CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality
Annual Financial Statements
for the year ended 30 June 2019

# General Information

| | |
|---|---|
| **Legal form of entity** | District Municipality<br>DC13 |
| **Nature of business and principal activities** | Chris Hani District Municipality is a South African Category C Municipal (District Municipality) as defined by the Municipal Structure Act. (Act no 117 of 1998)<br>The Municipality's operations are governed by:<br>- Municipal Finance Management Act 56 of 2003.<br>- Municipal Structure Act 117 of 1998.<br>- Municipal Systems Act 32 of 2000 and various other acts and regulations. |
| **Mayoral committee** | |
| Executive Mayor | K. Vimbayo (Resigned 20 May 2019) |
| | W. Gela - Deputy Executive Mayor (Resigned June 2019) (Appointed as Executive Mayor June 2019) |
| | M.C. Koyo: Speaker |
| | B. Van Heerden: Chief Whip (Resigned 15 June 2019) |
| | M. Papiyana (Appointed as Chief Whip 22 January 2019) |
| | S. Mbotshane: Portfolio Head - Integrated Planning & Economic Development |
| | M. Jack: Portfolio Head - Budget & Treasury |
| | S. Zangqa: Portfolio Head - Engineering resigned on 15 January 2019 and replaced by LN Tyali in January 2019 |
| | N. September-Caba: Portfolio Head - Health & Community Services (Resigned in June 2019) (Appointed as Deputy Executive Mayor 26 June 2019) and replaced by N Goniwe on 30 July 2019 |
| | N. Matiwane: Portfolio Head - Special Programmes Unit |
| | N Koni Portfolio Head Corporate Services resigned in March 2019 replaced by S Nxozi on 25 April 2019 |
| Councillors | M. Desha |
| | M. Xhelisilo |
| | K. Mjezu |
| | S. Tame |
| | E.G. Bomela |
| | B. Ntsere |
| | M. Adonisi |
| | N. Mtyobile |
| | F.A.N. Hendricks |
| | E.L. Gubula |
| | S.E. Mvana |
| | N.A. Dayisi |
| | S. Myataza |
| | Z. Qayiya |
| | Z.N.E. Ralane |
| | S.B. Nxawe |
| | N.C. Lali |
| | J. Cengani |
| | Z.R. Shweni |
| | M. Kondile |
| | K. Bizana |
| | Z. Deliwe |

# General Information

| | |
|---|---|
| | R. Venske<br>S. Zangqa<br>N Koni<br>M Adonis<br>Y Zicina<br>N Ndlebe<br>ZN Njoli<br>N Nkotha |
| **Grading of local authority** | Grade 5 |
| **Accounting Officer** | Dr. BJ Mthembu (Acting) |
| **Chief Finance Officer (CFO)** | PT Pambaniso (Acting) |
| **Registered office** | 15 Bells Road<br>Queenstown<br>5320 |
| **Bankers** | First National Bank Limited |
| **Auditors** | Auditor General South Africa |

# Index



| | |
|---|---|
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

# Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2020 and, in light of this review and the current financial position, he is satisfied that the municipality  has access to adequate resources to continue in operational existence for the foreseeable future.

Improved revenue collection through implementation of data cleansing and meter audit projects would ensure decrease in outstanding debtors and increase in cash reserves available to fund budgeted expenditure.

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

The annual financial statements set out on pages 5 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

**Dr BJ Mthembu**
**Acting Municipal Manager**

# Statement of Financial Position as at 30 June 2019

| | Note(s) | 2019<br>R | 2018<br>R |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 7 | 11 254 079 | 16 342 214 |
| Receivables from non-exchange transactions | 8 | 50 268 087 | 50 419 800 |
| VAT receivable | 9 | 134 756 441 | - |
| Prepayments | 6 | 11 352 265 | 10 765 507 |
| Receivables from exchange transactions | 10 | 247 697 279 | 113 268 047 |
| Cash and cash equivalents | 11 | 377 919 326 | 260 845 892 |
| | | **846 419 903** | **451 641 460** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 2 | 4 619 973 517 | 4 224 894 355 |
| Intangible assets | 3 | 789 205 | 2 150 140 |
| Investments in controlled entities | 4 | 1 500 000 | 1 500 000 |
| | | **4 622 262 722** | **4 228 544 495** |
| Non-Current Assets | | 4 622 262 722 | 4 228 544 495 |
| Current Assets | | 846 419 903 | 451 641 460 |
| **Total Assets** | | **5 468 682 625** | **4 680 185 955** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Operating lease liability | 5 | - | 63 489 |
| Payables from exchange transactions | 16 | 170 370 539 | 153 914 518 |
| VAT payable | | - | 3 536 576 |
| Consumer deposits | 15 | 441 108 | 329 186 |
| Employee benefit obligation | 12 | - | 11 071 824 |
| Unspent conditional grants and receipts | 17 | 376 096 737 | 114 249 016 |
| | | **546 908 384** | **283 164 609** |
| **Non-Current Liabilities** | | | |
| Employee benefit obligation | 12 | 59 231 495 | 59 231 495 |
| Non-Current Liabilities | | 59 231 495 | 59 231 495 |
| Current Liabilities | | 546 908 384 | 283 164 609 |
| **Total Liabilities** | | **606 139 879** | **342 396 104** |
| Assets | | 5 468 682 625 | 4 680 185 955 |
| Liabilities | | (606 139 879) | (342 396 104) |
| **Net Assets** | | **4 862 542 746** | **4 337 789 851** |
| Accumulated surplus | | 4 862 542 746 | 4 337 789 851 |

## Statement of Financial Performance

| | Note(s) | 2019<br>R | 2018<br>R |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 305 450 851 | 275 035 828 |
| Other income | 20 | 1 091 857 | 3 296 438 |
| Interest received - investment | 21 | 74 159 219 | 40 191 999 |
| **Total revenue from exchange transactions** | | **380 701 927** | **318 524 265** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 22 | 855 851 976 | 1 088 406 807 |
| | | 380 701 927 | 318 524 265 |
| | | 855 851 976 | 1 088 406 807 |
| **Total revenue** | 18 | **1 236 553 903** | **1 406 931 072** |
| **Expenditure** | | | |
| Employee related costs | 23 | (316 721 813) | (293 468 166) |
| Remuneration of councillors | 24 | (11 674 572) | (11 161 776) |
| Depreciation and amortisation | 25 | (150 000) | (140 520 650) |
| Finance costs | 26 | (266 610) | (117 085) |
| Debt Impairment | 27 | - | (267 391 721) |
| Bulk purchases | 28 | (19 156 293) | (16 178 054) |
| Contracted services | 29 | (285 755 229) | (115 167 681) |
| Transfers and Subsidies | 30 | (30 712 393) | (97 675 311) |
| Loss on disposal of assets and liabilities | | - | (106 688) |
| Actuarial losses | | - | (12 417 677) |
| General Expenses | 31 | (173 839 084) | (260 154 755) |
| **Total expenditure** | | **(838 275 994)** | **(1 214 359 564)** |
| | | - | - |
| Total revenue | | 1 236 553 903 | 1 406 931 072 |
| Total expenditure | | (838 275 994) | (1 214 359 564) |
| Operating surplus/deficit | | - | - |
| Surplus before taxation | | 398 277 909 | 192 571 508 |
| Taxation | | - | - |
| **Surplus for the year** | | **398 277 909** | **192 571 508** |

## Statement of Changes in Net Assets

| | Accumulated surplus R | Total net assets R |
|---|---|---|
| **Balance at 01 July 2017** | **4 145 218 343** | **4 145 218 343** |
| Changes in net assets | | |
| Surplus for the year | 192 571 508 | 192 571 508 |
| Total changes | 192 571 508 | 192 571 508 |
| **Balance at 01 July 2018** | **4 464 264 837** | **4 464 264 837** |
| Changes in net assets | | |
| Surplus for the year | 398 277 909 | 398 277 909 |
| Total changes | 398 277 909 | 398 277 909 |
| **Balance at 31 March 2019** | **4 862 542 746** | **4 862 542 746** |

Note(s)

## Cash Flow Statement

| | Note(s) | 2019<br>R | 2018<br>R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 137 774 102 | 84 605 028 |
| Grants | | 746 461 272 | 1 088 406 807 |
| Interest income | | 27 924 392 | 40 191 999 |
| | | 912 159 766 | 1 213 203 834 |
| **Payments** | | | |
| Employee costs | | (247 478 606) | (304 629 942) |
| Suppliers | | (313 302 376) | (431 471 852) |
| Finance costs | | (266 610) | (117 085) |
| Other cash item | | (86 092 748) | (9 213 809) |
| | | (647 140 340) | (745 432 688) |
| Total receipts | | 912 159 766 | 1 213 203 834 |
| Total payments | | (647 140 340) | (745 432 688) |
| **Net cash flows from operating activities** | 33 | **265 019 426** | **467 771 146** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 2 | (190 496 960) | (415 059 408) |
| **Cash flows from financing activities** | | | |
| Net employee benefit obligation | | - | 6 196 555 |
| Net lease liability | | - | (1 106) |
| **Net cash flows from financing activities** | | **-** | **6 195 449** |
| **Net increase/(decrease) in cash and cash equivalents** | | **74 522 466** | **58 907 186** |
| Cash and cash equivalents at the beginning of the year | | 260 845 892 | 201 938 706 |
| **Cash and cash equivalents at the end of the year** | 11 | **335 368 358** | **260 845 892** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | R | R | R | R | R | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 232 820 247 | - | **232 820 247** | 305 450 851 | **72 630 604** | Note 48 |
| Other income | 64 941 768 | (63 900 000) | **1 041 768** | 1 091 857 | **50 089** | Note 48 |
| Interest income | 39 485 000 | 26 411 000 | **65 896 000** | 74 159 219 | **8 263 219** | Note 48 |
| **Total revenue from exchange transactions** | **337 247 015** | **(37 489 000)** | **299 758 015** | **380 701 927** | **80 943 912** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 592 096 000 | 53 535 000 | **645 631 000** | 855 851 976 | **210 220 976** | Note 48 |
| 'Total revenue from exchange transactions' | 337 247 015 | (37 489 000) | **299 758 015** | 380 701 927 | **80 943 912** | |
| 'Total revenue from non-exchange transactions' | 592 096 000 | 53 535 000 | **645 631 000** | 855 851 976 | **210 220 976** | |
| **Total revenue** | **929 343 015** | **16 046 000** | **945 389 015** | **1 236 553 903** | **291 164 888** | |
| **Expenditure** | | | | | | |
| Personnel | (308 843 097) | - | **(308 843 097)** | (316 721 813) | **(7 878 716)** | Note 48 |
| Remuneration of councillors | (11 071 478) | (1 174 000) | **(12 245 478)** | (11 674 572) | **570 906** | Note 48 |
| Depreciation and amortisation | (140 000 000) | - | **(140 000 000)** | (150 000) | **139 850 000** | Note 48 |
| Finance costs | - | - | **-** | (266 610) | **(266 610)** | Note 48 |
| Debt Impairment | (200 000 000) | 10 800 000 | **(189 200 000)** | - | **189 200 000** | Note 48 |
| Bulk purchases | (26 139 000) | - | **(26 139 000)** | (19 156 293) | **6 982 707** | Note 48 |
| Contracted Services | (347 626 000) | (56 869 000) | **(404 495 000)** | (285 755 229) | **118 739 771** | Note 48 |
| Transfers and Subsidies | (480 148 000) | (108 298 000) | **(588 446 000)** | (30 712 393) | **557 733 607** | Note 48 |
| General Expenses | (247 578 000) | 837 000 | **(246 741 000)** | (173 839 084) | **72 901 916** | Note 48 |
| **Total expenditure** | **(1 761 405 575)** | **(154 704 000)** | **(1 916 109 575)** | **(838 275 994)** | **1 077 833 581** | |
| | 929 343 015 | 16 046 000 | **945 389 015** | 1 236 553 903 | **291 164 888** | |
| | (1 761 405 575) | (154 704 000) | **(1 916 109 575)** | (838 275 994) | **1 077 833 581** | |
| **Operating surplus** | **(832 062 560)** | **(138 658 000)** | **(970 720 560)** | **398 277 909** | **1 368 998 469** | |
| Gain on disposal of assets and liabilities | 200 000 | - | **200 000** | - | **(200 000)** | Note 48 |
| | (832 062 560) | (138 658 000) | **(970 720 560)** | 398 277 909 | **1 368 998 469** | |
| | 200 000 | - | **200 000** | - | **(200 000)** | |
| **Surplus before taxation** | **(831 862 560)** | **(138 658 000)** | **(970 520 560)** | **398 277 909** | **1 368 798 469** | |

# Accounting Policies

## 1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

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

### 1.1 Presentation currency

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

All figures have been rounded off to the nearest rand.

### 1.2 Going concern assumption

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

### 1.3 Comparative figures

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

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

### 1.4 Significant judgements and sources of estimation uncertainty

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

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

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

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

**Allowance for slow moving, damaged and obsolete stock**

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

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Fair value estimation**

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

**Impairment testing**

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

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

**Provisions**

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

**Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

**Post retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

**Effective interest rate**

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

### 1.4 Significant judgements and sources of estimation uncertainty (continued)

**Allowance for doubtful debts**

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

### 1.5 Property, plant and equipment

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

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

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

**Initial Recognition and measurement**

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.

**Subsequent measurement - Cost model**

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

**Depreciation**

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

### 1.5 Property, plant and equipment (continued)

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

| Item | Depreciation method | Average useful life |
|---|---|---|
| Land | | Infinity |
| Buildings | | 5 - 100 years |
| Plant and machinery | | 2 - 17 years |
| Furniture and fixtures | | 3 - 18 years |
| Transport assets | | 4 - 20 years |
| Office equipment | | 3 - 18 years |
| IT equipment | | 3 - 13 years |
| Infrastructure | | |
| • Roads and Paving | | 3 - 100 years |
| • Security measures | | 7 - 25 years |
| • Sewerage | | 7 - 100 years |
| • Water infrastructure | | 5 - 100 years |
| Community | | |
| • Community facilities | | 5 - 30 years |
| • Recreational facilities | | 10 - 30 years |
| Emergency equipment | | 3 - 10 years |
| Bins and containers | | 5 - 15 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.

**Derecognition**

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

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

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

**Repairs and Maintenance**

The municipality discloses expenditure to repair and maintain property, plant and equipment under contracted services in the notes to the financial statements (see note 3 and 31).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

# Accounting Policies

### 1.6 Intangible assets

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

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

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

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

**Initial Recognition**

Intangible assets are initially recognised at cost.

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.

**Subsequent Measurement**

Intangible assets are subsequently 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 and Impairment**

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

### 1.6 Intangible assets (continued)

| Item | Useful life |
| --- | --- |
| Licenses and franchises | 2-5 years |
| Computer software, other | 2-5 years |

**Derecognition**

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

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

### 1.7 Investments in associates

In the municipality's separate financial statements, investments in non-current investments are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

### 1.8 Financial instruments

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

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

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

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

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

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

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

# Accounting Policies

### 1.8 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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 a entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

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

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

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

## Accounting Policies

### 1.8 Financial instruments (continued)

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

**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 |
| --- | --- |
| Prepayments | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exhange transactions | Financial asset measured at amortised cost |
| Investments | Financial asset measured at fair value |
| Cash and Cash Equivalents | Financial asset measured at fair value |

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 |
| --- | --- |
| Consumer deposits | Financial liability measured at amortised cost |
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Unspent conditional grants | Financial liability measured at amortised cost |
| Bank overdraft | Financial liability measured at fair value |

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

# Accounting Policies

### 1.8 Financial instruments (continued)

**Initial measurement of financial assets and financial liabilities**

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

**1.8 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.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

**Financial assets measured at amortised cost**:

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

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

# Accounting Policies

### 1.8 Financial instruments (continued)

**Financial assets measured at cost**:

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

**Derecognition**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

**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.

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

### 1.8 Financial instruments (continued)

**Presentation**

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

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

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

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

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

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

**Policies relating to specific financial instruments**

**Trade and other receivables**

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

All trade and other receivables are assessed at least annually for possible impairment. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from reporting date and are classified as current. Interest is charged on overdue accounts.

**Trade and other payables**

Trade and other payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

**Cash and Cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short term highly liquid investments 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.

### 1.9 Leases

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

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

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

### 1.9 Leases (continued)

**Operating leases - lessor**

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

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

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

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

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

**Operating leases - lessee**

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

### 1.10 Inventories

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

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

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

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

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

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

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

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

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

### 1.11 Impairment of cash-generating assets

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

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

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

### 1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

[Specify judgements made]

**Identification**

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

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

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

**Value in use**

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

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

**Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### 1.11 Impairment of cash-generating assets (continued)

**Cash-generating units**

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

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

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

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

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

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

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

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

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

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

# Accounting Policies

### 1.11 Impairment of cash-generating assets (continued)

**Reversal of impairment loss**

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

**Redesignation**

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

### 1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

## Accounting Policies

### 1.12 Impairment of non-cash-generating assets (continued)

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

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

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

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

[Specify judgements made]

**Identification**

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

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

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

**Value in use**

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

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

**Depreciated replacement cost approach**

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

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

# Accounting Policies

### 1.12 Impairment of non-cash-generating assets (continued)

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

**Reversal of an impairment loss**

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

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

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

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

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

**Redesignation**

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

# Accounting Policies

### 1.13 Employee benefits

#### Short-term employee benefits

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

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

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

#### Leave Pay

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or in the case of non accumulating absences, when the absence occurs. The liability is based on the total amount of leave days due to the employees at reporting date and on the total cost to the municipality of the employees.

#### Annual Bonuses

The municipality recognises the expected cost of bonus, incentive and performance, related payments when the municipality 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. The liability relating to anticipated bonuses payable is raised and is based on the total cost to the municipality.

#### Long Service Awards

The municipality provides long service awards to eligible employees, payable on completion of a certain number of years of employment ie 5 yrs, 10 yrs, 15 yrs, 20 yrs etc. A liability is raised to account for the expected long service awards due to be paid in future years.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

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

### 1.13 Employee benefits (continued)

**Defined benefit plans**

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

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

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

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

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

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

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

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

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

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

# Accounting Policies

### 1.14 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

### 1.15 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.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable excluding indirect taxes, rebates and discounts.

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

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

**Measurement**

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

**Sale of goods**

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

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

### 1.15 Revenue from exchange transactions (continued)

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

**Service Charges - Water**

Service charges relating to water are based on consumption. Meters are read on a monthly basis and revenue is recognised providing that the benefits can be measured reliably. Provisional estimates of consumption are made monthly when meter readings have not been performed for whatever reason. The provisional amounts are recognised as revenue when 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.

**Service Charges - Sewerage and sanitation Charges**

Revenue relating to waste water management services are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage and are levied monthly.

**Rental Income**

Rental Income is recognised on a straight line basis over the term of the lease agreement.

**Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

### 1.16 Revenue from non-exchange transactions

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

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

### 1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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

**Recognition**

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

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

**Measurement**

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

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

**Transfers**

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

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

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

**Fines**

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

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

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

## Accounting Policies

### 1.16 Revenue from non-exchange transactions (continued)

#### Gifts and donations, including goods in-kind

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

Revenue from public contributions is recognised when all the 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 the contributions have been received but the conditions have not been met, a liability is recognised.

### 1.17 Conditional grants and receipts

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

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

### 1.18 Investment income

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

### 1.19 Borrowing costs

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

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

### 1.20 Internal reserves

#### Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

### 1.21 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position.

### 1.22 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements.

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

### 1.23 Unauthorised expenditure (continued)

Also included is expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003)

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

### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

### 1.26 Use of estimates

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

# Accounting Policies

### 1.27 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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

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

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

### 1.29 Related parties

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

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

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

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

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

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

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

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

### 1.29 Related parties (continued)

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

### 1.30 Transfer of functions between entities under common control

**Definitions**

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality's objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

**Identifying the acquirer and transferor**

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

# Accounting Policies

### 1.30 Transfer of functions between entities under common control (continued)

**Determining the transfer date**

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

**1.30 Transfer of functions between entities under common control (continued)**

**Accounting by the entity as acquirer**

**Initial recognition and measurement**

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

**Measurement period**

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

**Subsequent measurement**

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

### 1.30 Transfer of functions between entities under common control (continued)

**Accounting by the entity as transferor**

**Derecognition of assets transferred and liabilities relinquished**

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

Until the transfer date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in accumulated surplus or deficit.

### 1.31 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

# Notes to the Annual Financial Statements

| | 2019 | 2018 |
|---|---|---|
| | R | R |

## 2. Property, plant and equipment

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 11 614 100 | - | 11 614 100 | 11 614 100 | - | 11 614 100 |
| Buildings | 49 041 617 | - | 49 041 617 | 57 744 985 | (8 703 368) | 49 041 617 |
| Machinery and Equipment | 18 072 183 | (45 692) | 18 026 491 | 18 380 889 | (6 227 686) | 12 153 203 |
| Furniture and Office Equipment | 20 985 502 | (13 347 900) | 7 637 602 | 22 804 694 | (12 034 768) | 10 769 926 |
| Transport assets | 78 428 243 | (38 553 954) | 39 874 289 | 79 124 602 | (40 489 967) | 38 634 635 |
| Computer equipment | 12 720 762 | (4 803 525) | 7 917 237 | 12 268 483 | (7 973 911) | 4 294 572 |
| Infrastructure: Water | 3 674 002 433 | (719 190 659) | 2 954 811 774 | 3 777 344 564 | (853 855 131) | 2 923 489 433 |
| Infrastructure: Sanitation | 410 540 965 | (55 078 313) | 355 462 652 | 432 443 504 | (140 063 494) | 292 380 010 |
| Infrastructure: Roads | 11 418 889 | (1 527 763) | 9 891 126 | 13 115 005 | (1 869 712) | 11 245 293 |
| Work-in-progress: Water | 276 870 280 | - | 276 870 280 | 351 574 043 | - | 351 574 043 |
| Work-in-progress: Sanitation | 10 157 106 | - | 10 157 106 | 204 165 285 | - | 204 165 285 |
| Work-in-progress: Buildings | 878 669 243 | - | 878 669 243 | 315 532 238 | - | 315 532 238 |
| **Total** | **5 452 521 323** | **(832 547 806)** | **4 619 973 517** | **5 296 112 392** | **(1 071 218 037)** | **4 224 894 355** |

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 11 614 100 | - | - | - | - | - | 11 614 100 |
| Buildings | 49 041 617 | - | - | - | - | - | 49 041 617 |
| Machinery and Equipment | 12 153 203 | 5 873 288 | - | - | - | - | 18 026 491 |
| Furniture and Office Equipment | 10 769 926 | - | - | - | (3 132 324) | - | 7 637 602 |
| Transport assets | 38 634 635 | 1 239 654 | - | - | - | - | 39 874 289 |
| Computer equipment | 4 294 572 | 3 622 665 | - | - | - | - | 7 917 237 |
| Infrastructure: Water | 2 923 489 433 | 31 322 341 | - | - | - | - | 2 954 811 774 |
| Infrastructure: Sanitation | 292 380 010 | 63 082 642 | - | - | - | - | 355 462 652 |
| Other property, plant and equipment | - | - | - | - | - | - | - |
| Infrastructure: Roads | 11 245 293 | - | - | - | (1 354 167) | - | 9 891 126 |
| Work-in-progress: Water | 351 574 043 | - | - | - | (74 703 763) | - | 276 870 280 |
| Work-in-progress: Sanitation | 204 165 285 | - | - | - | (194 008 179) | - | 10 157 106 |
| Work-in-progress: Buildings | 315 532 238 | 563 137 005 | - | - | - | - | 878 669 243 |
| | **4 224 894 355** | **668 277 595** | **-** | **-** | **(273 198 433)** | **-** | **4 619 973 517** |

### 2. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2018**

| | Opening balance | Additions | Disposals | Transfers received | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 11 614 100 | - | - | - | - | - | 11 614 100 |
| Buildings | 53 501 250 | - | - | 8 199 235 | (11 463 860) | (1 195 008) | 49 041 617 |
| Machinery and Equipment | 9 695 701 | 4 738 520 | - | - | (224 277) | (2 056 741) | 12 153 203 |
| Furniture and office equipment | 12 779 306 | 2 307 932 | (141 254) | - | (767 575) | (3 408 483) | 10 769 926 |
| Transport assets | 36 891 451 | 11 367 423 | (22 466) | - | (567 083) | (9 034 690) | 38 634 635 |
| Computer equipment | 5 465 076 | 1 599 957 | (51 322) | (22 000) | (534 754) | (2 162 385) | 4 294 572 |
| Infrastructure: Water | 2 354 056 352 | - | - | 668 942 167 | 5 956 174 | (105 465 260) | 2 923 489 433 |
| Infrastructure: Sanitation | 287 298 574 | 4 763 592 | - | 17 176 086 | - | (16 858 242) | 292 380 010 |
| Infrastructure: Roads | 10 233 075 | - | - | (341 949) | 1 354 167 | - | 11 245 293 |
| Work-in-progress | 958 326 700 | 366 819 830 | - | (658 741 936) | (314 830 551) | - | 351 574 043 |
| Work-in-progress: Sanitation | 202 001 755 | 18 529 115 | - | (17 176 084) | 810 499 | - | 204 165 285 |
| Work-in-progress: Buildings | 21 449 205 | 14 811 612 | - | (8 199 235) | 287 470 656 | - | 315 532 238 |
| | **3 963 312 545** | **424 937 981** | **(215 042)** | **9 836 284** | **(32 796 604)** | **(140 180 809)** | **4 224 894 355** |

**Pledged as security**

There are no assets that have been pledged as security during the current year.

**Expenditure incurred to repair and maintain property, plant and equipment**

| | | |
|---|---|---|
| **Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance** | | |
| Contracted services | 124 264 236 | 71 326 993 |

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

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

## 2. Property, plant and equipment (continued)

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2019, no assets were assessed to be impaired.

## 3. Intangible assets

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 8 118 159 | (7 328 954) | 789 205 | 8 118 159 | (5 968 019) | 2 150 140 |

**Reconciliation of intangible assets - 2019**

| | Opening balance | Additions | Other changes, movements | Total |
|---|---|---|---|---|
| Computer software, other | 2 150 140 | 1 377 183 | (2 738 118) | 789 205 |

**Reconciliation of intangible assets - 2018**

| | Opening balance | Additions | Other changes, movements | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software, other | 3 527 323 | 3 527 323 | (3 527 323) | (1 377 183) | 2 150 140 |

**Pledged as security**

There are no intangible assets that are pledged as security:

## 4. Investments in controlled entities

| Name of company | Held by | % holding 2019 | % holding 2018 | Carrying amount 2019 | Carrying amount 2018 |
|---|---|---|---|---|---|
| Investments in Associates | | - % | - % | 1 500 000 | 1 500 000 |

The carrying amounts of controlled entities are shown net of impairment losses.

**Chris Hani Development Agency**

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District. The municipal entity was fully operational during the 12 months and all contributions made by the district municipality were treated as Grants and Subsidies paid, refer to Note 31.

## 5. Operating lease liability/asset

| | 2019 | 2018 |
|---|---|---|
| Current liabilities | - | (63 489) |

Operating Leases are recognised on a straight line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 5. Operating lease liability/asset (continued)

| | | |
|---|---|---|
| Balance at the beginning of the year | 63 489 | 64 595 |
| Operating lease expense recorded | (63 489) | (1 106) |
| | **-** | **63 489** |

### 6. Prepayments

Prepayments relate to payments made to Eskom for connections. As at 30 June 2019, the connections paid for had not yet been done by Eskom.

| | | |
|---|---|---|
| **Payments made in advance** | 11 352 265 | 10 765 507 |

### 7. Inventories

| | | |
|---|---|---|
| Inventory stores | 10 862 227 | 15 950 362 |
| Water for distribution | 391 852 | 391 852 |
| | **11 254 079** | **16 342 214** |

### 8. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Sundry receivables - Roadworks subsidy | 21 972 871 | 21 972 871 |
| Local Municipalities | 9 103 108 | 11 103 108 |
| Rental and Eskom service deposits | 1 228 759 | 8 617 179 |
| Government grants and subsidies (See note 24) | - | 1 589 215 |
| Other Debtors | 11 433 893 | 4 100 271 |
| Roads Subsidies (See note 24) | 6 529 456 | 3 037 156 |
| | **50 268 087** | **50 419 800** |

**Government grants and subsidies** consists of debtors raised for MIG.

**Local municipalities** consists of loans to Inxuba Yethemba Local Municipality and Sakhisizwe Local Municipaity.

**Service deposits** consists of rental deposits and Eskom service deposits.

**Other debtors** consists of amounts receivable from bursary loan obligations, tax control, ACB rejections, etc.

**Fair value of receivables from non-exchange transactions**

| | | |
|---|---|---|
| Other receivables from non-exchange transactions | - | 52 177 900 |

The fair value of other trade receivables from non-exchange transactions approximates their carrying amount.

### 9. VAT receivable

| | | |
|---|---|---|
| VAT | 134 756 441 | - |

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 10. Receivables from exchange transactions

| | 2019 R | 2018 R |
|---|---|---|
| **Gross balances** | | |
| Water | 1 191 614 844 | 921 281 534 |
| Sewerage | 432 411 162 | 410 621 454 |
| Sundry Debtors | 3 419 879 | 3 467 280 |
| | **1 627 445 885** | **1 335 370 268** |
| **Less: Allowance for impairment** | | |
| Water | (985 386 676) | (827 700 246) |
| Sewerage | (393 181 973) | (393 222 018) |
| Sundry debtors | (1 179 957) | (1 179 957) |
| | **(1 379 748 606)** | **(1 222 102 221)** |
| **Net balance** | | |
| Water | 206 228 168 | 93 581 288 |
| Sewerage | 39 229 189 | 17 399 436 |
| Sundry Debtors | 2 239 922 | 2 287 323 |
| | **247 697 279** | **113 268 047** |
| **Water** | | |
| Current (0 -30 days) | 2 480 | 23 105 367 |
| 31 - 60 days | 27 161 453 | 29 099 908 |
| 61 - 90 days | 28 110 561 | 15 335 721 |
| 91 - 120 days | 41 694 505 | 36 154 802 |
| 121 - 365 days | 104 039 324 | 101 345 139 |
| > 365 days | 812 163 733 | 716 240 597 |
| Impairment allowance | (806 943 888) | (827 700 246) |
| | **206 228 168** | **93 581 288** |
| **Sewerage** | | |
| Current (0 -30 days) | 247 | 4 689 128 |
| 31 - 60 days | 5 531 749 | 13 304 470 |
| 61 - 90 days | 5 524 123 | 4 341 323 |
| 91 - 120 days | 10 079 693 | 4 251 101 |
| 121 - 365 days | 21 197 868 | 27 523 219 |
| > 365 days | 397 966 448 | 356 512 213 |
| Impairment allowance | (401 070 939) | (393 222 018) |
| | **39 229 189** | **17 399 436** |
| **Refuse** | | |
| Current (0 -30 days) | - | 28 171 |
| 31 - 60 days | - | 18 045 |
| 61 - 90 days | - | 9 120 |
| 91 - 120 days | - | 31 534 |
| 121 - 365 days | - | 89 608 |
| > 365 days | 2 239 922 | 3 290 802 |
| | - | (1 179 957) |
| | **2 239 922** | **2 287 323** |
| **Other (specify)** | | |
| Current (0 -30 days) | - | (1 176 077 519) |

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 10. Receivables from exchange transactions (continued)

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (1 379 748 606) | (954 710 500) |
| Contributions to allowance | - | (267 391 721) |
| | **(1 379 748 606)** | **(1 222 102 221)** |

**Receivables from non exchange pledged as security**

None of the financial assets as disclosed are held as collateral nor have they been used for any other credit enhancements.

**Receivables from non exchange past due but not impaired**

Consumer debtors that are identified as relating to government institutions have not been impaired as there is a general expectation that amounts owing will be settled.

**Receivables from non exchange impaired**

None of the financial assets for the period ended 30 June 2019 have been determined individually for impairment.

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 4 200 | 4 200 |
| Bank balances | 98 656 166 | (13 422 606) |
| Short-term deposits | 279 258 960 | 274 264 298 |
| | **377 919 326** | **260 845 892** |

Short-term deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.50% to 6.70% per annum. Investments are made up of short-term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utilised.

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

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

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

## 11. Cash and cash equivalents (continued)

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2019 | 30 June 2018 | 30 June 2017 | 30 June 2019 | 30 June 2018 | 30 June 2017 |
| First National Bank - Current - 62002510693 | 98 656 166 | 75 220 724 | 80 515 606 | 98 656 166 | (13 422 606) | (33 854 007) |
| First National Bank - Call Account - 62004499481 | 62 525 | 13 588 735 | 19 349 445 | 61 252 | 13 588 735 | 19 349 445 |
| First National Bank - Call Account - 62190652521(CRR) | 212 916 295 | 242 754 637 | 86 217 296 | 212 916 295 | 242 754 637 | 86 217 296 |
| First National Bank - Call Account - 62187939784 | 59 048 632 | 7 506 142 | 115 876 841 | 59 048 632 | 7 506 142 | 115 873 840 |
| First National Bank - Call Account - 62187936532(National) | 1 297 853 | 1 166 978 | 7 233 597 | 1 297 853 | 1 166 978 | 7 233 597 |
| First National Bank - Call Account - 62187938538(Provincial) | 399 693 | 1 027 204 | 1 254 167 | 399 693 | 1 027 204 | 1 254 167 |
| First National Bank - Public Sector - Cheque Account - 62610267602 | 5 535 177 | 8 220 867 | 5 857 987 | 5 535 177 | 8 220 603 | 5 857 167 |
| **Total** | **377 916 341** | **349 485 287** | **316 304 939** | **377 915 068** | **260 841 693** | **201 931 505** |

## 12. Employee benefit obligations

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

| | 2019 R | 2018 R |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation-wholly unfunded | - | (48 552 148) |
| Present value of the defined benefit obligation-partly or wholly funded | - | (13 567 990) |
| Fair value of plan assets | - | (7 024 337) |
| Fair value of reimbursement rights | - | (1 158 844) |
| Other | (46 059 069) | - |
| | **(46 059 069)** | **(70 303 319)** |
| Non-current liabilities | (59 231 495) | (59 231 495) |
| Current liabilities | - | (11 071 824) |
| | **(46 059 069)** | **(70 303 319)** |

Refer to Note 14 for the disclosure relating to Long service bonus obligation.

Refer to Note 15 for the disclosure relating to the current portion of the staff leave accrual, staff bonus accrual and the performance bonus provision liabilities

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

| | 2019 R | 2018 R |
|---|---|---|
| Opening balance | 46 393 953 | 48 552 148 |
| Benefits paid | - | (1 287 658) |
| Net expense recognised in the statement of financial performance | 16 937 928 | (870 537) |
| | **63 331 881** | **46 393 953** |

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 12. Employee benefit obligations (continued)

**Net expense recognised in the statement of financial performance**

| | 2019 | 2018 |
|---|---|---|
| Current service cost | - | 1 827 224 |
| Interest cost | - | 3 103 826 |
| Actuarial (gains) losses | - | 12 006 878 |
| | **-** | **16 937 928** |

**Calculation of actuarial gains and losses**

| | 2019 | 2018 |
|---|---|---|
| Actuarial (gains) losses – Obligation | - | 12 006 878 |

**Key assumptions used**

Assumptions used at the reporting date:

| | 2019 | 2018 |
|---|---|---|
| Actual return on plan assets | 9.84 % | 9.84 % |
| Expected rate of return on assets | 2.05 % | 2.05 % |
| Expected rate of return on reimbursement rights | 6.13 % | 6.13 % |
| Actual return on reimbursement rights | 7.63 % | 7.63 % |

**Other assumptions**

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

| | **One percentage point increase** | **One percentage point decrease** |
|---|---|---|
| Effect on the aggregate of the service cost and interest cost | - | 6 394 578 |
| Effect on defined benefit obligation | - | 6 200 495 |

Amounts for the current and previous four years are as follows:

| | 2019<br>R | 2018<br>R | 2017<br>R | 2016<br>R | 2015<br>R |
|---|---|---|---|---|---|
| Defined benefit obligation | - | 48 552 148 | 32 901 878 | 35 070 544 | 32 216 006 |
| Surplus (deficit) | - | 48 552 148 | 32 901 878 | 35 070 544 | 32 216 006 |
| Experience adjustments on plan liabilities | - | 16 937 928 | (870 537) | 2 854 538 | 4 393 102 |

### 13. Long Service Awards

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years of continuous service, and every  5 years thereafter, to 45 years of conitnuous service. the provision is an estimate of the long service based on historical staff turnover.

| **Reconciliation of long service awards - June 2019** | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Long Service Awards | 13 567 900 | - | - | 13 567 900 |

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

### 13. Long Service Awards (continued)

| **Reconciliation of long service awards - June 2018** | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Long Service Awards | 12 018 079 | 2 858 895 | (1 309 074) | 13 567 900 |

The most recent acturial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by One Pangaea Expetise & Solutions. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Credit Unit Method.

At year end 871 (2017: 682) employees were eligible for the Long service awards.

The current service cost for the year ending 30 June 2018 was estimated to be R1 490 523 whereas the cost of the ensuing year is estimated to be R732 152.

The principle assumtpions used for the purpose of the acturial valuation were as follows:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 8.87% | 8.87% |
| Consumer price inflation | 5.41% | 5.41% |
| Normal salary increase | 6.41% | 6.41% |
| Net effective discount rate | 2.31% | 2.31% |
| | - | - |

**Changes in the present value of the long service awards are as follows:**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 13 567 990 | 12 018 079 |
| Current year service cost | - | 1 490 523 |
| Interest cost | - | 957 663 |
| Benefits paid | - | (1 309 074) |
| Actuarial (gains | - | 410 799 |
| | **13 567 990** | **13 567 990** |

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

| | 2019 | 2018 |
|---|---|---|
| Present value of the long service awards wholly unfunded | - | 13 567 990 |

**Next expense recognised in the statement of financial performance**

| | 2019 | 2018 |
|---|---|---|
| Curr service cost | - | 1 490 523 |
| Interest cost | - | 957 663 |
| Actualrial (gains) /losses | - | 410 799 |
| | **-** | **2 858 985** |

| | 2019 R | 2018 R |
|---|---|---|

### 14. Current Employee Benefits

| | 2019 | 2018 |
|---|---|---|
| Staff Bonus Accrual | 7 024 336 | 7 024 336 |
| Performance Bonus Accrual | 1 158 846 | 1 158 846 |
| Current Portion of Post - Retirement Benefits | 1 338 853 | 1 338 853 |
| Current Portion of Long Service Awards | 1 549 790 | 1 549 790 |
| | **11 071 825** | **11 071 825** |

**Other Current employee benefits - 2018**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Staff Bonus Accrual | 5 701 643 | 1 322 873 | 7 024 516 |
| Performance Bonus Accrual | 1 067 668 | 91 178 | 1 158 846 |
| | **6 769 311** | **1 414 051** | **8 183 362** |

**Other Current Employee Benefits - 2017**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Staff Bonus Accrual | 4 989 860 | 711 603 | 5 701 463 |
| Performance Bonus Accrual | 917 955 | 149 713 | 1 067 668 |
| | **5 907 815** | **861 316** | **6 769 131** |

### 15. Consumer deposits

| | 2019 | 2018 |
|---|---|---|
| Water | 441 108 | 329 186 |

### 16. Payables from exchange transactions

| | 2019 | 2018 |
|---|---|---|
| Trade payables | 82 312 423 | 56 371 943 |
| Payments received in advanced - contract in process | 16 828 962 | 16 857 217 |
| Retentions | 38 903 378 | 48 224 797 |
| Accrued leave pay | 11 850 403 | 11 850 403 |
| Accrued bonus | 7 024 335 | - |
| Deposits received (held as Surety) | - | 8 335 |
| Other payables | 13 451 038 | 20 601 823 |
| | **170 370 539** | **153 914 518** |

**Fair value of trade and other payables**

| | 2019 | 2018 |
|---|---|---|
| Trade payables | 144 844 724 | 153 914 521 |

The fair value of trade and other payables approximates their carrying amount.

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

## 17. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| National: Municipal Infrastructure Grant (MIG) | 84 358 552 | - |
| EC Roads Infrastructure | 16 308 529 | - |
| National: Department of Transport - Rural Road Asset Mgt Grant | 3 229 000 | 2 680 975 |
| Provincial: RBIG | 110 568 297 | 29 439 980 |
| National : WSIG | 89 121 105 | - |
| National : MWIG | 27 991 649 | 32 991 649 |
| Provincial: Emergency Housing | 1 583 192 | - |
| | **333 160 325** | **71 312 604** |

| | | |
|---|---|---|
| **Unspent provincial and national funds** | | |
| Provincial: Department of Economic Affairs and Trade | 360 655 | 360 655 |
| Provincial: Office of the Premier | 21 569 | 21 569 |
| Provincial: Treasury | 1 606 965 | 1 606 965 |
| Provincial: Department of Transport | 1 732 096 | 1 732 096 |
| Provincial: Department of Economic Affairs | 14 308 884 | 14 308 884 |
| Other Spheres of Government | 7 162 449 | 7 162 449 |
| Lapesi Project | 42 197 | 42 197 |
| Provincial: Department of Housing, Local Gvt and Traditional Affairs | 1 158 656 | 1 158 656 |
| National: Department of Rural Development and Land Reform | 402 614 | 402 614 |
| National: Sport and Development | 16 140 327 | 16 140 327 |
| DEDEAT: Rural Sustainable Villages | - | 6 200 000 |
| | **42 936 412** | **49 136 412** |

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

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

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

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

## 18. Revenue

| | | |
|---|---|---|
| Service charges | 305 450 851 | 275 035 828 |
| Other income | 1 091 857 | 3 296 438 |
| Interest received | 74 159 219 | 40 191 999 |
| Government grants & subsidies | 855 851 976 | 1 088 406 807 |
| | **1 236 553 903** | **1 406 931 072** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 305 450 851 | 275 035 828 |
| Other income | 1 091 857 | 3 296 438 |
| Interest received | 74 159 219 | 40 191 999 |
| | **380 701 927** | **318 524 265** |

## Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|
| **18. Revenue (continued)** | | |
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| **Transfer revenue** | | |
| Government grants & subsidies | 855 851 976 | 1 088 406 807 |

### 19. Service charges

| | 2019 R | 2018 R |
|---|---|---|
| Service charges | 34 711 | 158 068 |
| Sale of water | 249 329 356 | 221 807 577 |
| Sewerage and sanitation charges | 56 086 784 | 53 070 183 |
| | **305 450 851** | **275 035 828** |

### 20. Operating Income

| | 2019 R | 2018 R |
|---|---|---|
| Private telephone calls | - | 41 371 |
| Tender documents | 468 563 | 367 512 |
| Commission on collections | - | 238 582 |
| VAT on Conditional Grant | 345 241 | 1 361 315 |
| Other income | 278 053 | 1 287 658 |
| | **1 091 857** | **3 296 438** |

### 21. Interest Income

| | 2019 R | 2018 R |
|---|---|---|
| **Interest revenue** | | |
| Bank | 1 380 656 | 1 568 502 |
| Interest - investments | 34 283 108 | 27 268 026 |
| Interest - debtors | 38 495 455 | 11 355 471 |
| | **74 159 219** | **40 191 999** |
| | - | - |
| | 74 159 219 | 40 191 999 |

## Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

### 22. Government grants and subsidies

| | 2019 R | 2018 R |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 506 314 000 | 507 459 000 |
| Government grant (FMG) | 1 250 000 | 1 500 000 |
| Government grant (MIG) | 39 041 773 | 278 216 152 |
| Government grant (EPWP) | 6 158 000 | 10 037 000 |
| Government grant (RAMS) | - | 541 025 |
| Government grant (DEDEAT Rural Sustainable Village | 6 200 000 | - |
| Government grant (Road Subsidies) | 16 277 976 | - |
| | **575 241 749** | **797 753 177** |
| **Capital grants** | | |
| Government grant (Road Subsidy) | - | 29 265 928 |
| Provincial: Treasury -COGTA | - | 9 994 496 |
| Government grant (MIG) | 145 890 460 | - |
| Government grant (WSIG) | 53 178 895 | 74 118 321 |
| Government grant (RBIG) | 80 871 683 | 176 910 825 |
| | **279 941 038** | **290 289 570** |
| | 575 241 749 | 797 753 177 |
| | 279 941 038 | 290 289 570 |
| | **855 182 787** | **1 088 042 747** |

| | 2019 R | 2018 R |
|---|---|---|
| **Revenue from other Unconditional Grants and Subsidies** | | |
| Equitable share | 506 314 000 | 507 459 000 |
| Government grant (LGSETA) | 669 190 | 364 060 |
| | **506 983 190** | **507 823 060** |

**Conditional and Unconditional**

Included in above are the following grants and subsidies received:

| | 2019 R | 2018 R |
|---|---|---|
| Conditional grants received | 580 583 747 | 1 088 406 807 |
| Unconditional grants received | - | 507 823 060 |
| | **580 583 747** | **1 596 229 867** |

**Equitable Share**

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

**Provincial: Treasury**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 1 606 965 | 1 606 965 |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: COGTA**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | (1) | (15 725 808) |
| Current-year receipts | - | 19 547 000 |
| Conditions met - transferred to revenue | - | (9 994 497) |
| Other | - | 6 173 304 |
| | **(1)** | **(1)** |

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

**National: Municipal Infrastructure Grant (MIG)**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 270 880 000 | 292 340 000 |
| Conditions met - transferred to revenue | (129 735 778) | (278 216 151) |
| Transfer to DHS Unblocking debtor | (56 785 670) | (9 539 759) |
| Transfer to COGTA debtor | - | (6 173 305) |
| Transfer to debtor | - | 1 589 215 |
| | **84 358 552** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**National: Department of Rural Development and Land Reform**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 402 614 | 402 614 |

Conditions still to be met - remain liabilities (see note 17).

**National: Sport and Development**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 16 140 327 | 16 140 327 |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: Office of the Premier**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 21 569 | 21 569 |

Conditions still to be met - remain liabilities (see note 17).

**Department of Transport**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 1 732 096 | 1 732 096 |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: Department of Economic Affairs**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 14 308 884 | 14 308 884 |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: Department of Housing, Local Gvt and Traditional Affairs**

| | 2019 R | 2018 R |
|---|---|---|
| Balance unspent at beginning of year | 1 158 656 | 1 158 656 |

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

**Provincial: Department of Roads**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (2 001 858) |
| Current-year receipts | 32 586 506 | 21 917 670 |
| Conditions met - transferred to revenue | (16 277 977) | (29 265 929) |
| Transferred to debtors | - | 9 350 117 |
| | **16 308 529** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**National: Other Spheres of Government**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 7 162 449 | 7 162 449 |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: Lapesi Project**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 42 197 | 42 197 |

Conditions still to be met - remain liabilities (see note 17).

**National: EPWP**

| | | |
|---|---|---|
| Current-year receipts | 6 158 000 | 10 037 000 |
| Conditions met - transferred to revenue | (6 029 319) | (10 037 000) |
| | **128 681** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**National: Rural Household Infrastructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (1) |
| Current-year receipts | - | 1 |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**Department of Human Settlement Unblocking**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (23 037 221) |
| Current-year receipts | - | 13 497 462 |
| Transfer to MIG | - | 9 539 759 |
| | **-** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**Provincial: DEDEAT**

## Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 22. Government grants and subsidies (continued)

| | | |
|---|---|---|
| Balance unspent at beginning of year | 360 655 | 360 655 |

Conditions still to be met - remain liabilities (see note 17).

**National: Finance Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 | 1 |
| Current-year receipts | 1 250 000 | 1 500 000 |
| Conditions met - transferred to revenue | (902 952) | (1 500 000) |
| Other | (347 048) | - |
| | **1** | **1** |

Conditions still to be met - remain liabilities (see note 17).

**EC Roads Infrastructure**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (2 001 858) |
| Current-year receipts | - | 21 917 670 |
| Conditions met - transferred to revenue | (10 901 181) | (29 265 929) |
| Other | - | 9 350 117 |
| | **(10 901 181)** | **-** |

Conditions still to be met - remain liabilities (see note 17).

**National: DOT - Rural Road Asset Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2 680 975 | - |
| Current-year receipts | 3 229 000 | 3 222 000 |
| Conditions met - transferred to revenue | (2 680 975) | (541 025) |
| | **3 229 000** | **2 680 975** |

Conditions still to be met - remain liabilities (see note 17).

**National: Regional Bulk Infrustructure Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | (2 149 195) |
| Current-year receipts | 162 000 000 | 208 500 000 |
| Conditions met - transferred to revenue | (52 574 507) | (176 910 825) |
| Other | - | (29 439 980) |
| | **109 425 493** | **-** |

Conditions still to be met - remain liabilities (see note 17)

.

**Water services Infrastructure Grant (WSIG)**

| | | |
|---|---|---|
| Current-year receipts | 137 300 000 | - |
| Conditions met - transferred to revenue | (48 178 895) | - |
| | **89 121 105** | **-** |

Conditions still to be met - remain liabilities (see note 17).

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

## 22. Government grants and subsidies (continued)

**Municipal Water Infrastructure Grant (MWIG) - Operational**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 32 991 649 | 27 109 961 |
| Current-year receipts | - | 80 000 000 |
| Conditions met - transferred to revenue | (5 000 000) | (74 118 312) |
| | **27 991 649** | **32 991 649** |

Conditions still to be met - remain liabilities (see note 17).

**Grant: Emergency Housing**

| | | |
|---|---|---|
| Current-year receipts | 1 583 192 | - |

Conditions still to be met - remain liabilities (see note 17).

Provide explanations of conditions still to be met and other relevant information.

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

## 23. Employee related costs

| | | |
|---|---|---|
| Basic | 197 447 019 | 183 329 519 |
| Bonus | 15 080 051 | 13 876 194 |
| Overtime payments | 11 839 703 | 11 683 692 |
| Medical aid - company contributions | 14 928 337 | 18 145 483 |
| Pension Fund Contributions | 31 217 236 | 28 060 208 |
| Group Life Insurance | 1 248 389 | 817 289 |
| UIF | 1 564 644 | 1 503 887 |
| Travel, motor car, accommodation, subsistence and other allowances | 25 706 433 | 26 521 791 |
| Housing benefits and allowances | 2 176 537 | 1 866 978 |
| Leave pay provision charge | 5 546 642 | 4 992 463 |
| Industrial Council Levies | 86 562 | 71 140 |
| Long-service awards | 3 016 382 | 2 599 522 |
| | **309 857 935** | **293 468 166** |

**Remuneration of municipal manager - M.A. Mene**

| | | |
|---|---|---|
| Annual Remuneration | - | 801 890 |
| Car Allowance | - | 344 148 |
| Contributions to UIF, Medical and Pension Funds | - | 184 544 |
| Other | - | 65 088 |
| Other | - | 190 507 |
| | **-** | **1 586 177** |

The municipal manager resigned on 13 March 2018.

**Remuneration of Chief Financial Officer - N. Fetsha**

| | | |
|---|---|---|
| Annual Remuneration | 595 161 | 1 158 365 |
| Car Allowance | - | 281 197 |
| Contributions to UIF, Medical and Pension Funds | 446 | 8 473 |
| Other | 233 813 | 127 776 |
| Housing Allowance | 36 717 | 161 110 |
| | **866 137** | **1 736 921** |

**Remuneration of Director: Corporate Services - Y. Matakane-Dakuse**

| | | |
|---|---|---|
| Annual Remuneration | 595 161 | 978 643 |
| Car Allowance and other allowances | 230 195 | 392 636 |
| Contributions to UIF, Medical and Pension Funds | 60 967 | 8 473 |
| Other | - | 339 457 |
| Other | - | 232 509 |
| | **886 323** | **1 951 718** |

**Remuneration of Director: Health Services - Y. Sinyanya**

| | | |
|---|---|---|
| Annual Remuneration | 595 161 | 998 454 |
| Car Allowance and other allowances | 237 592 | 400 420 |
| Contributions to UIF, Medical and Pension Funds | 57 937 | 213 892 |
| Other | - | 83 204 |
| Other | - | 6 923 |
| | **890 690** | **1 702 893** |

**Remuneration of Director: Integrated Planning and Development - Z. Shasha**

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

## 23. Employee related costs (continued)

| | | |
|---|---|---|
| Annual Remuneration | 589 148 | 976 962 |
| Car Allowance and other allowances | 236 888 | 393 738 |
| Contributions to UIF, Medical and Pension Funds | - | 208 279 |
| Other | - | 943 |
| Other | - | 95 618 |
| | **826 036** | **1 675 540** |

**Remuneration of Director: Strategic Services - B. Mthembu**

| | | |
|---|---|---|
| Annual Remuneration | 595 161 | 1 158 365 |
| Car Allowance and other allowances | 317 361 | 377 924 |
| Contributions to UIF, Medical and Pension Funds | 59 002 | 43 737 |
| Other | - | 5 602 |
| Other | - | 198 096 |
| | **971 524** | **1 783 724** |

**Remuneration of Director: Technical Services - M. Dungu**

| | | |
|---|---|---|
| Annual Remuneration | 249 614 | 1 158 365 |
| Car Allowance and other allowances | 160 219 | 384 749 |
| Contributions to UIF, Medical and Pension Funds | - | 52 788 |
| Other | - | 29 395 |
| Other | - | 202 215 |
| | **409 833** | **1 827 512** |

## 24. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | - | 1 002 142 |
| Mayoral Committee Members | - | 5 096 343 |
| Speaker | 24 331 | 878 310 |
| Councillors | 11 650 241 | 3 417 091 |
| Chief Whip | - | 767 890 |
| | **11 674 572** | **11 161 776** |

## 25. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 150 000 | 139 143 467 |
| Intangible assets | - | 1 377 183 |
| | **150 000** | **140 520 650** |

## 26. Finance costs

| | | |
|---|---|---|
| Interest cost | 266 610 | 117 085 |

## 27. Debt impairment

| | | |
|---|---|---|
| Debt impairment | - | 267 391 721 |

## 28. Bulk purchases

| | | |
|---|---|---|
| Water | 19 156 293 | 16 178 054 |

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

## 29. Contracted services

| | | |
|---|---|---|
| **Presented previously** | | |
| Outsources services | 126 953 328 | 34 946 286 |
| Consultant and professional fees | 34 318 524 | 8 894 402 |
| Other Contractors | 124 483 377 | 71 326 993 |
| Presented previously | 285 755 229 | 115 167 681 |
| Outsourced Services | - | - |
| Consultants and Professional Services | - | - |
| Contractors | - | - |

## 30. Transfers and subsidies

| | | |
|---|---|---|
| **Other subsidies** | | |
| Adopted schools | - | 20 657 |
| VIP Toilets Expenditure (MIG Operational) | 1 373 268 | 64 974 419 |
| Chris Hani Development Agency | 29 339 125 | 22 480 000 |
| Sanitation (WSIG operational) | - | 10 200 235 |
| | **30 712 393** | **97 675 311** |
| Grants paid to ME's | - | - |
| Other subsidies | 30 712 393 | 97 675 311 |

### 31. General expenses

| | 2019<br>R | 2018<br>R |
|---|---|---|
| Advertising | 4 092 521 | 2 680 889 |
| Auditors remuneration | 7 809 441 | 5 878 066 |
| Bank charges | 1 479 720 | 1 463 108 |
| Bad debt write off | - | 213 181 |
| VIP Latrine Sucking | - | 385 101 |
| Computer expenses | 8 067 823 | 6 337 171 |
| Consumables | 6 429 423 | 466 340 |
| Tools and Equipment | 86 600 | 863 883 |
| Entertainment | 931 571 | 1 453 734 |
| Hire | 310 006 | 284 618 |
| Insurance | 1 779 440 | 840 568 |
| Education and marketing | 877 945 | 1 070 006 |
| Strategic sessions | - | 1 208 192 |
| Motor vehicle expenses | 1 959 738 | 1 638 872 |
| Fuel and oil | 25 604 540 | 22 757 669 |
| Postage and courier | 304 710 | 1 126 484 |
| Printing and stationery | 4 490 988 | 7 589 073 |
| Promotions activities and presentations | - | 492 940 |
| Protective clothing and uniforms | 2 052 387 | 1 089 890 |
| Software expenses | - | 1 820 315 |
| Staff welfare | 1 921 980 | 834 040 |
| Subscriptions and membership fees | 11 560 779 | 3 808 520 |
| Telephone and fax | 3 655 409 | 4 406 677 |
| Training | - | 1 624 000 |
| Travel - local | 19 757 818 | 16 400 886 |
| Purchase of samples | - | 121 323 |
| Assets Expensed | 4 583 976 | 907 568 |
| Electricity | 30 863 574 | 40 050 043 |
| Rates | 798 486 | 376 975 |
| Water Sampling | 145 626 | 516 551 |
| Refuse | 142 480 | 38 450 |
| Public events / Imbizo | 1 007 057 | 2 567 113 |
| Study assistance reimbursements | 157 042 | 160 570 |
| Job evaluations | - | 12 674 |
| Communication | 1 266 435 | 967 051 |
| Approved Course | - | 189 440 |
| Community projects | 675 101 | 76 915 739 |
| Indingent Subsidy | 11 350 853 | 23 447 875 |
| Delegated Management- Water Services Authority | - | 14 533 961 |
| Indingent Subsidy | 1 571 460 | - |
| Chemicals | 9 468 827 | 4 440 688 |
| Skills Development Levy | 2 822 871 | 2 319 211 |
| Operating Leases | 5 812 457 | 5 855 300 |
| | **173 839 084** | **260 154 755** |

### 32. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 7 809 441 | 5 878 066 |

# Notes to the Annual Financial Statements

## 33. Cash generated from operations

| | 2019 R | 2018 R |
|---|---|---|
| Surplus | 398 277 909 | 192 571 508 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 150 000 | 140 520 650 |
| Loss on sale of assets and liabilities | - | 106 688 |
| Debt impairment | - | 267 391 721 |
| Movements in retirement benefit assets and liabilities | 12 417 677 | 12 417 677 |
| **Changes in working capital:** | | |
| Inventories | (5 300 464) | (5 300 464) |
| Receivables from exchange transactions | (255 925 413) | (255 925 413) |
| Other receivables from non-exchange transactions | 27 444 554 | 27 444 554 |
| Prepayments | (586 758) | - |
| Payables from exchange transactions | (22 197 587) | (22 197 587) |
| VAT | 66 424 953 | 66 424 953 |
| Unspent conditional grants and receipts | 44 202 633 | 44 202 633 |
| Consumer deposits | 111 922 | 114 226 |
| | **265 019 426** | **467 771 146** |

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

## 34. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Infrastructure | 832 818 344 | 612 440 313 |
| • Buildings | - | 202 164 331 |
| • Other | - | 50 499 667 |
| • Community | - | 12 038 841 |
| | **832 818 344** | **877 143 152** |
| **Not yet contracted for and authorised by accounting officer** | | |
| • Property, plant and equipment | - | 8 913 344 |
| • | - | 2 445 300 |
| | **-** | **11 358 644** |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 832 818 344 | 877 163 152 |
| Not yet contracted for and authorised by accounting officer | - | 11 358 644 |
| | **832 818 344** | **888 521 796** |

This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortagage facilities, existing cash resources, internally generated funds, etc.

**Total commitments**

| | | |
|---|---|---|
| **Total commitments** | | |
| Authorised capital expenditure | 832 818 344 | 832 818 344 |

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

**Operating leases - as lessee (Buildings)**

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 1 739 200 | 1 069 320 |
| - in second to fifth year inclusive | 470 682 | 653 336 |
| | **2 209 882** | **1 722 656** |

**Operating leases - as lessee (Other Equipment)**

Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

| | | |
|---|---|---|
| Dividends or similar distributions proposed, but not authorised for distribution | 2 209 882 | 1 722 656 |

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

## 35. Contingencies

### Contingent liabilities

The municipality is party to the following litigation matters

| **Litigations** | | |
|---|---|---|
| Contractual claim by Ziphi-niphi Enterprise against Eyethu Engineers and CHDM. There has been no further action by plaintiff. | 96 660 | 196 660 |
| Claim by Volcano Sales & Transport CC regarding the supply and delivery of materials. Plea of denial of alleged cession and delivery note and denial that cession is valid in law. The matter has not been taken further. | 28 885 | 78 885 |
| Claim by GK Water (t/a GK water solutions) against CHDM in respect of services rendered. Defendant has raised an Exception and exception is pending. The matter has not been taken further for more than a year. The plaintiff lodged 2 claims of R648,399.50 and R742,687.38 | 1 391 027 | 1 591 027 |
| Claim by Cradock Golf Club against CHDM and one other in respect of damages. Special Plea of non-compliance with Section 3 of Act 40 of 2002 and misjoinder and Plea overfilled. The matter has not been taken further since May 2016. | 32 265 | 57 265 |
| Claim by T O Madywabe against CHDM in respect of damages for personal injury. | - | 17 000 |
| Claim by Norland Construction (Pty) Limited against CHDM in respect of services rendered. There has been no further action plaintiff since 30 November 2016. | 2 162 442 | 2 362 442 |
| Claim by Element Consulting Engineering (Pty) Ltd against CHDM for goods supplied and services rendered. Summons issued for breach of contract. Action defended. Plaintiff applied for Summary Judgement. Summary Judgement opposed. Leave to Defend granted. No further action taken by Plaintiff. | 1 217 246 | 1 517 246 |
| Claim by City Square Trading 204 (Pty) Ltd against CHDM and one other for goods supplied and services rendered. | 5 359 088 | 5 559 088 |
| Claim by Edward Silas Bikitsha against CHDM for damages suffered due to unlawful utilisation of land. | 558 000 | 858 000 |
| Application by Vezizinto Co-operative to interdict CHDM and 4 others for using applicant's land. | - | 100 000 |
| Claim by Oducure Eastern Cape (Pty) Ltd for breach of contract. The case has been inactive since the special pleasnof non-joinder and lack of locus standi and also of authority were filed. Instead a new action against the party that was joined has been instituted. | 180 052 | 230 052 |
| Plaintiff, Total Laboratory Technologies, issued summons against the Municipality for goods allegedly, supplied and delivered. Judgement was granted by default. The municipality partially disputes the claim, and hence is in the process of applying for the rescission of judgement. | 96 296 | 221 296 |
| Plaintiff, Arise and Shine Security & Cleansing Services, brought a claim for services rendered and outstanding claims against the Municipality. Matter has been defended and the Municipality is in the process of filling a counterclaim for a lost generator. | 352 500 | 452 500 |
| The Applicant, Mawethu Magida, is making an application to rescind a judgement that was granted in default on behalf of the Respondent. | 300 000 | 650 000 |
| The Defendant has defended the action brought by Telkom so as to ascertain where the incident occured. | 64 940 | 164 940 |
| Applicant (Mopo Mene) making an application to set the decision of Council to rescing his appointment aside. Matter has been opposed, and papers in opposition have been filed. No replying affidavit has been filed. Matter is still pending. The liability will be limited to the remuneration amount for the remainder of the contract of employment. | - | 500 000 |
| Great Fish River Water Users Association: Payment of government water charges and sub-area scheme charges. The Defendant has defended the action. | 1 007 923 | 1 007 923 |

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|
| **35. Contingencies (continued)** | | |
| Claim by A.M. Putter and 4 others regarding obligation of CHDM to pay medical aid contributions to surviving spouse of deceased employee / retired employee. Awaiting judgement and amount is indeterminable. | - | 300 000 |
| Claim by Zuziwe Booi against CHDM and 2 other. | - | 250 000 |
| Claim by Civil and General Construction CC: Application to interdict and restrain CHDM from continuing with tender process and are awarding tender to Urban Africa Services pending hearing of main Application which is for the review and setting aside of the decision to award the bid to Urban Africa Services. Opposed Main Application enrolled for hearing on 4 August 2016. Matter decided in the municipality's favour, but the Applicant has applied for leave to appeal the decision of the Court. Application for Leave to Appeal granted. Appellant has prosecuted Appeal. Appeal heard, and granted in favour of the Appellant. Municipality has filed Leave to Appeal to the SCA. | - | 400 000 |
| Claim by Ikamva Architects and MMPA Quantity Surveyors and projects managers (Pty) Ltd: Application to interdict and restrain CHDM from continuing with tender process and are awarding tender to Clarence Bobie & Partners pending hearing of main Application which is for the review and setting aside of the decision to award the bid to Clarence Bobie & Partners. Matter settled and settlement made Order of Court. | - | 400 000 |
| Claim by Zandisile Yafele: Plaintiff brought an application for an order for an order to declare the refusal to grant him access to information unlawful. Matter has been opposed. | - | 70 000 |
| Claim by MEC for COGTA - EC: The Applicant is making an application to declare the appointment of the 4th Respondent as null and void. Matter not opposed. | - | 200 000 |
| | **12 847 324** | **17 184 324** |

# Notes to the Annual Financial Statements

| | 2019 R | 2018 R |
|---|---|---|

## 36. Related parties

| | |
|---|---|
| Relationships | |
| Accounting Officer | Refer to accounting officer's report note |
| Associates | Refer to note |
| Members of key management | KEY MANAGEMENT OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW: |

**Related party transactions**

| **Interest paid to (received from) related parties** | 2019 R | 2018 R |
|---|---|---|
| Wezi Gqiza | - | 52 525 |
| K2011115430 (Pty) Ltd | - | 3 900 |
| Phalethu 0513 Event Management | - | 40 000 |
| Amagqika Trading Enterprise (Pty) Ltd | - | 7 825 |
| Keith Ngesi Media (Pty) Ltd | 211 250 | 29 350 |
| My Kyns Services and Suppliers | - | 8 000 |
| Ian S Development Services | 33 660 | 54 780 |
| Vodacom (Pty) Ltd | 272 188 | 281 197 |
| Mangwane na Maqwathi Holdings | - | 2 400 |
| Nonala Tose Productions | - | 30 000 |
| Likhamandla Trading | - | 11 940 |
| Ngcobo Multi Media Trading | - | 15 580 |
| Arcon Projects | - | 6 450 |
| Rumdel Construction | 2 333 241 | - |
| Buyile No.88 Construction and Catering | - | 14 600 |
| Kokwenu Bed and Breakfast | - | 3 200 |
| Mduba General Trading | - | 8 250 |
| Mesilane Projects | - | 20 400 |
| Ubomi Civils Construction Services | 228 939 | 2 169 232 |
| Unako Fencing and Construction | - | 12 500 |
| Chris Hani Choral Music Association | 249 600 | 176 500 |
| Ntribo General Trading | - | 28 200 |
| Nqantiko Construction and Projects | - | 40 000 |
| Valotone 94 CC | - | 1 905 628 |

## 37. Unauthorised expenditure

| | 2019 R | 2018 R |
|---|---|---|
| Opening balance | 616 684 082 | 619 064 041 |
| Unauthorised expenditure - current year | - | 657 381 |
| Unauthorised expenditure - written off | - | (3 037 340) |
| | **616 684 082** | **616 684 082** |

During 2017/18 financial year, the municipality tabled the adjusted budget for 2017/18 to council in addressing unauthorised expenditure for the 2016/17 financial year in terms of section 28(2)(g) of the MFMA read together with regulation 23(6)(b) of the MBRR. An adjustment budget contemplated in section 28(2)(g) of the Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act.

## 38. Fruitless and wasteful expenditure

| | 2019 R | 2018 R |
|---|---|---|
| Opening balance | 3 854 654 | 3 597 638 |
| Fruitless and wasteful expenditure - Current year | 57 199 | 257 016 |
| | **3 911 853** | **3 854 654** |

Investigations for Fruitless and wasteful expenditure is in progress.

# Notes to the Annual Financial Statements

| | 2019<br>R | 2018<br>R |
|---|---|---|

### 38. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful is made up of Finance costs, Repudiated Insurance claims - laptops and workshop not attended for job architecture by Directorate.

### 39. Irregular expenditure

| | 2019 | 2018 |
|---|---|---|
| Opening balance | 1 382 073 473 | 1 247 716 185 |
| Add: Irregular Expenditure - current year | 50 480 018 | 134 357 288 |
| | **1 432 553 491** | **1 382 073 473** |

**Analysis of expenditure awaiting condonation per age classification**

| | 2019 | 2018 |
|---|---|---|
| Current year | 50 480 018 | 134 357 288 |
| Prior years | 1 382 073 473 | 1 247 716 185 |
| | **1 432 553 491** | **1 382 073 473** |

### 40. Additional disclosure in terms of Municipal Finance Management Act

**Contributions to organised local government**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | - | - |
| Current year subscription / fee | 3 128 430 | 2 838 641 |
| Amount paid - current year | (3 128 430) | (2 838 641) |
| | **-** | **-** |

**Audit fees**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | - | - |
| Current year subscription / fee | 6 565 202 | 5 878 066 |
| Amount paid - current year | (6 565 202) | (5 878 066) |
| | **-** | **-** |

**PAYE and UIF**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | - | - |
| Current year subscription / fee | 790 886 | 41 852 636 |
| Amount paid - current year | (790 886) | (41 852 636) |
| | **-** | **-** |

**Pension and Medical Aid Deductions**

| | 2019 | 2018 |
|---|---|---|
| Opening balance | - | - |
| Current year subscription / fee | 22 918 687 | 41 061 129 |
| Amount paid - current year | (22 918 687) | (41 061 129) |
| | **-** | **-** |

| | 2019<br>R | 2018<br>R |
|---|---|---|

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

**VAT**

| | 2019 | 2018 |
|---|---|---|
| VAT receivable | 134 756 441 | - |
| VAT payable | - | 3 536 576 |
| | **134 756 441** | **3 536 576** |

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

All VAT returns have been submitted during the year based on a 1 month, category C tax period, ie submission is due on the last day of each of the 12 months. The municipality uses the payments Basis to account for the tax payable

### 41. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements. The municipality does not have any deviations for the 2017/18 financial year.

| **Deviations - 31 March 2019** | Mayor's office and MM's office | Budget and Treasury Office | Technical Services | IPED | Corporate services and health services | Total |
|---|---|---|---|---|---|---|
| Cutting the Middleman in the procurement and saving for the municipality | - | - | 357 105 | - | - | 357 105 |

### 42. Water Distribution Losses

**Water losses**

| | 2019 | 2018 |
|---|---|---|
| Water losses | - | 119 259 745 |

### 43. Prior period errors

The correction of the errors results in adjustments as follows:

**Comparatives**

The aggregate effect of the prior period adjustments and reclassifications on the comparative figures in the financial statements for the year ended 30 June 2018 is as follows;

| **Statement of financial performance** | As previously reported | Reclassifications | Restated as at 30 June 2018 |
|---|---|---|---|
| **Expenditure** | | | |
| Contracted services | (96 770 768) | (18 396 914) | (115 167 682) |
| Transfers and subsidies | (192 208 870) | 94 533 559 | (97 675 311) |
| General expenses | (184 018 110) | (76 136 645) | (260 154 755) |
| | - | - | - |

| | 2019 | 2018 |
|---|---|---|
| | R | R |

### 44. Risk management

**Financial risk management**

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

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

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

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

**Liquidity risk**

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settles by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The budget and treasury office monitors the cashflow requirements on a regular basis.

The municipality's cashflows consist of short term deposits and current accounts with notice periods of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

**Credit risk**

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the municipality's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such , the municipality is not able to select only credit worthy counterparts

Credit risk consists mainly of cash deposits, cash equivalents, investments and trade debtors.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The existing trade receivables portfolio has historically been significantly impaired as a result of a number of contributing factors . Trade receivables are thus presented net of an allowance for impairment

Except for trade and other receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

| Financial instrument | 2019 | 2018 |
|---|---|---|
| Interest rate swap | - | 349 485 287 |

**Market risk**

# Notes to the Annual Financial Statements

| | 2019 | 2018 |
|---|---|---|
| | R | R |

### 44. Risk management (continued)

**Interest rate risk**

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk
Interest rate risk is defined as the risk that the fair value of future cashflows associated with a financial instrument will flactuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cashflow risk exposures on long term financing.

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

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures risk.

### 45. Events after the reporting date

There were no non-adjusting events after the reporting date.