. .				
13. Payables from exchange transactions				
Trade payables	106 653 768	80 237 374	106 336 466	79 497 689
Provision for leave pay	9 573 961	10 983 923	9 573 961	10 983 923
Retentions	38 315 757	36 614 603	38 315 757	36 614 603
Debtors unknown deposits	4 926 252	4 441 657	4 926 252	4 441 657
Other payables	1 668 132	669 287	1 178 900	241 160
Salary Intergration	7 994 839	3 467 786	7 994 839	3 467 786
	169 132 709	136 414 630	168 326 175	135 246 818
14. Consumer deposits				
Water	1 605 611	1 441 387	1 605 611	1 441 387

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
15. Unspent conditional grants and receipts				
Unspent conditional grants and receipts comprises of:				
Unspent conditional grants and receipts				
Municipal Infrastructure Grant	10 045 030	-	10 045 030	-
CoGTA - RASET	3 000 000	-	-	-
Public Transport Grant	66 587	66 587	66 587	66 587
Development Bank of SA	1 460 541	1 460 541	406 480	406 480
Municipal Water Infrastructure Grant.	49 012 312	15 261 555	49 012 312	15 261 555
Rural transport service & infrastructure grant	4 351	4 299	4 351	4 299
Development planning shared services grant	4 879 982	4 879 982	4 879 982	4 879 982
Department of Higher Education and Training grant	6 841 347	6 841 347	-	-
Rural bulk infrastructure grant	10 375	26 942 062	10 375	26 942 062
Sihleza maize production project (cogta)	242 413	242 413	242 413	242 413
Signage grant - Cogta	98 112	98 112	98 112	98 112
Government experts grant	445 014	445 014	445 014	445 014
Gijima grant	235 810	235 810	235 810	235 810
Electricity demand management grant	-	4 809 200	-	4 809 200
District growth summit Cogta	-	31 301	-	31 301
	76 341 874	61 318 223	65 446 466	53 422 815

See note 20 for reconciliation of grants from National/Provincial Government.

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
16. Provisions				
Non-current liabilities	22 216 863	20 947 488	22 216 863	20 947 488
Current liabilities	732 466	567 617	732 466	567 617
	22 949 329	21 515 105	22 949 329	21 515 105

The balance of R22 949 329 (2017 : R21 515 105) consists of post-retirement health care benefit liability of R17 727 986 (2017 : R16 962 824) and Long service awards liability of R5 221 343 (2017 : R4 552 281) as detailed below:

RETIREMENT BENEFIT LIABILITY

Post-retirement Health Care Benefit Liability

Balance at beginning of year	16 962 824	16 172 855
Contributions to Provision	814 455	836 421
Benefits paid	(49 293)	(46 452)
Balance at end of year	<u>17 727 986</u>	<u>16 962 824</u>
Less current portion	52 537	49 293
Non-current portion	<u>17 675 449</u>	<u>16 913 531</u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the post-employment Medical Aid Benefit Plan are made up as follows:

In-service Members (Employees)	207	203
Continuation Members (Retirees, widowers and orphans)	1	1
Total Members	<u>208</u>	<u>204</u>

The liability in respect of past service has been estimated as follows:

In-service Members	17 277 541	16 516 860
Continuation Members	450 446	445 965
Total Liability	<u>17 727 987</u>	<u>16 962 825</u>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

16. Provisions (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	10,13 %	10,13 %
Health Care Cost inflation Rate	8,41 %	8,41 %
Net Effective Discount Rate	1,59 %	1,59 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	16 962 825	16 172 856
Current service costs	1 483 569	1 580 289
Interest cost	1 716 732	1 532 106
Benefits paid	(49 293)	(46 452)
Actuarial losses	(2 385 846)	(2 275 974)
Present Value of Fund Obligation at the end of the year	17 727 987	16 962 825

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1 483 569	1 580 289
Interest cost	1 716 732	1 532 106
Actuarial losses	(2 385 846)	(2 275 974)
Total Post-retirement Benefit included in Employee Related cost	814 455	836 421

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- A 1% increase and decrease in the assumed rate of health care cost inflation;
- A 1% increase and decrease in the discount rate;
- A one-year age reduction in the assumed rates of post-retirement mortality;
- A one-year decrease in the assumed average retirement age; and
- A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions	-	17,728	0,450	18,178	- %
Health care inflation	1%	18,628	0,451	19,079	8 %
	-1%	15,504	0,450	15,954	-16 %
Post-retirement mortality	- 1 yr	17,759	0,466	18,225	14 %
Average retirement age	- 1 yr	19,075	0,450	19,525	7 %
Continuation of membership at retirement	-10%	14,512	0,450	14,962	-16 %

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 7% higher than that shown.

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 483 600	1 716 700	3 200 300	- %

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

16. Provisions (continued)

Health care inflation	1%	1 586 900	1 831 700	3 418 600	7 %
	-1%	1 324 300	1 556 500	2 880 800	-10 %
Post-retirement mortality	- 1 yr	1 523 900	1 766 500	3 290 400	3 %
Average retirement age	- 1 yr	1 541 000	1 891 000	3 432 000	7 %
Continuation of membership at retirement	-10%	1 240 800	1 443 600	2 684 400	-16 %

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

16. Provisions (continued)

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2019 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 469 300	1 749 000	3 218 300	- %
Health care inflation	1%	1 586 000	1 882 400	3 468 400	8 %
	-1%	1 299 700	1 573 700	2 873 400	-11 %
Post-retirement mortality	- 1 yr	1 508 000	1 798 100	3 306 100	3 %
Average retirement age	- 1 yr	1 592 900	1 926 500	3 519 400	9 %
Continuation of membership at retirement	-10%	1 228 100	1 475 700	2 703 800	-16 %

Long service awards liability		
Balance at beginning of year	4 552 281	4 364 751
Contributions to Provision	1 187 386	740 499
Benefits paid	(518 324)	(552 969)
Balance at end of year	5 221 343	4 552 281
Less current portion	679 929	552 969
Non-current portion	4 541 414	3 999 312

The municipality operate an unfunded defined benefit plan for all itsemployees. Under the plan a Long-service Award is payable after 10 years thereafter to employees. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	8,58 %	8,45 %
Salary Cost inflation Rate	6,20 %	6,28 %
Net Effective Discount Rate	2,24 %	2,05 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	4 552 281	4 364 751
Current service costs	504 919	539 556
Interest cost	363 373	350 987
Benefits paid	(518 324)	(552 969)
Actuarial losses	319 094	(150 044)
Present Value of Fund Obligation at the end of the year	5 221 343	4 552 281

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	504 919	539 556
Interest cost	363 373	350 987
Actuarial losses	319 094	(150 044)
Total Post-retirement Benefit included in Employee Related cost	1 187 386	740 499

SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- The general salary inflation rate assumption;
- The discount rate assumption;
- The average retirement age of employees; and
- Assumed rates of withdrawal of employees from service.

Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

		Group		Municipality	
		2018	2017	2018	2017

16. Provisions (continued)

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

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Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

16. Provisions (continued)

The following table summarises the results of the sensitivity analysis.
Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	% change
Central Assumptions	-	5,221	- %
General salary inflation	1%	5,545	6 %
	-1%	4,925	-6 %
Average retirement age	+2 yr	5,645	8 %
	- 2 yr	4,634	-11 %
Withdrawal rate	-50%	6,553	26 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	504 900	363 400	868 300	- %
General salary inflation	1%	544 400	387 800	932 200	7 %
	-1%	469 200	341 100	810 300	-13 %
Average retirement age	+2 yr	544 300	393 600	937 900	16 %
	- 2 yr	455 300	323 000	778 300	-17 %
Withdrawal rate	-50%	693 300	466 800	1 160 100	49 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2019 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	552 000	419 400	971 400	- %
General salary inflation	1%	594 200	447 200	1 041 400	7 %
	-1%	513 700	394 000	907 700	-13 %
Average retirement age	+2 yr	596 800	455 800	1 052 600	16 %
	-2yr	498 300	373 100	871 400	-17 %
Withdrawal rate	-50%	749 800	533 700	1 283 500	47 %

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	Group		Municipality	
	2018	2017	2018	2017
17. Service charges				
Sale of water	38 411 217	27 668 670	38 411 217	27 668 670
Sewerage and sanitation charges	15 551 104	9 498 908	15 551 104	9 498 908
	53 962 321	37 167 578	53 962 321	37 167 578
18. Operational revenue				
Clearance certificate	2 494	1 829	2 494	1 829
Sundry Income	-	154 149	-	154 149
Insurance refunds	143 594	326 454	109 794	326 454
Tender documents	587 390	421 703	575 650	381 300
Salary deductions	-	364 498	-	364 498
Management fees	22 293	-	22 293	-
	755 771	1 268 633	710 231	1 228 230
19. Interest income				
Interest revenue				
Interest on outstanding debtors	11 363 063	12 349 010	11 363 063	12 349 010
Interest received - Investments	9 699 760	6 067 248	8 968 803	5 281 409
	21 062 823	18 416 258	20 331 866	17 630 419

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
20. Government grants and subsidies				
Operating grants				
Equitable share	289 837 817	260 069 000	289 837 817	260 069 000
Expanded Public Works Programme	1 718 000	3 364 000	1 718 000	3 364 000
District Growth Summit COGTA	331 301	-	331 301	-
Accredited Councillors Training	-	62 803	-	62 803
Municipal Systems Improvement Grant	-	10 269	-	10 269
Financial Management Grant	1 250 000	1 252 365	1 250 000	1 252 365
Local Govt. Sector Education Training Authority	230 587	343 177	230 587	343 177
PMU MIG grant	68 902 874	12 911 693	68 902 874	12 911 693
Rural Transportation Service Infrastructure Grant	2 220 948	2 090 701	2 220 948	2 090 701
Neighbourhood development grant	-	235	-	235
Massification-Cogta	-	36 307	-	36 307
Energy Efficient and Demand Management Grant	8 000 000	4 051 860	8 000 000	4 051 860
Drought Relief	-	974 080	-	974 080
Municipal Water Infrastructure Grant	-	11 412 517	-	11 412 517
Department of Higher Education and Training	-	5 138	-	-
	372 491 527	296 584 145	372 491 527	296 579 007
Capital grants				
Rural Bulk Infrastructure grant	89 989 626	21 057 938	89 989 626	21 057 938
Municipal Infrastructure grant	125 597 095	178 155 307	125 597 095	178 155 307
Municipal Water Infrastructure Grant	48 987 697	59 443 928	48 987 697	59 443 928
Drought Relief	-	9 025 920	-	9 025 920
	264 574 418	267 683 093	264 574 418	267 683 093
	637 065 945	564 267 238	637 065 945	564 262 100
Equitable Share				
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.				
Municipal Infrastructure Grant				
Current-year receipts	204 545 000	191 067 000	204 545 000	191 067 000
Conditions met - transferred to revenue	(194 499 970)	(191 067 000)	(194 499 970)	(191 067 000)
	10 045 030	-	10 045 030	-
Conditions still to be met - remain liabilities (see note 15).				
Drought Relief Grant				
Current-year receipts	-	10 000 000	-	10 000 000
Conditions met - transferred to revenue	-	(10 000 000)	-	(10 000 000)
	-	-	-	-
Municipal Systems Improvement Grant				
Conditions met - transferred to revenue	-	(10 269)	-	(10 269)
Conditions met - transferred to revenue	-	10 269	-	10 269
	-	-	-	-
Public Transport Grant				

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
20. Government grants and subsidies (continued)				
Balance unspent at beginning of year	66 587	66 587	66 587	66 587
Conditions still to be met - remain liabilities (see note 15).				
Development Bank of SA				
Balance unspent at beginning of year	1 460 541	1 460 541	406 480	406 480
Conditions still to be met - remain liabilities (see note 15).				
Financial Management Grant				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 252 365)	(1 250 000)	(1 252 365)
Adjustment	-	2 365	-	2 365
	-	-	-	-
Municipal Water Infrastructure Grant - DWA				
Balance unspent at beginning of year	15 261 555	-	15 261 555	-
Current-year receipts	98 000 000	86 118 000	98 000 000	86 118 000
Conditions met - transferred to revenue	(48 987 688)	(70 856 445)	(48 987 688)	(70 856 445)
Balance not rolled over to current year	(15 261 555)	-	(15 261 555)	-
	49 012 312	15 261 555	49 012 312	15 261 555
Accredited Councillors Training				
Balance unspent at beginning of year	-	62 803	-	62 803
Conditions met - transferred to revenue	-	(62 803)	-	(62 803)
	-	-	-	-
Rural Transport Service & Infrastructure Grant				
Balance unspent at beginning of year	4 299	-	4 299	-
Current-year receipts	2 221 000	2 095 000	2 221 000	2 095 000
Conditions met - transferred to revenue	(2 220 948)	(2 090 701)	(2 220 948)	(2 090 701)
	4 351	4 299	4 351	4 299
Conditions still to be met - remain liabilities (see note 15).				
Development Planning Shared Services				
Balance unspent at beginning of year	4 879 982	4 879 982	4 879 982	4 879 982
Conditions still to be met - remain liabilities (see note 15).				
Local Government Sector Education Training Authority				
Balance unspent at beginning of year	-	172 099	-	172 099
Current-year receipts	230 587	171 078	230 587	171 078
Conditions met - transferred to revenue	(230 587)	(343 177)	(230 587)	(343 177)
	-	-	-	-

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

20. Government grants and subsidies (continued)

Department of Higher Education and Training grant

Balance unspent at beginning of year	6 841 347	6 846 484	-	-
Conditions met - transferred to revenue	-	(5 137)	-	-
	6 841 347	6 841 347	-	-

Conditions still to be met - remain liabilities (see note 15).

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	26 942 062	-	26 942 062	-
Current-year receipts	90 000 000	48 000 000	90 000 000	48 000 000
Conditions met - transferred to revenue	(89 989 625)	(21 057 938)	(89 989 625)	(21 057 938)
Balance not rolled over current year	(26 942 062)	-	(26 942 062)	-
	10 375	26 942 062	10 375	26 942 062

Conditions still to be met - remain liabilities (see note 15).

SIHLEZA Maize Production Project (COGTA)

Balance unspent at beginning of year	242 413	242 413	242 413	242 413
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Conditions still to be met - remain liabilities (see note 15).

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
20. Government grants and subsidies (continued)				
Expanded Public Works Programme				
Current-year receipts	1 718 000	3 364 000	1 718 000	3 364 000
Conditions met - transferred to revenue	(1 718 000)	(3 364 000)	(1 718 000)	(3 364 000)
	-	-	-	-
Signage Grant -CoGTA				
Balance unspent at beginning of year	98 112	98 112	98 112	98 112
Conditions still to be met - remain liabilities (see note 15).				
Government Experts				
Balance unspent at beginning of year	445 014	445 014	445 014	445 014
Conditions still to be met - remain liabilities (see note 15).				
Gijima Grant				
Balance unspent at beginning of year	235 810	235 810	235 810	235 810
Conditions still to be met - remain liabilities (see note 15).				
Massification (COGTA)				
Balance unspent at beginning of year	-	36 307	-	36 307
Conditions met - transferred to revenue	-	(36 307)	-	(36 307)
	-	-	-	-
CoGTA - RASET				
Current-year receipts	3 000 000	-	-	-
Conditions still to be met - remain liabilities (see note 15).				
The grant will be spent in line with the signed business plan and the signed agreement funding of Harry Gwala District Municipality for the implementation of RASET programme.				
The grant was not spent as it was received in June 2018.				
Energy Efficiency Demand Side Management Grant				
Balance unspent at beginning of year	4 809 200	-	4 809 200	-
Current-year receipts	8 000 000	8 000 000	8 000 000	8 000 000
Conditions met - transferred to revenue	(8 000 000)	(4 051 860)	(8 000 000)	(4 051 860)
Adjustment	-	861 060	-	861 060
Balance not rolled over to current year	(4 809 200)	-	(4 809 200)	-
	-	4 809 200	-	4 809 200

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
20. Government grants and subsidies (continued)				
District Growth Summit CoGTA				
Balance unspent at beginning of year	31 301	31 301	31 301	31 301
Current-year receipts	300 000	-	300 000	-
Conditions met - transferred to revenue	(331 301)	-	(331 301)	-
	-	31 301	-	31 301
21. Revenue				
Service charges	53 962 321	37 167 578	53 962 321	37 167 578
Operational revenue	755 771	1 268 633	710 231	1 228 230
Interest income	21 062 823	18 416 258	20 331 866	17 630 419
Government grants & subsidies	637 065 945	564 267 238	637 065 945	564 262 100
	712 846 860	621 119 707	712 070 363	620 288 327
The amount included in revenue arising from exchanges of goods or services are as follows:				
Service charges	53 962 321	37 167 578	53 962 321	37 167 578
Operational revenue	755 771	1 268 633	710 231	1 228 230
Interest income	21 062 823	18 416 258	20 331 866	17 630 419
	75 780 915	56 852 469	75 004 418	56 026 227
The amount included in revenue arising from non-exchange transactions is as follows:				
Taxation revenue				
Transfer revenue				
Government grants & subsidies	637 065 945	564 267 238	637 065 945	564 262 100
22. Bulk purchases				
Water	14 319 940	12 582 053	14 319 940	12 582 053
23. Operating leases				
Printing machines and car rental	100 657	109 046	-	-
Minimum lease payment due				
Within one year	26 111	63 384	-	-
In second to third year inclusive	74 546	45 662	-	-
	100 657	109 046	-	-

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
24. Contracted services				
<u>Consultants and Professional services</u>				
Business and Advisory	3 026 657	4 440 903	3 026 657	4 440 903
Legal costs	10 537 580	1 279 840	10 514 601	1 202 506
	-	-	-	-
<u>Contractors</u>				
Audio - Visual services	87 195	116 349	87 195	116 349
Bore Waterhole drilling	-	854 456	-	854 456
Catering services	94 243	734 793	94 243	734 793
Electrical	6 988 268	7 772 860	6 988 268	7 772 860
Employee wellness	440 004	626 338	282 004	626 338
Event promoters	1 298 494	877 193	1 298 494	877 193
First Aid	-	142 244	-	142 244
Gardening service	25 000	117 400	25 000	117 400
Maintenance of buildings and facilities	1 768 478	1 380 944	1 727 033	1 256 181
Maintenance of unspecified assets	2 851 174	16 365 603	2 844 214	16 364 594
Rural roads site supervision and consulting	1 947 762	2 185 558	1 947 762	2 185 558
Sewerage services	55 992 584	27 533 334	55 992 584	27 533 334
Stage and sound crew	95 010	373 173	95 010	373 173
	-	-	-	-
<u>Outsourced services</u>				
Administrative and Support staff	18 428 582	3 844 144	18 428 582	3 844 144
Business and Advisory	14 700 526	9 020 069	13 850 391	8 788 288
Burial services	2 000	-	2 000	-
Catering services	3 744 450	2 814 002	3 744 450	2 814 002
Cleaning and Grass cutting services	-	49 350	-	49 350
Hygiene services	87 825	350 578	87 825	350 578
Meter management	5 408 519	355 200	5 408 519	355 200
Security services	24 454 402	16 566 781	24 111 678	16 566 781
Water tankers	1 392 787	14 836 743	1 392 787	14 836 743
	153 371 540	112 637 855	151 949 297	112 202 968
25. Contribution to bad debt provision				
Contribution to bad debt provision	24 717 388	34 877 132	24 717 388	34 877 132
26. Depreciation and amortisation				
Property, plant and equipment	65 478 666	58 393 883	64 303 320	57 207 530
Intangible assets	586 955	485 855	270 655	190 629
	66 065 621	58 879 738	64 573 975	57 398 159

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
27. Employee related costs				
Basic	101 046 688	99 236 410	95 887 992	93 876 372
Social contributions - medical aid	7 979 521	6 016 887	7 559 284	5 909 959
UIF	652 941	673 257	601 124	614 466
Other payroll levies	1 593 742	1 749 777	-	-
Leave pay provision charge	1 592 661	2 058 638	1 531 556	1 899 681
Health care retirement benefit	765 162	789 969	765 162	789 969
Social contributions - pension fund	9 993 163	10 810 820	9 993 163	10 810 820
Social contribution - SALGBC	31 566	31 205	31 566	31 205
Travel, motor car, accommodation, subsistence and other allowances	14 860 622	14 295 193	14 860 622	14 272 370
Overtime payments	17 029 206	15 055 738	17 029 206	15 055 738
Long-service awards	1 184 492	187 530	1 184 492	187 530
Housing benefits and allowances	782 647	1 361 020	782 647	1 361 020
Provident fund	1 344 271	-	-	-
	158 856 682	152 266 444	150 226 814	144 809 130

Remuneration of municipal manager

Annual Remuneration	981 704	961 598	981 704	961 598
Travel and other allowances	282 099	402 296	282 099	402 296
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions -Medical Aid	46 339	43 417	46 339	43 417
Contributions- SALGBC	97	90	97	90
Skills	12 932	13 718	12 932	13 718
	1 342 650	1 440 598	1 342 650	1 440 598

Remuneration of chief finance officer

Annual Remuneration	860 660	882 350	860 660	882 350
Bonus	67 487	77 532	67 487	77 532
Travel and other allowances	242 106	327 420	242 106	327 420
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	36 969	34 556	36 969	34 556
Contributions - SALGBC	98	11 961	98	90
Skills	11 961	13 081	11 961	13 081
	1 238 760	1 366 379	1 238 760	1 354 508

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017

27. Employee related costs (continued)

Remuneration of Corporate Services Manager

Annual Remuneration	722 768	839 334	722 768	839 334
Bonus	64 116	73 386	64 116	73 386
Travel and other allowances	226 166	271 077	226 166	271 077
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	22 206	32 432	22 206	32 432
Contributions - SALGBC	98	90	98	90
Skills	10 294	11 977	10 294	11 977
	1 065 127	1 247 775	1 065 127	1 247 775

Remuneration of Water Services Manager

Annual Remuneration	369 385	812 087	369 385	812 087
Travel and other allowances	138 681	419 098	138 681	419 098
Cellphone Allowances	8 847	17 692	8 847	17 692
Contributions - UIF	893	1 785	893	1 785
Contributions - Medical Aid	6 884	11 965	6 884	11 965
Contributions - SALGBC	48	90	48	90
	524 738	1 262 717	524 738	1 262 717

Remuneration of Engineering Manager - Infrastructure

Annual Remuneration	1 266 849	1 024 449	1 266 849	1 024 449
Bonus	92 485	80 538	92 485	80 538
Travel and other allowances	164 209	127 200	164 209	127 200
Cellphone Allowances	4 423	17 692	4 423	17 692
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - SALGBC	98	90	98	90
Contributions - Medical Aid	15 000	12 244	15 000	12 244
	1 544 849	1 263 998	1 544 849	1 263 998

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
27. Employee related costs (continued)				
Remuneration of Chief Executive Office - Harry Gwala Economic Development Agency				
Annual Remuneration	1 267 184	1 172 087	-	-
Travel Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	297 933	17 269	-	-
13th Cheque	115 599	107 674	-	-
	1 800 716	1 417 030	-	-
Remuneration of Chief Financial Officer - Harry Gwala Economic Development Agency				
Annual Remuneration	905 261	834 975	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	210 604	14 094	-	-
13th Cheque	85 438	79 581	-	-
	1 321 303	1 048 650	-	-
Remuneration of Board Members - Attendance fees at meetings				
IB Mkhize	162 828	150 701	-	-
VIV Made	32 174	44 823	-	-
PZ Duma	25 920	36 177	-	-
	220 922	231 701	-	-
Remuneration of Board Members - Travelling re-imbursements				
IB Mkhize	31 923	36 756	-	-
VIV Made	14 248	26 685	-	-
PZ Duma	12 413	25 963	-	-
	58 584	89 404	-	-
Remuneration of Community Services Manager				
Annual Remuneration	710 341	754 011	710 341	754 011
Bonus	181 533	243 305	181 533	243 305
Cellphone Allowances	17 404	16 536	17 404	16 536
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	8 824	9 833	8 824	9 833
Contributions - SALGBC	97	61	97	61
	919 984	1 025 531	919 984	1 025 531
28. Finance costs				
External borrowings	4 496 798	4 312 810	4 496 798	4 312 810
Bank	2 449	7 297	-	-
	4 499 247	4 320 107	4 496 798	4 312 810

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
29. Operational costs				
Advertising	2 306 721	1 788 633	2 288 378	1 672 412
Agricultural expenses	596 800	-	-	-
Bank Charges, Facility and Card Fees	198 077	143 163	176 960	123 407
Bursaries (Employees)	314 846	217 376	314 846	217 376
Cleaning Campaign	-	75 700	-	75 700
Cleaning materials	-	27 569	-	-
Communication	4 322 573	4 454 540	4 022 499	4 017 745
Entertainment	1 358	88 602	-	77 793
Eskom Internal consumption	10 790 221	10 145 887	10 790 221	10 145 887
External Audit Fees	3 115 382	2 665 365	2 605 814	2 254 853
External Computer Service	3 186 085	2 505 935	3 094 404	2 333 826
Financial assistance and school campaign	167 500	168 449	167 500	36 325
Hire Charges	3 890 676	772 048	3 877 702	575 046
Implementation of Bds and Gds	-	764 268	-	764 268
Insurance Underwriting	1 395 145	900 959	1 273 649	790 833
LED expenses - SDA	283 441	845 777	-	-
Tourism expenses	1 697 772	1 596 233	-	-
Motor Vehicle Licence and Registrations	207 227	186 146	207 227	186 146
National- Events-registration	34 858	-	34 858	-
Other expenses	34 302	44 564	-	2 330
Planned projects as per priority	-	1 189 095	-	1 189 095
Printing, Publications and Books	1 172 390	538 499	1 039 201	538 499
Professional Bodies, Membership and Subscription	75 419	47 801	66 908	31 239
Rental Offices	1 313 986	1 343 147	1 313 986	1 343 147
Signage	99 667	181 310	99 667	181 310
Skills Development Fund Levy	1 336 142	1 271 748	1 266 350	1 195 814
Training	61 008	190 967	-	-
Transport Provided as Part of Departmental Activities	755 781	357 745	755 781	357 745
Travel and Subsistence	1 037 978	7 800 832	753 244	7 290 998
Uniform and Protective Clothing	793 997	1 230 818	793 997	1 220 313
Vehicle Expenses	5 166 062	2 295 292	5 166 062	2 295 292
Water Use Licensing	-	469 796	-	469 796
Wet Fuel	6 460 893	5 156 821	6 451 749	5 135 202
	50 816 307	49 465 085	46 561 003	44 522 397
30. Impairment of assets				
Impairments				
Property, plant and equipment	2 445 022	3 876 195	2 445 022	3 876 195
31. Inventory Consumed				
Consumables:Standard Rated	394 877	1 178 145	394 877	1 113 777
Consumables:Zero Rated	4 256 426	3 914 691	4 256 426	3 914 691
Materials & Supplies	18 733 748	17 446 557	18 733 748	17 446 557
	23 385 051	22 539 393	23 385 051	22 475 025

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
32. Remuneration of councillors				
Salaries	4 322 108	4 243 615	4 322 108	4 243 615
Cellphone allowance	462 756	224 516	462 756	224 516
Meeting allowance	283 088	213 960	283 088	213 960
Travelling allowance	895 609	769 903	895 609	769 903
	5 963 561	5 451 994	5 963 561	5 451 994
33. Cash generated from operations				
Surplus	203 709 639	163 079 332	211 170 467	159 751 353
Adjustments for:				
Depreciation and amortisation	66 065 621	58 879 738	64 573 975	57 398 159
Loss on disposal of assets	465 911	59 434	410 258	40 983
Impairment deficit	2 445 022	3 876 195	2 445 022	3 876 195
Contribution to bad debt provision	24 717 388	34 877 132	24 717 388	34 877 132
Movements in provisions	1 434 224	977 499	1 434 224	977 499
Leave pay provision	(1 348 857)	1 550 504	(1 409 962)	1 410 949
Changes in working capital:				
Inventories	9 260	11 819	9 260	11 819
Trade and other receivable from exchange transactions	(23 910 026)	(30 715 838)	(23 910 026)	(30 715 838)
Other receivables from non-exchange transactions	(1 172 948)	(1 607 528)	(1 166 149)	(1 614 636)
Payables from exchange transactions	33 930 664	(72 769 714)	34 353 046	(72 858 276)
VAT	(21 408 373)	2 360 333	(21 473 213)	1 214 971
Payable from non exchange transactions	-	(873 929)	-	(873 929)
Unspent conditional grants and receipts	15 023 651	46 740 769	12 023 651	46 745 907
Consumer deposits	164 224	95 409	164 224	95 409
	300 125 400	206 541 155	303 342 165	200 337 697
34. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
• Infrastructure	420 485 532	194 685 663	420 485 532	194 685 663
Total capital commitments				
Already contracted for but not provided for	420 485 532	195 468 283	420 485 532	194 685 663
Intangible assets	19 267	782 620	-	-
	420 504 799	196 250 903	420 485 532	194 685 663
Authorised operational expenditure				
Total operational commitments				
Approved and contracted for	19 267	782 620	-	-

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

	Group		Municipality	
	2018	2017	2018	2017
35. Contingencies				
Mondli Lukhozi	-	30 000	-	30 000
Bhungane Built Environment	3 103 364	2 750 000	3 103 364	2 750 000
Matatiele Local Municipality	2 941 249	2 941 249	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	1 604 000	1 400 000	1 604 000	1 400 000
Sektor Consulting and engineers	480 000	572 567	480 000	572 567
Sifiso Gregory Mkize	21 295	-	21 295	-
Unitrade 1047 CC T/A Isidingo Security Services	26 000 000	-	26 000 000	-
Mahlaselondwe Trading	-	4 200 000	-	4 200 000
Shemuntu Trading CC	-	47 850	-	47 850
National Treasury jobs Fund Project	-	5 821 160	-	5 821 160
Subtotal	34 149 908	17 762 826	34 149 908	17 762 826
	34 149 908	17 762 826	34 149 908	17 762 826

- Bhungane Built Environment

Action for professional services rendered was instituted against the Municipality. Municipality instituted a counter-claim for plaintiff to deliver supporting documents. Pleadings have closed and we await receipt of case flow management directives.

- Sifiso Gregory Mkize

The claim has been instituted against the Municipality. The matter is being defended.

- Matatiele Local Municipality

This is a claim for rates for Matatiele Local Municipality.

- Mdlebeni Trading (Pty) Ltd

Action for damages arising from breach of contract was instituted against the Municipality. Pleadings have closed and we are in the process of exchanging pre-trial notices.

- Sektor Consulting and engineers

This is a claim for payment for services rendered. The matter has been defended.

- Shemuntu Trading CC.

Action has been instituted against the Municipality. The matter is being defended

- Mahlaselondwe Trading

Action instituted against the Municipality for professional services rendered. Matter currently pending as we await a condonation application to be filed for the late delivery of the Plaintiff's Replying Affidavit in the application to condone its failure to comply with section 3(2)(a) of Act 40 of 2002. Action has been instituted against the Municipality. The matter is being defended.

- National Treasury Jobs Fund Project

This relates to a claim by National Treasury for Harry Gwala District Municipality to repay the amount transferred to the Municipality during the 2013/14 and 2014/15 financial years if the municipality fails to provide the project close out reports and the proof of expenditure.

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

		Group		Municipality	
		2018	2017	2018	2017

35. Contingencies (continued)

- Unitrade 1047 CC T/A Isidingo Security Services

This was an application to interdict the Municipality from appointing another security service provider, pending the outcome of a review. The application for the interdict has been successfully resisted by the municipality and we are presently opposing the review through our lawyers.

36. Related parties

Controlled entity

Harry Gwala Economic Development Agency (Pty) Ltd

Controlling entity

Harry Gwala District Municipality

Controlled Entities

The Harry Gwala District Municipality controls the following reporting entity:

Harry Gwala Economic Development Agency:

Harry Gwala District Municipality has 100% shareholding in Harry Gwala Economic Development Agency. Harry Gwala Economic Development Agency is a registered (PTY) Ltd company in terms of the Company Act 71 of 2008.

Related Party Transactions

During the reporting period Harry Gwala District Municipality has transferred R8 000 000 to Harry Gwala Economic Development Agency.

In the previous financial 2016/2017 Harry Gwala District Municipality transferred R17 333 333 to Harry Gwala Economic Development Agency

Key Management Personnel

The key management personnel of Harry Gwala Economic Development Agency are:

The Chief Executive Officer Dr M A Mdletye

The Chief Financial Officer Mrs N R Shabalala

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

37. Risk management

Financial risk management

Liquidity risk

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity 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.

Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, without taking account of the value of any collateral obtained.

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

Financial instrument	Group - 2018	Group - 2017	Municipality - 2018	Municipality - 2017
Cash and cash equivalents	112 335 670	43 023 019	96 962 031	24 272 551
Trade and other receivables	27 748 076	33 846 927	27 748 076	33 253 075

Market risk

Interest rate risk

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

38. Unauthorised expenditure

Unauthorised expenditure	317 068 252	266 299 084	316 916 181	266 147 013
Add current year expenditure	148 438 669	50 769 168	149 489 444	50 769 168
Approved by council	(266 147 013)	-	(266 147 013)	-
	199 359 908	317 068 252	200 258 612	316 916 181

39. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	3 681 367	704 903	3 448 469	514 239
Add current year expenditure	714 565	2 976 464	518 916	2 934 230
	4 395 932	3 681 367	3 967 385	3 448 469

40. Irregular expenditure

Opening balance	370 036 216	268 283 695	344 021 428	242 268 907
Add: Irregular Expenditure - current year	73 932 372	101 752 521	73 932 372	101 752 521
Less: Amounts condoned	(242 268 907)	-	(242 268 907)	-
	201 699 681	370 036 216	175 684 893	344 021 428

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 289 477	32 000	3 289 477	32 000
Amount paid - current year	(3 289 477)	(32 000)	(3 289 477)	(32 000)
	-	-	-	-

Material losses Incurred

Water losses	8 849 359	11 912 025	8 849 359	11 912 025
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The water losses of 37,6% (2016-17 :40.4 %) is calculated on the total consumption of 3 808 480kl (2017 : 5 459 092kl) purchased at an average price of R6.20 (2016-17 : R5.40) per kl. Total water stock losses amounts to 1 427 316kl (2016-17 : 2 205 931 kl)

Audit fees

Current year subscription / fee	3 115 382	2 665 365	2 605 814	2 254 853
Amount paid - current year	(3 115 382)	(2 665 365)	(2 605 814)	(2 254 853)
	-	-	-	-

PAYE and UIF

Opening balance	1 893 947	1 647 481	1 893 947	1 647 481
Current year subscription / fee	36 617 091	24 854 279	34 971 532	23 045 711
Amount paid - current year	(34 266 352)	(22 960 332)	(32 620 793)	(21 151 764)
Amount paid - previous years	(1 893 947)	(1 647 481)	(1 893 947)	(1 647 481)
	2 350 739	1 893 947	2 350 739	1 893 947

Pension and Medical Aid Deductions

Opening balance	-	1 725 244	-	1 725 244
Current year subscription / fee	19 316 955	16 827 707	17 552 447	16 720 779
Amount paid - current year	(19 316 955)	(16 827 707)	(17 552 447)	(16 720 779)
Amount paid - previous years	-	(1 725 244)	-	(1 725 244)
	-	-	-	-

VAT

VAT receivable	39 733 404	18 325 031	38 762 328	17 289 115
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VAT output payables and VAT input receivables are shown in note .

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the District Municipal Council.

Section 36 deviations transferred to Irregular Expenditure.

During the 2017/18 there were deviations on the SCM Procedures when acquiring goods and services from suppliers.

Incident

Wise Security	-	5 294 323	-	5 294 323
Judy Mangwaza Trading Enterprise	912 000	1 000 000	912 000	1 000 000
Afrostructure (Pty) Ltd	16 309 548	-	16 309 548	-
Total HGDA supply chain management deviations	-	335 867	-	-
Lithotech Sales-KZN (Pty) Ltd	184 589	-	184 589	-
	17 406 137	6 630 190	17 406 137	6 294 323

42. FINANCIAL SUSTAINABILITY

The following indicators highlight that the municipality is facing financial sustainability concerns and a material uncertainty exists that may cast doubt on the municipality's ability to meet its short term financial obligations. The following indicators highlight that the municipality is facing financial sustainability concerns and a material uncertainty exists that may cast doubt on the municipality's ability to meet its short term financial obligations.

- The net current liability position has increased from R122,12 million to R78,27 million. Though the ratio improved, the short term liabilities are still more than the current assets
- The cash balance at year end improved from R43,02 million to R112,34 million. The balance improved however the short term liabilities are still more than the cash and cash equivalence
- The debt impairment of R159,67 million (2016-17: R154,54 million) is significant and indicates challenges surrounding the recoverability of trade receivables.

Reasons for the movements

- The increase in current liabilities is attributed to the overspending on the capital budget in relation to municipal infrastructure grant and over expenditure on operational budget.
- The huge debt impairment is due to the water consumers not paying for the services and the fact that the infrastructure in use to measure water provision does not allow for restriction in the event a debtor does not pay for services. The incentives that the municipality implemented did not achieve the set results.

Action Plan to improve the indicators

- Management has prepared cash projection for capital budget in respect of municipal infrastructure grant such that the funds are spread through the financial year to avoid incurring of accruals relating to grant funding.
- Management is implementing the cost containment measures that were introduced by National Treasury. The municipality is planning to engage in an incentive program to improve the payment of outstanding amounts by consumers.
- The municipality is in a process of replacing the credit water meters with smart meters which are versatile in that they are capable of being restricted; in particular, for households and business or used as credit water meters for government institutions. This approach will enhance revenue management strategy which is in place by improving debt collection and reduce the huge debt book.

Harry Gwala District Municipality and its Controlled Entity

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Notes to the Consolidated Annual Financial Statements

43. Prior - year adjustments

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

2017

Harry Gwala District Municipality

	Note	As previously reported	Correction of error	Reclassification on	Restated
<u>Statement of financial position</u>					
Current assets					
Interest		34 395 926	(2 324 590)	(32 071 336)	-
Water	6	89 537 584	(3 539 195)	21 120 176	107 118 565
Sewerage	6	41 061 522	-	8 987 345	-
Service charges	6	-	-	1 963 815	1 963 815
Vat	5	17 065 901	223 214	-	17 289 115
Non Current assets					
Computer equipment	8	-	253 520	924 222	1 177 742
Computer software-Intangible	9	1 348 836	269 051	874	1 618 761
Furniture and Office equipment	8	-	768 091	1 341 853	2 109 944
Furniture and fixtures		989 846	-	(989 846)	-
Motor Vehicles		3 720 552	-	(3 720 552)	-
Transport assets	8	-	164 718	3 720 552	3 885 270
Infrastructure: Information and Communication	8	-	12 224	856 444	868 668
Infrastructure: Roads, Pavements and Bridges	8	1 733 353 731	(16 089 788)	-	1 717 263 943
Leased Assets	8	17 520 493	819 855	-	18 340 348
Machinery and Equipment	8	-	108 018	538 285	646 303
Other assets		2 192 188	-	(2 192 188)	-
Plant and machinery		479 644	-	(479 644)	-
Current Liabilities					
Accounts payable	13	(77 680 088)	(1 817 602)	-	(79 497 690)
Trade Payables from non Exchange		(235)	235	-	-
Unspent conditional grants and receipts	15	(53 521 925)	99 110	-	(53 422 815)
		-	-	-	-
Accumulated Surplus		(1 630 973 307)	21 053 257	-	(1 609 920 050)
		179 490 668	-	-	179 490 668

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

43. Prior - year adjustments (continued)

<u>Statement of Financial Performance</u>	Note	As previously reported	Correction of error	Reclassificati on	Restated
Revenue from exchange transactions					
Interest on outstanding debtors		(16 394 536)	4 045 526	12 349 010	-
Interest Received- Investments		(5 281 409)	-	5 281 409	-
Service Charges	18	(39 650 969)	3 539 195	(1 055 804)	(37 167 578)
Other Income		(2 130 035)	(154 225)	2 284 260	-
Operational revenue	19	-	-	(1 228 456)	(1 228 456)
Interest Income	20	-	-	(17 630 419)	(17 630 419)
Government Grants and Subsidies	21	(296 479 897)	(99 110)	-	(296 579 007)
		-	-	-	-
Expenditure					
Community participation		3 103 300	-	(3 103 300)	-
Contracted services	24	54 663 860	-	57 539 108	112 202 968
Employee related costs	27	136 169 805	-	8 639 325	144 809 130
Finance costs		4 312 671	-	(4 312 671)	-
Interest Expense	28	-	-	4 312 809	4 312 809
Depreciation	26	48 479 184	8 918 975	-	57 398 159
General expenditure		72 699 526	(1 593 381)	(71 106 145)	-
Operational Costs	29	-	-	44 522 397	44 522 397
Bulk purchases	22	8 334 938	4 247 115	-	12 582 053
Transfer and Subsidies		17 333 333	-	654 795	17 988 128
Operating grant expenditure		35 120 920	-	(35 120 920)	-
Repairs and Maintenance		25 559 768	(1 059 345)	(24 500 423)	-
Inventory Consumed	31	-	-	22 475 025	22 475 025
		-	-	-	-
Surplus for the year		177 596 094	(17 844 750)	-	159 751 344
Harry Gwala Development Agency					
Contracted services		-	-	203 106	203 106
Repairs and maintenance		125 722	-	(125 722)	-
General expenses		2 491 622	-	224 132	2 715 754
Operating leases		(109 046)	-	109 046	-
Consulting and professional fees		(77 334)	-	77 334	-
Auditors' fees		410 512	-	(410 512)	-
Consulting and professional fees		77 334	-	(77 384)	-
		226 355 363	-	-	226 355 413

Details

Reclassifications Explanations.

The purpose of these reclassifications was to align the comparative figures to the current year which was prepared for compliance with the mSCOA Regulation.

Prior Year Errors Explanations

(1) Correction of interest income of R 4 045 526 was done on the correct rate. This will lead to the net effect on trade receivables interest showing the movement of R 2 324 590.

(2) Service charges of R 3 539 195 is for the write offs of debtors and revenue as it was incorrectly billed.

Harry Gwala District Municipality and its Controlled Entity

Consolidated Annual Financial Statements for the year ended 30 June 2018

Notes to the Consolidated Annual Financial Statements

43. Prior - year adjustments (continued)

(3) Correction Depreciation of R8 918 975 relates to prior year, which gives us an effect on infrastructure by R16 089 788 of which R144 284,70 is work in progress which was written off, R253 520 for computer equipment, R269 051 computer software, R768 091 Furniture and Equipment, R164 718 Transport assets, R12 224 Infrastructure Information and Communication, R819 855 Leases and R108 018 Machinery and Equipment.

(4) Afirent lease was incorrectly recognised as an expense of R1 593 381 which gives the effect on vat by R223 073,37and trade payables by R1 816 454,60.

(5) Bulk water expenditure of R4 247 115 was not recorded prior year leading to an increase in vat by R 594 596,08, and payables by R4 841 710,96.

(6) Shukuma invoice for maintenance of Kokstad scheme for R1 059 345 was duplicated leading to a decrease of Vat by R1 483 08,30 and payables by R1 207 653,30.

(7) Other Income of R154 225 is made up off R153 990 infrastructure and R235 trade payables from non exchange being written off.

(8) Accredited Councillors Training of R62 803 and Massification-Cogta of R36 307 was written off which lead to an increase in revenue and decrease in unspend by R99 110.