Ugu District Municipality

UGU District Municipality
Annual financial statements
for the year ended 30 June 2019
Auditor General South Africa (AGSA)

General Information

Legal form of entity	Municipality (MFMA)
Nature of business and principal activities	Local government
Municipal capacity	High capacity
Executive committee	
Mayor	Cllr MA Chiliza (1 July 2018 - 23 May 2019)
Acting Mayor	Cllr PH Mthiyane (23 May 2019 - 30 June 2019)
Deputy Mayor	Cllr PH Mthiyane
Speaker	Cllr NH Gumede
Other executive committee members	Cllr LMR Ngcobo
	Cllr SP Mthethwa
	Cllr L Mzimela
	Cllr AD Ngubo
	Cllr NT Dlamini
Other councillors	Cllr NY Mweshe
	Cllr DMM Hlengwa
	Cllr S Chetty
	Cllr H Mbatha
	Cllr MA Manyoni
	Cllr R Nair
	Cllr S Mngomezulu
	Cllr D Nciki
	Cllr HJ Ngubelanga
	Cllr MPL Zungu
	Cllr JJ East
	Cllr GD Henderson
	Cllr SR Ngcobo
	Cllr PT Naude
	Cllr A Rajaram
	Cllr TA Disane
	Cllr SE Khawula
	Cllr BE Machi
	Cllr ZZ Msani
	Cllr B Ntusi
	Cllr K Dladla
	Cllr M Gcwabe
	Cllr SN Caluza
	Cllr TB Cele
	Cllr TW Dube
	Cllr NCP Mqwebu
Traditional Leaders	Inkosi MP Ngcobo
	Inkosi EZ Mkhize
	Inkosi BS Nzimakwe
	Inkosi ZGB Msomi
	Inkosi ZR Qwabe
	Inkosi EZ Jali
	Inkosi B Cele
Grading of local authority	Grade 5

General Information

Chief Finance Officer (CFO)	Mr MS Dlamini
Accounting Officer	Mr DD Naidoo
Registered office	28 Connor Street Port Shepstone Kwazulu-Natal 4240
Business address	28 Connor Street Port Shepstone Kwazulu-Natal 4240
Postal address	PO Box 33 Port Shepstone Kwazulu-Natal 4240
Auditors	Auditor General South Africa (AGSA) Registered Auditors
Website	www.ugu.gov.za

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

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

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that 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 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 the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on page 7 to , which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019 and were signed on his behalf by :

Accounting Officer
Mr DD Naidoo

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2019.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four (4) times per annum as per its approved terms of reference. During the current year eleven (11) number of meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 165 and section 166 of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effeciency and effectiveness of internal control

The Audit Committee has considered the work performed by internal audit on a quartely basis and reviewed the findings by Auditor-General on internal controls for the year ended 30 June 2019. The Audit Committe notes that there has been improvement in internal controls in the areas of financial statement, performance reporting and compliance with legislation.

In line with Section 62(c)(ii) of the MFMA, internal audit provides the Audit Committee and Management with reasonable assurance that the internal controls are adequate and effective. This is achieved by an approved risk based internal audit plan, internal audit assessing the adequacy of controls mitigating the risks and the Audit Committee monitoring implementation of corrective actions.

Report of the Auditor- General South Africa

The Audit Committee has;

- reviewed the AGSA management report and management responses there to;
- on a quartely basis reviewed the departments implementation plan for all the issues raised in the prior year;
- met with AGSA to ensure that there are no unresolved issues that eminated from the regulatory audit;

The corrective actions of the detailed findings raised by AGSA are monitored by the Audit Committee on a quartely basis.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the ;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.
- reviewed and discussed the report and audit opinion of the Auditor-General with the Auditor-General and management.

These financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by Municipal Finance Management Act and Division of Revenue Act.

The audit committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

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

Audit Committee Report

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: ______________________

Independent Auditor's Report

The accounting officer submits his report for the year ended 30 June 2019.

Statement of Financial Position as at 30 June 2019

Figures in Rand	Notes	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	10 305 840	7 014 297
Current portion of long term receivables	4	21 085	28 277
Operating lease asset	5	-	39 699
Receivables from non-exchange transactions	6	105 837 974	88 888 868
Receivables from exchange transactions	7	169 837 666	148 145 584
Cash and cash equivalents	8	54 874 151	41 801 196
		340 876 716	**285 917 921**
Non-Current Assets			
Investment property	9	31 650 000	31 650 000
Property, plant and equipment	10	4 231 849 901	4 118 658 414
Intangible assets	11	9 439 475	12 610 147
Investments in controlled entities	12	200	200
Long term portion receivables	4	334 065	80 510
		4 273 273 641	**4 162 999 271**
Total Assets		**4 614 150 357**	**4 448 917 192**
Liabilities			
Current Liabilities			
Current portion long term liabilities	13	24 199 707	22 472 666
Operating lease liability	5	27 350	58 328
Payables from exchange transactions	14	428 733 907	250 473 020
VAT payable	15	45 558 550	9 547 913
Consumer deposits	16	21 663 801	21 084 866
Unspent conditional grants and receipts	17	21 353 663	116 663
Provisions	18	30 351 623	30 864 013
		571 888 601	**334 617 469**
Non-Current Liabilities			
Long term portion of long term liabilities	13	60 837 218	84 026 340
Employee benefit obligation	19	19 694 366	17 583 366
Other long term employee benefits	20	19 189 178	16 444 569
		99 720 762	**118 054 275**
Total Liabilities		**671 609 363**	**452 671 744**
Net Assets		**3 942 540 994**	**3 996 245 448**
Accumulated surplus		3 942 540 994	3 996 245 448

* See Note 44

Statement of Financial Performance

Figures in Rand	Notes	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	294 434 957	315 861 128
Rental of facilities and equipment	22	3 430 892	1 274 596
Interest received from VAT receivable	24	1 685 327	-
Other income	25	5 947 246	3 931 728
Interest received - investment	26	7 235 470	15 776 673
Total revenue from exchange transactions		**312 733 892**	**336 844 125**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	27	734 943 000	714 519 337
Total revenue	23	**1 047 676 892**	**1 051 363 462**
Expenditure			
Employee related costs	28	(389 624 840)	(371 001 555)
Remuneration of councillors	29	(9 440 438)	(9 019 533)
Depreciation and amortisation	30	(217 156 106)	(211 445 321)
Impairment loss/ Reversal of impairments	31	(20 910 153)	(4 368 014)
Finance costs	32	(11 093 002)	(11 185 916)
Lease rentals on operating lease		(5 337 596)	(5 571 276)
Bulk purchases	33	(131 955 553)	(95 556 444)
Contracted services	34	(190 148 303)	(165 589 190)
Transfers and Subsidies	35	(20 212 815)	(19 496 496)
General Expenses	36	(163 408 071)	(197 232 549)
Total expenditure		**(1 159 286 877)**	**(1 090 466 294)**
Operating deficit		**(111 609 985)**	**(39 102 832)**
Gain on disposal of assets	37	57 905 532	594 755
Fair value adjustments	38	-	1 407 518
Inventories losses/write-downs	3	-	(5 318 861)
		57 905 532	**(3 316 588)**
Deficit for the year		**(53 704 453)**	**(42 419 420)**

* See Note 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**4 038 664 868**	**4 038 664 868**
Changes in net assets		
Surplus for the year	(42 419 420)	(42 419 420)
Total changes	(42 419 420)	(42 419 420)
Restated* Balance at 01 July 2018	**3 996 245 447**	**3 996 245 447**
Changes in net assets		
Surplus for the year	(53 704 453)	(53 704 453)
Total changes	(53 704 453)	(53 704 453)
Balance at 30 June 2019	**3 942 540 994**	**3 942 540 994**
Note(s)	44	

* See Note 44

Cash Flow Statement

Figures in Rand	Notes	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		274 569 830	274 569 830
Grants		714 519 337	714 519 337
Interest income		7 235 470	15 776 673
		996 324 637	1 004 865 840
Payments			
Employee costs		(389 624 840)	(380 021 088)
Finance costs		(11 093 002)	(11 185 916)
Other payments		(126 309 114)	(417 425 729)
		(527 026 956)	(808 632 733)
Net cash flows from operating activities	40	**469 297 681**	**196 233 107**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(535 500 004)	(322 948 689)
Proceeds from sale of property, plant and equipment	10	98 239 113	2 396 903
Proceeds from sale of financial assets		(246 363)	(19 244)
Net cash flows from investing activities		**(437 507 254)**	**(320 571 030)**
Cash flows from financing activities			
Repayment of current portion long term liabilities		(21 462 081)	(20 022 308)
Movement in other long term employee benefits		2 744 609	987 662
Net cash flows from financing activities		**(18 717 472)**	**(19 034 646)**
Net increase/(decrease) in cash and cash equivalents		**13 072 955**	**(143 372 569)**
Cash and cash equivalents at the beginning of the year		41 801 196	185 173 765
Cash and cash equivalents at the end of the year	8	**54 874 151**	**41 801 196**

* See Note 44

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	429 111 413	-	**429 111 413**	294 434 957	**(134 676 456)**	A
Rental of facilities and equipment	1 091 486	-	**1 091 486**	3 430 892	**2 339 406**	B
Interest received from VAT receivable	-	-	**-**	1 685 327	**1 685 327**	C
Other income	6 727 625	-	**6 727 625**	5 947 246	**(780 379)**	
Interest received	3 688 521	-	**3 688 521**	7 235 470	**3 546 949**	D
Total revenue from exchange transactions	**440 619 045**	**-**	**440 619 045**	**312 733 892**	**(127 885 153)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	731 749 314	1 000 000	**732 749 314**	734 943 000	**2 193 686**	
Total revenue	**1 172 368 359**	**1 000 000**	**1 173 368 359**	**1 047 676 892**	**(125 691 467)**	
Expenditure						
Personnel	(348 656 195)	(40 776 891)	**(389 433 086)**	(389 624 840)	**(191 754)**	
Remuneration of councillors	(12 226 507)	-	**(12 226 507)**	(9 440 438)	**2 786 069**	F
Depreciation and amortisation	(58 235 935)	-	**(58 235 935)**	(217 156 106)	**(158 920 171)**	F
Impairment loss/ Reversal of impairments	-	-	**-**	(20 910 153)	**(20 910 153)**	G
Finance costs	(28 000 500)	-	**(28 000 500)**	(11 093 002)	**16 907 498**	H
Lease rentals on operating lease	-	-	**-**	(5 337 596)	**(5 337 596)**	
Debt Impairment	(3 159 000)	-	**(3 159 000)**	-	**3 159 000**	I
Bulk purchases	(75 000 000)	(50 000 000)	**(125 000 000)**	(131 955 553)	**(6 955 553)**	
Contracted Services	(176 904 979)	(88 673 045)	**(265 578 024)**	(190 148 303)	**75 429 721**	J
Transfers and Subsidies	(20 212 726)	-	**(20 212 726)**	(20 212 815)	**(89)**	
General Expenses	(144 476 649)	(89 945 822)	**(234 422 471)**	(163 408 071)	**71 014 400**	K
Total expenditure	**(866 872 491)**	**(269 395 758)**	**(1 136 268 249)**	**(1 159 286 877)**	**(23 018 628)**	
Operating deficit	**305 495 868**	**(268 395 758)**	**37 100 110**	**(111 609 985)**	**(148 710 095)**	
Gain on disposal of assets and liabilities	-	-	**-**	57 905 532	**57 905 532**	
Deficit before taxation	**305 495 868**	**(268 395 758)**	**37 100 110**	**(53 704 453)**	**(90 804 563)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**305 495 868**	**(268 395 758)**	**37 100 110**	**(53 704 453)**	**(90 804 563)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 033 768	-	**8 033 768**	10 305 840	**2 272 072**	
Receivables from non-exchange transactions	42 958 140	-	**42 958 140**	105 837 974	**62 879 834**	
Receivables from exchange transactions	106 673 034	-	**106 673 034**	169 837 666	**63 164 632**	
Cash and cash equivalents	161 541 976	-	**161 541 976**	54 874 151	**(106 667 825)**	
	319 206 918	**-**	**319 206 918**	**340 855 631**	**21 648 713**	
Non-Current Assets						
Investment property	31 564 111	-	**31 564 111**	31 650 000	**85 889**	
Property, plant and equipment	4 126 021 286	-	**4 126 021 286**	4 231 849 901	**105 828 615**	
Intangible assets	17 183 296	-	**17 183 296**	9 439 475	**(7 743 821)**	
Investments in controlled entities	-	-	**-**	200	**200**	
Current portion of long term receivables	32 445	-	**32 445**	334 065	**301 620**	
	4 174 801 138	**-**	**4 174 801 138**	**4 273 273 641**	**98 472 503**	
Total Assets	**4 494 008 056**	**-**	**4 494 008 056**	**4 614 129 272**	**120 121 216**	
Liabilities						
Current Liabilities						
Current portion long term liabilities	16 511 262	-	**16 511 262**	24 199 707	**7 688 445**	
Operating lease liability	-	-	**-**	6 267	**6 267**	
Payables from exchange transactions	181 977 639	-	**181 977 639**	428 733 895	**246 756 256**	
VAT payable	-	-	**-**	45 558 550	**45 558 550**	
Consumer deposits	21 935 004	-	**21 935 004**	21 663 801	**(271 203)**	
Unspent conditional grants and receipts	-	-	**-**	21 353 663	**21 353 663**	
Provisions	30 307 185	-	**30 307 185**	30 351 623	**44 438**	
	250 731 090	**-**	**250 731 090**	**571 867 506**	**321 136 416**	
Non-Current Liabilities						
Current portion long term liabilities	38 749 007	-	**38 749 007**	60 837 218	**22 088 211**	
Employee benefit obligation	-	-	**-**	19 694 366	**19 694 366**	
Other long term employee benefits	33 126 394	-	**33 126 394**	19 189 178	**(13 937 216)**	
	71 875 401	**-**	**71 875 401**	**99 720 762**	**27 845 361**	
Total Liabilities	**322 606 491**	**-**	**322 606 491**	**671 588 268**	**348 981 777**	
Net Assets	**4 171 401 565**	**-**	**4 171 401 565**	**3 942 541 004**	**(228 860 561)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	4 171 401 565	-	**4 171 401 565**	3 942 541 004	**(228 860 561)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	343 289 130	-	**343 289 130**	274 569 830	**(68 719 300)**	
Grants	725 713 454	-	**725 713 454**	714 519 337	**(11 194 117)**	
Interest income	-	-	**-**	9 623 423	**9 623 423**	
Other receipts	9 841 771	-	**9 841 771**	6 153 250	**(3 688 521)**	
	1 078 844 355	**-**	**1 078 844 355**	**1 004 865 840**	**(73 978 515)**	
Payments						
Employee costs	(354 348 702)	-	**(354 348 702)**	(269 023 317)	**85 325 385**	
Finance costs	-	-	**-**	(4 824 498)	**(4 824 498)**	
Other payments	(450 268 732)	-	**(450 268 732)**	(315 809 980)	**134 458 752**	
Other cash item	-	-	**-**	(20 212 726)	**(20 212 726)**	
	(804 617 434)	**-**	**(804 617 434)**	**(609 870 521)**	**194 746 913**	
Net cash flows from operating activities	**274 226 921**	**-**	**274 226 921**	**394 995 319**	**120 768 398**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(301 162 595)	-	**(301 162 595)**	(290 388 208)	**10 774 387**	
Proceeds from sale of property, plant and equipment	-	-	**-**	675 919	**675 919**	
Movement in investments (incl. Controlled entities, JVs & Assoc)	-	-	**-**	(31 650 000)	**(31 650 000)**	
Decrease (Increase) in non-current debtors	618 000	-	**618 000**	222 497	**(395 503)**	
Capital assets	-	-	**-**	(12 774 560)	**(12 774 560)**	
Net cash flows from investing activities	**(300 544 595)**	**-**	**(300 544 595)**	**(333 914 352)**	**(33 369 757)**	
Net increase/(decrease) in cash and cash equivalents	(26 317 674)	-	**(26 317 674)**	61 080 967	**87 398 641**	
Increase (decrease) in consumer deposits	881 000	-	**881 000**	-	**(881 000)**	
Repayment of borrowing	(21 811 928)	-	**(21 811 928)**	(30 379 898)	**(8 567 970)**	
Cash and cash equivalents at the end of the year	**(47 248 602)**	**-**	**(47 248 602)**	**30 701 069**	**77 949 671**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Budget to Actual Comparison - Variances explanatory notes

A Service charges was over budgeted for. The comparison of services charges year on year is below 20% which is in line.

B Increase in invoices raised to municipalities, Telkom, Cell C and Vodacom with respect to Premises and Facilities.

C The Municipality has received Interest on VAT from SARS in the 2018/19 VAT returns, which has not been budgeted for.

D Interest received is higher than the budgeted figure because more funds were invested in Investment accounts than had been anticipated.

E Remuneration for councillors is lower than budgeted because councillors did not obtain an increase in the 2019 year.

F The variance is due to corrections in the current year relating to fixed Assets in terms of exercising the provisions of GRAP.

G The variance is due to corrections in the current year relating to the calculations of the provisions for impairment in te-rms of GRAP.

H Finance costs budgeted for included the capital portion.

I The variance is due to corrections in the current year relating to the calculations of the provisions for impairment in terms of GRAP.

J Contracted services is lower than budgeted as a result of certain cost containment measures.

K The lower spending on General expenses was due to the lower spending on Advertising; Consumables; Accommodation, seminars and travelling; Subscription and membership fees, Electricity costs; Licencing; Sport and recreation costs and Workmen's compensation insurance.1

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Service charges	429 111 413	-	429 111 413	-		429 111 413	294 434 957		(134 676 456)	69 %	69 %
Investment revenue	3 988 521	-	3 988 521	-		3 988 521	7 235 470		3 246 949	181 %	181 %
Transfers recognised - operational	451 691 985	1 000 000	452 691 985	-		452 691 985	443 655 000		(9 036 985)	98 %	98 %
Other own revenue	9 720 790	-	9 720 790	-		9 720 790	68 968 997		59 248 207	709 %	709 %
Total revenue (excluding capital transfers and contributions)	**894 512 709**	**1 000 000**	**895 512 709**	**-**		**895 512 709**	**814 294 424**		**(81 218 285)**	**91 %**	**91 %**
Employee costs	(347 306 195)	(40 776 891)	(388 083 086)	-	-	(388 083 086)	(389 624 840)	-	(1 541 754)	100 %	112 %
Remuneration of councillors	(13 124 969)	-	(13 124 969)	-	-	(13 124 969)	(9 440 438)	-	3 684 531	72 %	72 %
Debt impairment	(3 159 000)	-	(3 159 000)			(3 159 000)	-	-	3 159 000	- %	- %
Depreciation and asset impairment	(58 300 935)	-	(58 300 935)			(58 300 935)	(238 066 259)	-	(179 765 324)	408 %	408 %
Finance charges	(28 000 000)	-	(28 000 000)	-	-	(28 000 000)	(11 093 002)	-	16 906 998	40 %	40 %
Materials and bulk purchases	(91 029 000)	(33 971 000)	(125 000 000)	-	-	(125 000 000)	(131 955 553)	-	(6 955 553)	106 %	145 %
Transfers and grants	(20 212 726)	-	(20 212 726)	-	-	(20 212 726)	(20 212 815)	-	(89)	100 %	100 %
Other expenditure	(323 731 628)	(189 248 702)	(512 980 330)	-	-	(512 980 330)	(358 893 970)	-	154 086 360	70 %	111 %
Total expenditure	**(884 864 453)**	**(263 996 593)**	**(1 148 861 046)**	**-**	**-**	**(1 148 861 046)**	**(1 159 286 877)**	**-**	**(10 425 831)**	**101 %**	**131 %**
Surplus/(Deficit)	**9 648 256**	**(262 996 593)**	**(253 348 337)**	**-**		**(253 348 337)**	**(344 992 453)**		**(91 644 116)**	**136 %**	**(3 576)%**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	(278 412 210)	(265 329)	(278 677 539)	-		(278 677 539)	291 288 000		569 965 539	(105)%	(105)%
Surplus (Deficit) after capital transfers and contributions	**(268 763 954)**	**(263 261 922)**	**(532 025 876)**	**-**		**(532 025 876)**	**(53 704 453)**		**478 321 423**	**10 %**	**20 %**
Surplus/(Deficit) for the year	**(268 763 954)**	**(263 261 922)**	**(532 025 876)**	**-**		**(532 025 876)**	**(53 704 453)**		**478 321 423**	**10 %**	**20 %**
Capital expenditure and funds sources											
Total capital expenditure	(301 436 190)	(35 850 281)	(337 286 471)	-		(337 286 471)	316 465 509		653 751 980	(94)%	(105)%
Sources of capital funds											
Transfers recognised - capital	(276 389 000)	(4 999 000)	(281 388 000)	-		(281 388 000)	231 055 516		512 443 516	(82)%	(84)%
Internally generated funds	(25 047 190)	(30 851 281)	(55 898 471)	-		(55 898 471)	59 332 692		115 231 163	(106)%	(237)%
Total sources of capital funds	**(301 436 190)**	**(35 850 281)**	**(337 286 471)**	**-**		**(337 286 471)**	**290 388 208**		**627 674 679**	**(86)%**	**(96)%**

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.

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 Transfer of functions between entities under common control

Definitions

An acquiree is the municipality and / or the functions that the acquirer obtains control of in a transfer of functions.

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 an 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.

Accounting Policies

1.3 Transfer of functions between entities under common control (continued)

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an 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.

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 surplus 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.

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 19.

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 Investment property

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

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

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

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

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

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

1.5 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

1.6 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	5 to 30 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years
Infrastructure - Water	Straight line	5 to 100 years
Other - Computer equipment	Straight line	3 to 10 years
Other - Furniture and fittings	Straight line	3 to 15 years
Other - Office equipment	Straight line	3 to 15 years
Other - Plant and equipment	Straight line	10 to 15 years
Other - Specialised vehicles	Straight line	5 to 15 years

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

1.7 Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

Accounting Policies

1.7 Intangible assets (continued)

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

Item	Depreciation method	Average useful life
Computer software	Straight line	2 to 5 years
Servitudes	Straight line	Infinitive

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

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).

1.8 Investments in controlled entities

In the municipality's separate annual financial statements, investments in investments in controlled entities are carried at cost.

1.9 Financial instruments

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

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

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

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

Accounting Policies

1.9 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
Loan1	Financial asset measured at amortised cost
Loan2	Financial asset measured at amortised cost
Loan3	Financial asset measured at amortised cost
Other receivables1	Financial asset measured at amortised cost
Other receivables2	Financial asset measured at amortised cost

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

Class	Category
Loan1	Financial liability measured at amortised cost
Loan2	Financial liability measured at amortised cost
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

1.9 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.

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

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, an 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.

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

Financial assets measured at amortised cost:

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

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

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.

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

1.9 Financial instruments (continued)

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

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

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

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

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

Financial liabilities

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

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

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

Accounting Policies

1.9 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.

1.10 Tax

Value added tax

The Municipality accounts for value added tax on the payment basis in accordance with Section 15 (2) of the Value Added Tax (Act No. 89 of 1991).

1.11 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 municipality assesses the classification of each element separately.

Finance leases - lessee

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

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

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

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

1.11 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.

1.12 Inventories

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

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

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

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

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

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

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

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

Consumable stores, raw materials, work - in - progress and finished goods are valued at the lower of cost and ne realisable value (net amount that the municipality expects to realise from the sale on the ordinary course of business). If inventories are to be distributed at no charged or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water inventory:

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc.). However, water in dams, that are filled by natural resources and that has not been treated, therefore not regonised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all cost of purchase, cost of conversion and other cost incurred in bring the inventory to its present location and condition, net of trade discounts and rebates.

Water are purified effluent are valued by using the First Out Method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at the year-end.

Accounting Policies

1.12 Inventories (continued)

Redundant and slow-moving inventories are identified and written down from cost to the net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable varible selling expenses. Differences arising on the mesurement of such Inventory at the lowest of cost and net realisable value are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write- down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of Inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalsation to the cost of another asset.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

Recoverable 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:

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

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 test 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.

1.13 Impairment of cash-generating assets (continued)

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.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.13 Impairment of cash-generating assets (continued)

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.

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.

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess 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.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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.

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

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

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

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

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

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 test 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.

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 reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

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

Restoration cost approach

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

1.14 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 assess 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.

1.15 Share capital / contributed capital

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

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

If the municipality reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in surplus or deficit on the purchase, sale, issue or cancellation of the municipality's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

1.16 Employee benefits

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

1.16 Employee benefits (continued)

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

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

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

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

1.16 Employee benefits (continued)

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

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

Post-employment benefits: Defined contribution plans

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

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

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

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

1.16 Employee benefits (continued)

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

1.16 Employee benefits (continued)

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.16 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.17 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

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

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

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

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

1.18 Commitments (continued)

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

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

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

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

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

Service charges

Service charges are levied in terms of approved tariffs.

Services charges from water based on consumption. Metres are read on a monthly basis are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional metre reading of consumption are recognised as revenue when invoiced. Adjustments to provisional meter reading of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date.

Services charges from sewerage and santitation are based on the type of services and the number of sewer connections on all developed property and water consumption, using the tariffif approved by the Council, and are levied monthly.

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

Finance Income

Interest earned on investments is recognised in the statement of financial performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the statement of financial performance.

(i) Interest earned on unspent conditional grants is allocated directly to the creditor: Unspent conditional grants, if the grant conditions indicate that interest is payable to the funder.

Rental received

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

Tarrif charges

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

1.20 Revenue from non-exchange transactions

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

1.20 Revenue from non-exchange transactions (continued)

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an 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.

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.

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

1.20 Revenue from non-exchange transactions (continued)

Grants in aid

The municipality transfers money to individuals , originisations and other sectors of goverment from time to time. When making these transfer, the municipality does not:

- Received any goods or services directly in return, as would be expected in a purchase or sale transactions
- Expect to be repaid in future; or
- Expected a financial return, as would be expected from an investment .

These transfers are recognised in the financial performance as expenses in the period that the events give rise to transfer occurred.

Government grants

Government grants are recognised as revenue when:

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

The municipality assesses the degree of certainity attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or services potential associated with these transactions will flow to the entity. An announcement at the beginning of the financial year that grants may be available for qualifying entities inn accordance with an agreeded programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

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

When government remit grantson a re-imbursement basis, revenue is recognised when the qualifying expenses has been incurred and to the extent that a;ds4ny other restrictions have been complied with.

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. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of conmpliance to these stipulations it would be enforced by the transferor, a liability is recogonised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforcable, or were past experience has indicated that the transferror has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial support to the municipality with no future related costs, are recognised in the ststement of financial performance in the period which they become receivable.

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

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Public contrbution and donation received

Public contributions and donations received are recognised as reveue when:

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

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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

Assets acquired from non- exchange transactions are measured at fair value in accordance with the Standards of GRAP.

Revenue from recovery of unauthorised, irregular and wasteful expenditure

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

1.21 Investment income

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

1.22 Borrowing costs

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

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

1.23 Comparative figures

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

1.24 Unauthorised expenditure

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

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

1.25 Fruitless and wasteful expenditure

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

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

1.26 Irregular expenditure

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.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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.

1.26 Irregular expenditure (continued)

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.

1.27 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 accrual basis and presented by functional classification linked to performance outcome objectives.

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

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

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

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.

Comparative information is not required.

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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.

Accounting Policies

1.28 Related parties (continued)

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.29 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.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

GRAP 34: Separate Financial Statements

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

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

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

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

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

GRAP 35: Consolidated Financial Statements

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

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

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

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

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

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

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:
- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

GRAP 110: Living and Non-living Resources

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

3. Inventories

Consumable stores	14 918 064	11 738 330
Water	706 637	594 828
	15 624 701	12 333 158
Inventories (write-downs)	(5 318 861)	(5 318 861)
	10 305 840	**7 014 297**

The municipality has identified and measured all inventory in terms of GRAP 12 for the financial year ended 30 June 2019.

The cost of water production for the year amounted to R2,30 per kilolitre (2018: R2.20 per kilolitre).

No inventories have been pledged as collateral for liabilities of the municipality.

4. Long term receivables

At amortised cost		
Sundry Recoveries Sundry recoveries are made of recoveries that are receivable from employees as results of damages to municipality belongings and employee has acknowlegded the negligence. The sundry loans are not secured and are interest free. The average term of these loans 1 to 5 years	482 859	236 496
	482 859	236 496
Impairments	(127 709)	(127 709)
	355 150	**108 787**

Non-current assets		
At amortised cost	334 065	80 510
Current assets		
At amortised cost	21 085	28 277

5. Operating lease asset (accrual)

Current assets	-	39 699
Current liabilities	(27 350)	(58 328)
	(27 350)	**(18 629)**

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of non-cancellable operating leases the current assets and current liabilities (accrual) have been recognised as above.

Operating lease asset		
Balance at beginning of year	39 700	45 030
Operating lease revenue recorded	-	235 948
Operating lease revenue from smoothing	(39 700)	(241 278)
	-	**39 700**

Leasing arrangements

The municipality as lessor:

Operating leases relate to property owned by the municipality with lease terms of between 1 to 3 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

5. Operating lease asset (accrual) (continued)

Amounts receivable under operating leases

At the reporting date the following minimum lease payments were receivable under non-cancellable operating leases for property, plant and equipment, which are receivable as follows:

Up to 1 year	-	235 948
2 to 5 years	-	157 299
	-	**393 247**

The following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

(i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.

(ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.

(iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

Operating lease liability

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13.

Balance at beginning of year	58 327	56 759
Operating lease expenses recorded	(30 977)	(3 658 740)
.	-	3 660 308
	27 350	**58 327**

Leasing arrangements

The municipality as lessee

Operating leases relate to property, plant and equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

Amounts payable under operating lease

At the reporting date the municipality had outstanding commitments under non-cancellable operating leases for property, plant and equipment, which fall due as follows:

Figures in Rand	2019	2018 Restated*

5. Operating lease asset (accrual) (continued)

Within one year	27 350	1 522 354
In the second to third years, inclusive	-	781 944
	27 350	**2 304 298**

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	404 905	2 192 772

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Office equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

(i) The equipment shall remain the property of the lessor.

(ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.

(iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

(iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

6. Receivables from non-exchange transactions

Payments made in advance	155 656	8 040
Water Availability Charges	85 775 024	73 861 428
Sundry deposits	3 065 840	2 865 840
Sundry debtors	16 841 454	12 153 560
	105 837 974	**88 888 868**

Sundry receivables are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

The municipality does not hold deposits or other security for its receivables.

None of the receivables have been pledged as security for the municipality’s financial liabilities.

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

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 19 907 294 (2018: R 15 019 400) were past due but not impaired.

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

3 months past due	19 907 294	15 019 400

The receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment. Other receivables are not considered to be impaired.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

7. Receivables from exchange transactions

Gross balances		
Water	151 801 328	319 016 616
Sewerage	310 100 407	92 106 384
Other trade	4 190 237	4 234 135
	466 091 972	**415 357 135**
Less: Allowance for impairment		
Water	(18 700 044)	(262 054 890)
Sewerage	(277 554 262)	(5 156 661)
	(296 254 306)	**(267 211 551)**
Net balance		
Water	133 101 284	56 961 726
Sewerage	32 546 145	86 949 723
Other trade	4 190 237	4 234 135
	169 837 666	**148 145 584**
Reconciliation of gross balance		
Water Availability (Receivables from Non-exchange)	85 775 024	73 861 428
Water (Receivables from exchange transactions)	151 801 328	319 016 616
	237 576 352	**392 878 044**
Total Water and Water availability)		
Sewerage	310 100 407	92 106 383
Less debtors with credit balances	(30 097 597)	(38 230 199)
Less provision for doubtful debts	(326 351 903)	(305 441 750)
	(46 349 093)	**(251 565 566)**
Net balance	**191 227 259**	**141 312 478**

Summary of debtors by customer classification

Water and Water Availability		
Current (0 -30 days)	39 736 763	39 282 354
31 - 60 days	16 317 028	48 758 787
61 - 90 days	12 335 454	20 823 605
91 - 120 days	11 333 635	10 204 398
121 - 360 days	12 665 387	15 493 755
> 360 days	387 287 327	288 830 294
	479 675 594	**423 393 193**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

7. Receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	7 326 196	8 064 595
31 - 60 days	4 347 421	13 828 336
61 - 90 days	3 399 962	4 057 504
91 - 120 days	3 268 254	2 653 705
121 - 360 days	3 474 919	3 097 182
> 360 days	46 184 413	29 889 912
	68 001 165	**61 591 234**

Industrial		
Current (0 -30 days)	7 657 330	5 647 786
31 - 60 days	3 647 068	26 978 552
61 - 90 days	3 227 472	4 582 412
91 - 120 days	2 479 563	2 895 961
121 - 365 days	2 797 234	2 279 965
> 365 days	58 598 290	46 578 775
	78 406 957	**88 963 451**

Residential/ Households		
Current (0 -30 days)	22 309 597	22 323 848
31 - 60 days	11 549 757	21 171 491
61 - 90 days	9 166 408	17 346 368
91 - 120 days	9 322 119	8 270 469
121 - 360 days	10 796 988	15 123 567
> 360 days	335 949 152	249 303 932
	399 094 021	**333 539 675**

National and provincial		
Current (0 -30 days)	17 096 033	19 375 315
31 - 60 days	5 467 623	14 437 079
61 - 90 days	3 341 536	2 952 330
91 - 120 days	2 800 207	1 691 674
121 - 360 days	2 546 083	1 187 406
> 360 days	38 924 296	22 837 498
	70 175 778	**62 481 302**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(305 441 749)	(288 172 493)
Contributions to allowance	(20 910 153)	(162 269 257)
	(326 351 902)	**(450 441 750)**

No receivables from exchange transactions have been pledged as collateral for liabilities of the municipality.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	187 914	149 304
Bank balances	34 648 530	16 627 988
Short-term deposits	20 035 231	25 020 954
Other cash and cash equivalents	2 476	2 950
	54 874 151	**41 801 196**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

8. Cash and cash equivalents (continued)

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

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

Credit rating	2019	2018
Long-term (AA+) Short-term (AA+)	23 503 322	42 010 219
Long-term (BB) Short-term (B)	20 034 923	-
	43 538 245	**42 010 219**

The municipality did not pledge any of its cash and cash equivalents as collateral for its financial liabilities.

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
ABSA BANK - Primary Account - 406 668 6529	176 592	10 043 395	544 163	176 592	10 043 395	(132 177)
ABSA BANK - General Account - 406 668 6472	4 262 047	1 254 736	2 191 339	4 262 047	918 197	1 140 847
ABSA BANK - Collections Account - 406 668 6294	817 567	7 966	918 661	817 567	7 966	894 726
ABSA BANK - Consumer Deposits Account - 406 671 0647	2 141 057	662 198	1 149 078	2 141 057	662 198	(18 266)
ABSA BANK - Salaries Account - 406 660 3763	139 324	63 210	195 614	139 324	57 880	195 614
ABSA BANK - Sanlam Group Life Account - 406 757 0977	4 554 065	4 730 823	4 468 607	4 554 065	4 730 824	4 468 607
ABSA BANK - MIG Project Account - 406 668 6367	50	50	50 836	50	50	50 836
ABSA BANK - Account - 406 895 1879	50	233	172 122	50	233	172 122
ABSA BANK - Conditional Grants Account - 407 755 1917	21 239 932	126 501	9	21 239 932	126 501	9
ABSA BANK - Call Account - 406 757 0008	1 499 997	230 048	7 690 000	1 499 997	230 048	7 690 000
ABSA BANK - Notice Deposit Account - 908 888 2297	308	454	454	308	454	479
FNB BANK - Call Account - 62228266335	34 923	20 500	19 320	34 923	20 500	19 320
Standard BANK - Notice Deposit Account - 058 905 324	-	10 000 000	45 131 741	-	10 000 000	45 131 741
FNB - Call Account - 74761972882	-	-	45 736 436	-	-	45 736 436
Nedbank - Fixed Deposit Account - 764 855 2728	20 000 000	-	40 000 000	20 000 000	-	40 000 000
Investec BANK - Call Deposit Account - 110 045 8627	-	15 000 000	35 000 000	-	15 000 000	35 000 000
Cash on hand	5 763	-	-	5 763	-	-
Other cash and cash equivalents	2 476	2 950	2 950	2 476	2 950	2 950
Total	**54 874 151**	**42 143 064**	**183 271 330**	**54 874 151**	**41 801 196**	**180 353 244**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

9. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	31 650 000	-	31 650 000	31 650 000	-	31 650 000

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	31 650 000	-	31 650 000

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	30 242 482	1 407 518	31 650 000

The Municipality has classified the Ugu Fresh Produce Market, and Ugu Sports & Leisure Centre, as investment property in terms of its assets management policy.

Ugu Fres Produce Market is situated at Bhobhoyi – in the Port Shepstone Town Planning Scheme, lot no 3249 and measures approximately 85 000 square metres. The market offers 18 vendor stalls for retailers, refrigerated storage, a wholesale/agents sales hall, a state-of-the-art multi-purpose ripening facility, an office block, ample parking space, a taxi rank and plenty ablution facilities. The whole facility is secured with 24-hour security guards.

The municipality uses the fair value model to value its investment properties. For the year ending 30 June 2019 a fair value assessment was undertaken by independant valuers. The valuation methodology applied is the income capitalisation approach, were by the net rental income is capitalised at an appropriate rate, in order to arrive at an estimate of market value. A fair value adjustment has been affected in the financial statements valuation.

Pledged as security

No investment properties have been pledged as collateral for liabilities of the municipality.

Revenue and expenditure disclosed in the Statement of Financial Performance include the following:

Cumulative expenditure recognised in the carrying value of Investment property		
Investment property - Cost	-	426 468

Notes to the Annual Financial Statements

Figures in Rand

10. 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 and buildings	194 256 317	(43 480 904)	150 775 413	187 850 033	(40 895 962)	146 954 071
Infrastructure	7 495 482 666	(5 555 050 450)	1 940 432 216	7 295 975 544	(5 235 269 033)	2 060 706 511
Other property, plant and equipment	188 381 365	(134 442 951)	53 938 414	194 150 141	(141 513 656)	52 636 485
Capital work in progress	2 086 703 858	-	2 086 703 858	1 858 361 347	-	1 858 361 347
Total	**9 964 824 206**	**(5 732 974 305)**	**4 231 849 901**	**9 536 337 065**	**(5 417 678 651)**	**4 118 658 414**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land and buildings	146 954 071	6 406 284	-	-	-	(2 584 942)	-	150 775 413
Infrastructure	2 060 706 511	107 218 074	(40 333 581)	185 875 680	(174 945 975)	(188 244 978)	(9 843 515)	1 940 432 216
Other property, plant and equipment	52 636 485	7 657 455	-	-	-	(6 302 432)	(53 094)	53 938 414
Capital work in progress	1 858 361 347	414 218 191	-	-	(185 875 680)	-	-	2 086 703 858
	4 118 658 414	**535 500 004**	**(40 333 581)**	**185 875 680**	**(360 821 655)**	**(197 132 352)**	**(9 896 609)**	**4 231 849 901**

A register containing the information required by section 63 of Municipal Finance Act (56 of 2003) is available for inspection at the registered office of the municipality.

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Land and buildings	136 830 120	12 710 243	-	3 341 578	(3 341 578)	(2 586 292)	146 954 071
Infrastructure	2 315 216 755	272 821	-	48 849 202	(119 008 080)	(184 624 187)	2 060 706 511
Other property, plant and equipment	59 225 486	15 790 700	(1 802 148)	-	-	(20 577 553)	52 636 485
Capital work in progress	1 613 035 624	294 174 925	-	-	(48 849 202)	-	1 858 361 347
	4 124 307 985	**322 948 689**	**(1 802 148)**	**52 190 780**	**(171 198 860)**	**(207 788 032)**	**4 118 658 414**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 46)

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

10. Property, plant and equipment (continued)

Pledged as security

No property, plant and equipment have been pledged as collateral for liabilities of the municipality..

Depreciation rates

Land	Straight line	Indefinite
Buildings	Straight line	5 to 30 years
Furniture and fixtures	Straight line	3 to 15 years
Motor vehicles	Straight line	4 to 15 years
Office equipment	Straight line	3 to 15 years
IT equipment	Straight line	3 to 10 years
Infrastructure - Security measures	Straight line	7 to 25 years
Infrastructure - Sewerage	Straight line	7 to 60 years
Infrastructure - Water	Straight line	5 to 100 years
Other property, plant and equipment	Straight line	2 to 15 years
Other assets	Straight line	5 to 30 years
Sport Facilities	Straight line	5 to 30 years
Other facilities	Straight line	5 to 30 years
Specialised vehicles	Straight line	10 to 15 years

Expenditure incurred to repair and maintain property, plant and equipment

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.

Property, Plant and Equipment Under Construction

Accumulated expenditure in carrying value of property, plant and equipment includes the Assets Under Construction costs for the following classes:

11. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Servitudes	2 659 160	-	2 659 160	2 659 160	-	2 659 160
Other intangible assets	45 053 143	(38 272 828)	6 780 315	45 053 143	(35 102 156)	9 950 987
Total	**47 712 303**	**(38 272 828)**	**9 439 475**	**47 712 303**	**(35 102 156)**	**12 610 147**

Reconciliation of intangible assets - 2019

	Opening balance	**Amortisation**	**Total**
Servitudes	2 659 160	-	2 659 160
Other intangible assets	9 950 987	(3 170 672)	6 780 315
	12 610 147	**(3 170 672)**	**9 439 475**

11. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Servitudes	2 659 160	-	2 659 160
Other intangible assets	13 608 274	(3 657 287)	9 950 987
	16 267 434	**(3 657 287)**	**12 610 147**

The amortisation expense has been included in the line item “Depreciation and amortisation” in the Statement of Financial Performance (see note 30).

Pledged as security

No intangible assets have been pledged as security for any liabilities of municipality.

Restrictions

The following restrictions apply to Intangible Assets:

- Financial Software

(i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system

(ii) The system may be used on only one database at any one time.

(iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party’s benefit.

(iv) The municipality has no intellectual property rights to the system.

Refer to Appendix “B” for more detail on Intangible Assets.

Other information

A brief description of significant intangible assets controlled by the municipality but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.

(i) Website costs incurred during the prior financial years have been expensed and not recognised as intangible assets . The municipality cannot demonstrate how it will generate probable future economic benifits:

Intangible assets with indefinite usefull life:

	2019	2018
Carrying value of servitudes: Sewerage reticulation	1 486 723	1 486 723
Carrying value of servitudes: Water reticulation	1 172 437	1 172 437
	2 659 160	**2 659 160**

Servitudes are regarded as having indefinite useful lives as they are registered permanently, the agreements not having a maturing date.

Figures in Rand	2019	2018 Restated*

12. Investments in controlled entities

Name of company	Held by	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Ugu South Coast Tourism (Pty) Ltd	Ugu District Municipality	100.00 %	100.00 %	100	100
Ugu South Coast Development Agency NPC	Ugu District Municipality	100.00 %	100.00 %	100	100
				200	**200**

	2019	2018
Grants allocated to the entities:		
Ugu South Coast Tourism (Pty) Ltd	14 135 195	12 522 012
Ugu South Coast Development Agency NPC	6 077 531	5 788 128
	20 212 726	**18 310 140**

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

The municipality exercises control in the following companies

Ugu South Coast Tourism (Pty) Ltd is located and commencing its operations on 1 July 2009 in the Ugu District Municipal area, where the value of the investment is considered to be R100, being the issued share capital.

Ugu South Coast Development Agency, Ray Nkonyeni Municipality (former Hibiscus Coast Local Municipality) has entered in a Memorandum of Understanding to transfer of this company to Ugu District Municipality as from 01 July 2014.

All thirteen members serving on the board of directors of the municipal entity are nominated by the municipality's executive committee. (13/13 = 100%)

13. Long-term liabilities

	2019	2018
At amortised cost		
Annuity Loans	85 036 925	106 499 006
The average annuity loans period varying from 1 to 13 (2018: 1 to 13) years and at interest rates varying from 2,65% to 11,51% (2018: 2,65% to 11,51%) per annum. Annuity loans are not secured		

	2019	2018
Non-current liabilities		
At amortised cost	60 837 218	84 026 340
Current liabilities		
At amortised cost	24 199 707	22 472 666

14. Payables from exchange transactions

	2019	2018
Trade payables	252 287 639	96 485 888
Other creditors	85 515 331	74 848 919
Retentions	76 977 799	65 219 393
Staff bonuses	13 953 138	13 918 820
	428 733 907	**250 473 020**

15. VAT payable

	2019	2018
Tax refunds payables	45 558 550	9 547 913

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

16. Consumer deposits

Water	21 663 801	21 084 866

Guarantees held in lieu of water deposits	495 780	481 980

No interest is paid to customers for water deposits held.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Disaster Management Grant	20 237 000	-
Unspent grants 18	1 000 000	-
Growth Development Summit	116 663	116 663
	21 353 663	**116 663**

Movement during the year

Balance at the beginning of the year	116 663	400 000
Additions during the year	756 180 000	714 236 000
Income recognition during the year	(734 943 000)	(714 519 337)
	21 353 663	**116 663**

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 35 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

18. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Reversed during the year	Total
Current portion of post-retirement medical aid benefits liability	1 090 682	63 000	-	1 153 682
Current portion of long-service awards	2 654 231	-	(1 139 685)	1 514 546
Performance bonus provision	740 644	-	(740 644)	-
Leave provisions	26 378 456	1 304 939	-	27 683 395
	30 864 013	**1 367 939**	**(1 880 329)**	**30 351 623**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Current portion of post-retirement medical aid benefits liability	1 032 392	58 290	-	1 090 682
Current portion of long-service awards	1 557 626	1 096 605	-	2 654 231
Performance bonus provision	890 077	-	(149 433)	740 644
Leave pay provision	24 275 795	2 102 661	-	26 378 456
	27 755 890	**3 257 556**	**(149 433)**	**30 864 013**

19. Retirement benefit liabilities

Defined benefit plan

Post-retirement health care benefits liability		
Balance at beginning of year	18 674 048	17 034 549
Contributions to provision	2 173 952	1 639 499
Balance at end of year	20 848 000	18 674 048
Transfer to current provisions	(1 153 682)	(1 090 682)
	19 694 318	**17 583 366**

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member is entitled to continue as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Arch acturial consulting, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The members of the post-employment health care benefit plan are made up as follows:

In-service members (employees)	556	583
Continuation members	58	56
	614	**639**

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

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

19. Retirement benefit liabilities (continued)

In-service members (employees)	11 210 000	9 960 300
Continuation members	9 638 000	8 713 748
	20 848 000	**18 674 048**

The current-service cost for the year ending 30 June 2019 is estimated to be R781 002, whereas the cost for the ensuing year is estimated to be R 832 633

Key assumptions used

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

Discount rates	9.04%	9.26%
Health care cost inflation	6.57%	7.15%
Net effective discount rate	2.32%	1.97%
Expected retirement age - females	62	63
Expected retirement age - males	62	63

Movements in the present value of the defined benefit obligation were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

19. Retirement benefit liabilities (continued)

Balance at beginning of the year	18 674 048	17 034 549
Current services costs	781 002	733 733
Interest cost	1 679 836	1 512 220
Benefits paid	(1 090 682)	(1 032 392)
	20 044 204	18 248 110
Actuarial loss/(gain)	803 404	425 938
	20 847 608	**18 674 048**

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

Current service cost	781 002	733 733
Interest cost	1 679 836	1 512 220
Actuarial losses/(gains)	803 404	425 938
Benefits paid	(1 090 682)	-
	2 173 560	**2 671 891**

The history of experienced adjustments is as follows:

	2019	2018	2017	2016	2015	2014
Present value of defined benefit obligation	20 847 607	18 674 000	17 035 000	16 598 421	16 194 781	14 405 969
Deficit	20 847 607	18 674 000	17 035 000	16 598 421	16 194 781	14 405 969
Experienced adjustments on plan liabilities	(537 000)	(660 000)	(288 000)	(550 000)	729 000	(583 000)
	20 310 607	**18 014 000**	**16 747 000**	**16 048 421**	**16 923 781**	**13 822 969**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

2019	Once percentage point increase	One percentage point decrease	Once percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	3 900	(3 900)	112 600	(112 600)
Effect on defined benefit obligation	208 476	(208 476)	208 476	(208 476)
	212 376	**(212 376)**	**321 076**	**(321 076)**

2018	Once percentage point increase	One percentage point decrease	Once percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	2 249	(2 241)	2 249	(2 241)
Effect on defined benefit obligation	(89 000)	104 500	(89 000)	104 500
	(86 751)	**102 259**	**(86 751)**	**102 259**

The municipality expects to make contribution of R2,666 million (2018: R2,460 million) to the defined benefit plans during the next financial year.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

20. Other long-term employee benefits

Provision for long service awards	19 189 178	19 098 800

The movement in non-current provisions are reconciled as follows:

Long-term service		
Balance at beginning of year	19 098 800	15 456 907
Contributions to provision	1 604 924	3 641 893
	20 703 724	19 098 800
Transfer to provisions	(1 514 546)	(2 654 231)
Balance at end of year	**19 189 178**	**16 444 569**

A long-service award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Arch Acturial Valuers, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

At year-end, 855 (2018: 911) employees were eligible for long-service awards.

The current service costs for the year ending 30 June 2019 is estimated to be R1 744 843, whereas the cost for the ensuing year is estimated to be R 1 984 507.

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

Discount rates used	8.19%	9,26%
Cost inflation rate	5.56%	7.15%
Net effective discount rate	2.49%	1.97%
Expected retirement age - females	62	63
Expected retirement age - males	62	63

Movements in the present value of the defined benefit obligation were as follows:

Balance at beginning of the year	19 098 800	17 014 533
Current service costs	1 744 843	1 714 384
Interest cost	1 523 588	1 384 733
Benefits paid	(2 654 231)	(1 557 626)
Actuarial losses/(gains)	990 724	542 776
	20 703 724	**19 098 800**

The history of experienced adjustments is as follows:

	2019	2018	2017	2016	2015	2014
Present value of long service	20 703 724	19 098 800	17 014 533	16 391 695	14 105 372	11 670 683
Deficit	20 703 724	19 098 800	17 014 533	16 391 695	14 105 372	11 670 683
Experienced adjustments on plan liabilities	(786 085)	815 469	999 274	904 695	910 954	1 671 011
	19 917 639	**19 914 269**	**18 013 807**	**17 296 390**	**15 016 326**	**13 341 694**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

20. Other long-term employee benefits (continued)

The effect of a 1% movement in the assumed rate of long-service cost inflation is as follows:

2019	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	255 300	(255 300)	(55 400)	55 400
Effect on defined benefit obligation	207 037	(207 037)	207 037	(207 037)
	462 337	**(462 337)**	**151 637**	**(151 637)**

2018	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	3 344 200	(2 879 100)	3 344 200	(2 879 100)
Effect on defined benefit obligation	70 600	(76 800)	70 600	(76 800)
	3 414 800	**(2 955 900)**	**3 414 800**	**(2 955 900)**

The municipality expects to make a contribution of R1 984 507 (2018: R3 641 893) to the defined benefit plans during the next financial year.

21. Service charges

Sale of water	202 669 943	180 293 794
Sewerage and sanitation charges	91 765 014	135 567 334
	294 434 957	**315 861 128**

22. Rental of facilities and equipment

Premises		
Premises and Facilities	3 430 892	1 274 596

23. Revenue

Service charges	294 434 957	315 861 128
Rental of facilities and equipment	3 430 892	1 274 596
Interest received from VAT receivable	1 685 327	-
Other income	5 947 246	3 931 728
Interest received - investment	7 235 470	15 776 673
Government grants & subsidies	734 943 000	714 519 337
	1 047 676 892	**1 051 363 462**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	294 434 957	315 861 128
Rental of facilities and equipment	3 430 892	1 274 596
Interest received from VAT receivable	1 685 327	-
Other income	5 947 246	3 931 728
Interest received - investment	7 235 470	15 776 673
	312 733 892	**336 844 125**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

23. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	734 943 000	714 519 337

24. Other revenue

Interest received from VAT receivable	1 685 327	-

25. Other income

Administration fees	21 869	1 200
Connection fees	765 419	1 401 341
Other revenue	315 287	262 238
Atmospheric emission licenses	51 750	178 170
Tender deposits	109 605	249 077
Water rates certificates	1 122 464	1 055 471
Developers fees	2 941 369	336 389
Miscellaneous other revenue	619 483	447 842
	5 947 246	**3 931 728**

26. Investment revenue

Interest revenue		
Short-term investments	1 939 665	9 633 421
Bank	5 295 805	6 143 252
	7 235 470	**15 776 673**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

27. Government grants and subsidies

Operating grants		
Equitable share	435 877 000	411 676 000
Finance Management Grant (FMG)	1 865 000	1 795 000
Spartial Development Framework Grant	-	400 000
Expanded Public Works Programme	3 250 000	1 956 000
Rural Transport Services	2 663 000	2 658 000
Growth Development Summit	-	183 337
	443 655 000	**418 668 337**
Capital grants		
Municipal Infrastructure Grant (MIG)	235 888 000	245 479 000
Development Planning and Shared Services	400 000	-
Water Services Infrastructure Grant	55 000 000	50 372 000
	291 288 000	**295 851 000**
	734 943 000	**714 519 337**

National: equitable share

The equitable share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by National Treasury.

Conditional grants received	435 877 000	411 676 000
Unconditional grants received	(435 877 000)	(411 676 000)
	-	**-**

Equitable Share

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

All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant. No funds were withheld.

Finance Management Grant (FMG)

Current-year receipts	1 865 000	1 795 000
Conditions met - transferred to revenue	(1 865 000)	(1 795 000)
	-	**-**

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

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

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

Grant was made available by National Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA),2000.

Expanded Public Works Programme

Current-year receipts	3 250 000	1 956 000

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

27. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(3 250 000)	(1 956 000)
	-	-

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

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act.

Disaster Management Grant

Current-year receipts	20 237 000	-

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

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment". No funds were withheld.

Expanded Public Works Programme

Current-year receipts	3 250 000	1 956 000
Conditions met - transferred to revenue	(3 250 000)	(1 956 000)
	-	-

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

This is an incentive grant from Public Works for the promotion of labour intensive projects within the District. No funds were withheld.

Development Planning Shared Services Support

Current-year receipts	400 000	-
Conditions met - transferred to revenue	(400 000)	-
	-	-

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

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act.

Municipal Infrastructure Grant (MIG)

Current-year receipts	235 888 000	245 479 000
Conditions met - transferred to revenue	(235 888 000)	(245 479 000)
	-	-

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

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure . No funds were withheld.unicipal Disaster Recovery is a grant from Department of Cooperative Government and Traditional Affairs, made availabe to municipality to provide recovery whenever there is a disaster.

Rural Transport Services

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

27. Government grants and subsidies (continued)

Current-year receipts	2 663 000	2 658 000
Conditions met - transferred to revenue	(2 663 000)	(2 658 000)
	-	-

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000..

Shared Legal Services Grant

Current-year receipts	1 000 000	-

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure. No funds were withheld.

Water Services Infrastructure Grant (WSIG)

Current-year receipts	55 000 000	50 372 000
Conditions met - transferred to revenue	(55 000 000)	(50 372 000)
	-	-

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

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities; provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equiping of borehole; provide on site sanitation solutions; support the existing bucket eradication programme intervention informal residential areas; support drought relief projects in affected municipalities.

Preparation of a Spatial Development Framework

Balance unspent at beginning of year	-	400 000
Conditions met - transferred to revenue	-	(400 000)
	-	-

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

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. The grant allocation is for 2017/2018 financial period, however funds were received during 2016/2017 financial period.

District Growth and Development

Balance unspent at beginning of year	116 663	300 000
Conditions met - transferred to revenue	-	(183 337)
	116 663	**116 663**

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

Figures in Rand	2019	2018 Restated*

28. Employee related costs

Basic	226 019 847	220 507 258
Stand by	7 937 710	6 863 140
Bonus	17 599 506	17 851 309
Medical aid - company contributions	18 942 560	17 149 782
UIF	1 654 383	1 657 698
SDL	3 307 192	3 059 291
Leave pay provision charge	3 553 461	3 928 869
Contribution long-service benefits	1 604 924	2 084 267
Other short term costs	88 937	7 229
Defined contribution plans	40 456 974	39 987 916
Travel, motor car, accommodation, subsistence and other allowances	1 605 622	1 749 498
Overtime payments	50 983 332	38 769 732
Long-service awards	2 580 385	1 994 389
Acting allowances	894 478	1 564 544
Car allowance	9 410 702	10 604 715
Housing benefits and allowances	2 984 827	3 221 918
	389 624 840	**371 001 555**

Remuneration of municipal manager

Annual Remuneration	1 053 133	1 289 387
Car, Entertainment, Housing, Subsistence and Other Allowances	573 382	508 784
Company contributions	14 116	102 563
	1 640 631	**1 900 734**

Remuneration of chief finance officer

Annual Remuneration	728 218	852 959
Car, Entertainment, Housing, Subsistence and Other Allowances	489 231	343 945
Company contributions	13 375	30 693
	1 230 824	**1 227 597**

Remuneration of general manager: corporate services

Annual Remuneration	789 992	724 906
Car, Entertainment, Housing, Subsistence and Other Allowances	439 320	499 391
Company contributions	12 220	43 581
	1 241 532	**1 267 878**

Remuneration of general manager: infrastructure and economic development

Annual Remuneration	130 531	949 184
Car, Entertainment, Housing, Subsistence and Other Allowances	64 678	282 861
Company contributions	1 953	13 451
	197 162	**1 245 496**

Remuneration of general manager: water services

Annual Remuneration	130 533	611 891
Car, Entertainment, Housing, Subsistence and Other Allowances	67 178	559 657
Company contributions	2 153	133 935
	199 864	**1 305 483**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

29. Remuneration of councillors

Mayor	928 041	741 734
Deputy Mayor	836 284	-
Executive Committee Members	-	2 321 586
Speaker	818 805	595 379
Councillors/ board members	3 852 018	2 456 064
Allowances	3 005 290	2 904 771
Company Contributions	-	74 076
	9 440 438	**9 093 610**

In-kind benefits

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee Members of the municipality serve in a full-time capacity. Each is provided with an office and secretarial support at the cost of the Council in order to enable them to perform their official duties.

The Councillors may utilise official council transportation when engaged in official duties.

The Mayor has one full-time bodyguard and one full-time driver.

The Deputy Mayor has one full-time aide, fulfilling various personal duties.

The Speaker has one full-time driver.

30. Depreciation and amortisation

Property, plant and equipment	213 985 434	207 788 034
Intangible assets	3 170 672	3 657 287
	217 156 106	**211 445 321**

The prior year comparative balances have been accordingly restated retrospectively. (See note: 44)

31. Impairment of assets

Impairments		
Trade and other receivables	20 910 153	4 368 014

32. Finance costs

Non-current borrowings	6 185 817	8 496 041
Other interest paid	4 907 185	2 689 875
	11 093 002	**11 185 916**

33. Bulk purchases

Water	131 955 553	95 556 444

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Bulk water is purchased from the Umgeni Water Board and eThekwini Municipality

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

34. Contracted services

Specialist Services	159 823 078	133 263 191
Other Contractors	30 325 225	32 325 999
	190 148 303	**165 589 190**

Contracted services are as follows:		
Contractors		
Alien Vegetation Control	46 900	408 650
Artists and performers	167 500	192 224
Borehole Drilling	-	657 295
Burial Services	41 400	217 485
Business & Advisory Services	10 100 243	13 302 319
Catering Services	890 832	1 682 711
Cleaning Services, Hygiene & Pest Control	7 312 877	2 532 424
Engineering Services	2 843 116	13 082 764
Event Promoters	910 713	2 565 933
Fire Services	1 600 000	1 455 318
Gardening Services	-	117 000
Graphic Designers	-	32 875
Haulage	1 152 622	126 678
Internal Audit Services	-	496 492
Laboratory Services	2 841 219	6 642 478
Legal Services	1 203 321	989 827
Maintenance of Buildings & Facilities	2 717 982	3 942 904
Maintenance of Equipment	95 202 027	37 239 860
Maintenance of Unspecified Assets	22 419 083	25 187 436
Medical Services	27 079	108 178
Meter Management	11 466 244	14 120 279
Removal of Hasardous Waste	492 629	658 320
Safeguard and Security	24 567 816	20 825 752
Sewerage Services	3 707 266	18 474 707
Sports and Recreation	260 770	174 281
Transportation	176 664	355 000
	190 148 303	**165 589 190**

35. Grants and subsidies paid

Grants paid to ME's		
Ugu South Coast Development Agency	6 077 531	5 788 125
Tourism Development	14 135 196	12 522 013
	20 212 727	**18 310 138**
Other subsidies		
Social Relief Grants	88	1 186 358
	20 212 815	**19 496 496**

Conditional grants paid is in respect of projects undertaken by municipalities within the municipality’s area of jurisdiction and funded by Ugu District Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

36. General expenses

Accounting fees	1 820 851	-
Advertising	3 045 709	4 280 640
Auditors remuneration	6 093 485	3 730 746
Bank charges	797 360	718 136
Commission paid	1 235 258	1 071 398
Consumables	12 482 448	18 992 361
Accomodation, seminars and travelling	3 284 350	5 630 886
Insurance	3 826 847	2 469 121
Fuel and oil	27 464 449	24 297 616
Postage and courier	580 198	1 528 457
Printing and stationery	901 565	838 510
Fines and penalties	698	-
Subscriptions and membership fees	4 238 051	6 055 865
Telephone and fax	4 113 335	3 409 271
Training	-	494 990
Travel - local	-	14 856
Electricity	77 766 682	88 364 371
Uniforms and protective clothing	2 443 999	484 797
Other general expenses	53 860	144 985
Licenses	8 740 515	11 037 320
Vehicle tracking	1 843 759	1 336 951
Events and programmes	251 180	-
Gardening services	(161 546)	777 148
Public participation	55 000	111 569
Sports and recreation	60 000	17 825 185
Workmen's compensation insurance	2 470 018	3 617 370
	163 408 071	**197 232 549**

37. Gains/ (losses) on disposal of assets

Gain on disposal of assets and liabilities	57 905 532	594 755

38. Fair value adjustments

Investment in controlled entities	-	1 407 518

39. Auditors' remuneration

Fees	6 093 485	3 730 746

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

40. Cash generated from operations

Deficit	(53 704 453)	(42 419 420)
Adjustments for:		
Depreciation and amortisation	217 156 106	211 445 321
Loss on sale of assets and liabilities	(57 905 532)	(594 755)
Fair value adjustments	-	(1 407 518)
Impairment deficit	20 910 153	4 368 014
Movements in operating lease assets and accruals	5 331	6 899
Movements in retirement benefit assets and liabilities	2 111 000	1 581 209
Movements in provisions - Current	(512 390)	3 108 123
Non cash transactions relating to property plant and equipment	146 300 821	41 345 478
Changes in working capital:		
Inventories	(3 291 543)	615 112
Receivables from exchange transactions	(20 910 153)	(4 368 014)
Consumer debtors	-	(115 407 576)
Other receivables from non-exchange transactions	(16 949 106)	(5 482 684)
Payables from exchange transactions	178 260 875	75 108 652
VAT	36 010 637	28 363 700
Unspent conditional grants and receipts	21 237 000	(283 337)
Consumer deposits	578 935	253 903
	469 297 681	**196 233 107**

41. Related parties

Relationships

Ugu South Coast Tourism (Pty) Ltd	Ugu South Coast Tourism (Pty) Ltd
Ugu South Coast Development Agency	Ugu South Coast Development Agency

Municipality and individuals as well as their close family members, and /or entities are related parties if one has the ability, directly, indirectly 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.

The municipality procured goods and/or services from the following companies, which are considered to be related parties:

Related party transactions

Purchases from (sales to) related parties		
Ugu South Coast Tourism (Pty) Ltd	8 127 738	14 306 400
Ugu South Coast Development Agency	6 989 161	9 598 463
	15 116 899	**23 904 863**

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

In terms of GRAP 20 para 35 remuneration paid by Ugu District municipality to councillors and Municipal Manager and section 57 personnel respectively is a related party transaction.

- The municipality did not conduct any business with any service provider that can be considered a related party.
- The municipality did not trade with service providers that are I the employment nor blacklisted by Treasury.
- The disclosure in relation to paragraph 35 of GRAP 20, remuneration paid by UGU District municipality to councillors and Municipal Manager and section 57.
- Key Management and Councillors have direct or indirect significant control over the municipality.
- No transactions with related parties other than that key management and councils were identified during 2016/17.

42. Financial instruments disclosure

Fair value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments

The carrying amount approximates the fair value because of the short maturity of these instruments.

Long-term investments

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio’s of the municipality’s debtors.

Other financial assets and liabilities

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2019, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data

Figures in Rand	2019	2018 Restated*

42. Financial instruments disclosure (continued)

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument

Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed and the statement of changes in net assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

The gearing ratio at the year-end was as follows:	2019	2018
Debt	99 720 762	118 054 275
Cash and cash equivalents	(54 874 151)	(41 801 196)
	44 846 611	**76 253 079**
Equity	3 844 023 195	3 869 934 817
Net debt to equity ratio	1.17 %	1.97 %

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

Financial risk management objectives

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.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IASs mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The directorate: Treasury 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. 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 quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. Further quantitative disclosures are included throughout these annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

42. Financial instruments disclosure (continued)

Significant risks

It is the policy of the municipality to disclose information that enables the user of its annual financial. It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date. The municipality has exposure to the following risks from its operations in financial instruments.

1. Credit risk
2. Liquidity risk; and
3. Market risk

Risks and exposures are disclosed as follows:

Market risk

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

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included below is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

Liquidity and interest risk

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

43. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	267 754 690	549 409 414
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	8 982 252	16 213 756
Total capital commitments		
Already contracted for but not provided for	267 754 690	549 409 414
Not yet contracted for and authorised by accounting officer	8 982 252	16 213 756
	276 736 942	**565 623 170**

Authorised operational expenditure

Already contracted for but not provided for		
• Operating expenditure	36 050 035	57 955 007
Total operational commitments		
Already contracted for but not provided for	36 050 035	57 955 007

Total commitments

Authorised capital expenditure	276 736 942	510 595 401
Authorised operational expenditure	36 050 035	57 955 007
	312 786 977	**568 550 408**

44. Prior period errors

Corrections were made during the previous financial years. Details of the corrections are described below:

Property, Plant Equipment	
Report Amount	3 989 800 194
Correction of error of prior period property, plant and equipment adjustments	128 858 220
	4 118 658 414

Receivables from non -exchange transactions	
Report Amount	98 638 875
Correction of error	(9 740 266)
Decrease in water availability charge	(9 741)
	88 888 868

44. Prior period errors (continued)

Receivables from exchange transactions	Total
Reported Amount	112 523 352
Correction of error: Reversing the debtors with credit balances journal done in the 2017 year	(26 127 477)
Correction of error: Water charges not billed for in the prior period	3 608 539
Correction of error: Sanitation charges not billed for in June 2018	725 383
Correction of error: Water charges not billed for in June 2018	8 225 540
Correction of error: Fire Hydrants	(2 289 520)
Correction of error: Fire Hydrants not billed for	3 497
Correction of error: Year end journals done on legacy system in June 2017, but were reversed in the new system as at 30 June 2017, which incorrectly affected the take on balances.	6 542 094
Correction of error: Year end journals done on legacy system in June 2017, but were reversed in the new system as at 30 June 2017, which incorrectly affected the take on balances.	23 959 255
Correction of error: Increase in provision for impairment	(17 269 257)
Correction of fire hydrants	13 978
	109 915 384

Payables from Exchange transactions	
Report Amount	177 628 147
Correction of error: Reversing the debtors with credit balances journal done in the 2017 year	(26 127 477)
Correction of error: Reversing the Cash in transit account against the debtors control account	21 276 515
Correction of error: Expenditure and accruals not previously recognised	13 127 196
Correction of error: Expenditure and accruals not previously recognised	122 170
Correction of error: Year end journals done on legacy system in June 2017, but were reversed in the new system as at 30 June 2017, which incorrectly affected the take on balances.	23 959 255
Correction of error: Being reversal of incorrect SARS entry	1 606 080
Correction of retentions	643 941
Corrections of accrual	6 993
	212 242 820

Value added tax payable	
Report Amount	18 275 845
Correction of error: Reversal of prepaid expense relating to VAT	(9 740 266)
Correction of error: Water charges not billed for in the prior period	470 679
Correction of error: Sanitation charges not billed for in June 2018	94 615
Correction of error: Water charges not billed for in June 2018	1 072 896
Correction of error: Fire hydrants	(298 633)
Correction of error: Fire hydrants	455
Correction of Error: Interest on Vat for prior periods	(327 678)
	9 547 913

Revenue from exchange transactions	
Service Charges as previously reported	325 342 983
Correction of error: Water charges not billed for in the prior period	3 137 860
Correction of error: Sanitation charges not billed for in June 2018	630 768
Correction of error: Water charges not billed for in June 2018	7 152 644
Correction of error: Fire Hydrants	(1 990 887)
Correction of error: Billing correction	3 617
Correction of error: Indigent Relief	(2 144 273)
Correction of error: Revenue not previously recognised	135 892
Correction of error: Reversing the Cash in transit account against Revenue	(21 276 515)
	310 992 089

Other income

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

44. Prior period errors (continued)

Reported amount		4 008 851
Insurance commission and excess sundry recoveries		546 614
		4 555 465

Finance cost

Reported amount		10 382 875
Correction of error: Fines		803 040
		11 185 915

Lease on operating leases

Reported amount		5 531 176
Correction of error: Accruals		40 100
		5 571 276

Bulk purchases

Reported amount		94 489 718
Coorection of error: Accruals		1 066 725
		95 556 443

Contracted services

Reported amount		170 534 417
Correction of error: Accruals		8 755 176
		179 289 593

General expenses

Reported amount		172 492 435
Correction of error: Accruals		1 830 386
		174 322 821

Gain on disposal of assets

Reported amount		635 337
Correction of error: Prior period disposal of other property plant and equipment		(40 582)
		594 755

Impairment losses/ reversal

Reported amount		(12 050 630)
Increase in provision for impairment		17 269 257
Reversal of impairment		(850 613)
		4 368 014

Depreciation & amorti

Reported amount		217 190 726
Correction of error: Accruals		(5 745 405)
		211 445 321

Notes to the Annual Financial Statements

Figures in Rand	2019	2018 Restated*

44. Prior period errors (continued)

Accumulated surplus

Reported amount 1 July 2017	3 901 932 519
Prior period errors relating to PPE	(31 583 536)
Prior period errors relating to PPE	14 780 213
Prior period errors relating to PPE land	1 650 000
Correction of error relating to take on balances	6 542 094
Interest on VAT	327 678
Prior period errors relating to PPE infrustructure	145 017 249
	4 038 666 217

45. Comparative figures

The comparative figures were restated as a result of effect of the municipality implimenting mSCOA.]

The effects of the reclassification are as follows:

Certain comparative amounts have not been reclassified as it was impractical to do so.

Reclasification: Revenue from exchange	Reclassification
Reclasification of interest received to revenue from non exchange	4 245 302
Reclassification of other income to Revenue from exchange	46 947
Reclassification of other income to Revenue from exchange	1 800
Reclassification of other income to Revenue from exchange	260 082
Reclassification to Revenue from exchange to Other Income	314 908
	4 869 039

RECLASSIFICATION: Interest revenue	Reclassification
Reclasification of interest received to revenue from non exchange	(4 245 302)

RECLASSIFICATION: Other Income	Reclassification
Reclassification of other income to Revenue from exchange	(46 947)
Reclassification of other income to Revenue from exchange	(260 082)
Reclassification of other income to Revenue from exchange	(1 800)
Reclassification of other income to Revenue from exchange	(314 908)
	(623 737)

Contracted services	Reclassification
Reclassification of contracted services to general expenses	(22 954 156)
Contracted servises incorrectly classified as assets	9 253 735
	(13 700 421)

Transfers and subsidies	Reclassification
From Contracted services	135 843

Notes to the Annual Financial Statements

45. Comparative figures (continued)

General expenses	Reclassification
Reclassification from contracted services to gen expenses	22 909 728

46. Going concern

The financial viability of the municipality was assessed as at 30 June 2019 to determine the going concern. The municipality has the going concern problem which was assessed by making reference to the following factors and indicators:

ASSETS AND LIABILITY MANAGEMENT

The net current liability position was realised as the total current liabilities exceeded current assets as follows:

Total current assets	R310,779,119
Less: Total current liabilities	(R541 147 062)
Net amount of the current liability position	(R230 367 943)

The current ratio was realised as 0,57:1 (i.e. Current Assets: Current Liabilities: R310,779,119 / R541,147,062). This ratio is less than the norm of 2:1.

A surplus for the year has been decreased significantly by 90.2% during the year under review i.e. 2019: R6,529,478 and 2018: R39,344,047.

CASH MANAGEMENT

The cash and cash equivalents has been increased significantly during the year under review as follows:

Current year's cash and cash equivalents	R54,874,151
Less prior year's cash and cash equivalents	(R41,801,196)
Net cash and cash equivalents decrease	(R13,072,955)

The accounts payables from exchange transactions as the percentage of cash and cash equivalents was realised as 725% (i.e. R397,992,368 / R54,874,151).

The current liabilities as the percentage of next year's operating budget resources was realised as 35.3% (i.e. R270,500,528 / R767,114,000).

EXPENDITURE MANAGEMENT

During the year under review, the municipality has been unable to settle all its obligations as they become due because of the negative cash flow within the municipality.

The municipality has been unable to pay its creditors within 30 days as required by Municipal Finance Management Act (MFMA).

The unauthorised, Irregular and Fruitless and Wasteful Expenditure as the percentage of the operating expenditure during the year under review has been realised as 78.22% i.e. Total Unauthorised, Irregular and Fruitless and Wasteful Expenditure / Total Operating Expenditure x 100 [R900,358,150 / R1,150,752,294].

REVENUE MANAGEMENT

Notes to the Annual Financial Statements

46. Going concern (continued)

The debtors' collection period was realised as 125 days (i.e. Gross Debtors Closing Balance + Billed revenue – Gross Debtors Opening Balance + Bad Debts Written Off) / Billed revenue x 100. {i.e. R446,091,972 + R294,434,957 – R415,357,135 + R20,910,153) / R294,434,957.

The debtors' impairment provision as a percentage of accounts receivables was realised as 57% (i.e. R326,351,905 / (R571,929,946).

The municipality is grant dependent in relation to the own revenue excluding government grants as the percentage of the total revenue which has realised as 30.5% i.e. R325,342,983 / R1,065,167,742. The government grants are contributing 69.5% of the total revenue of the municipality.

CORRECTIVE MEASURES TO ADDRESS GOING CONCERN PROBLEM

In order to correct the negative impact on going concern per above analysis, the municipality engaged on the following:

Comprehensive Financial Management Turnaround Strategy which was adopted by Council;

Revenue Collection Strategy or Plan to improve cash collections;

Development and implementation of costs containment measures;

Expenditure Control and Payments Policy;

Reassessments of the municipality's budget and cash flow projections; etc.

47. Unauthorised expenditure

Opening Balance	243 819 267	275 144 882
Unauthorised expenditure for the period	184 582 994	243 819 267
Unauthorised expenditure written off during the period	(97 871 812)	(275 144 882)
Prior year error correction	-	6 481 653
	330 530 449	**250 300 920**

Incident

Budgeted amounts exceeded:

Disciplinary steps/ criminal proceedings: Investigations are being conducted by the internal audit.

Cash line items		
Personnel (Employee costs)	6 725 754	66 463 584
Councillors renumeration	-	1 338 742
Other expenditure	-	60 032 741
Bulk purchases	6 955 553	2 972 016
Contracted Services	-	33 794 685
Non-cash line items		
Depreciation and amortisation	133 191 547	84 331 138
Bad debts written-off	37 710 140	1 368 014
	184 582 994	**250 300 920**

Notes to the Annual Financial Statements

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48. Fruitless and wasteful expenditure

Opening Balance	2 819 379	2 016 607
Interest on Eskom	72 495	10 164
Interest on Umngeni Water	2 784 163	177 952
SARS Penalties	-	815 106
Penalties from Compensation fund	484 523	-
Interest on Trade Creditors	68 406	-
Written off by Council	-	(200 450)
	6 228 966	**2 819 379**

Disciplinary steps/criminal proceedings:

Investigations are being conducted by internal audit on the "fruitless and wasteful expenditure" for the current year.

Disciplinary action is in progress for the prior year's fruitless and wasteful.

49. Irregular expenditure

Opening balance	280 149 664	158 391 656
Add: Irregular Expenditure - current year	271 834 651	131 307 670
Less: Amounts condoned/write offs	(231 506 662)	(9 549 662)
	320 477 653	**280 149 664**

Analysis of expenditure awaiting write off per age classification

Current year	271 834 651	131 307 670
Prior years	48 643 002	148 841 994
	320 477 653	**280 149 664**

Details of irregular expenditure – current year

Contravention of SCM Regulations	Investigations are in progress for the irregular expenditure identified above.	165 332 349

Notes to the Annual Financial Statements

Figures in Rand

50. Water losses

Water losses

Unaccounted water losses in Rand Value	23 775 595	30 496 739

Water losses occur due to inter alia, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tempered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

A five-year strategic non-revenue water reduction was adopted and implemented by the Executive Committee in May 2014. The below-mentioned technical information was derived at as part of the implementation plan:

Volumes in ML/year:	2019 ML/Year	2018 ML/Year
System input volume	44 781 319	45 778 648
Billed authorised consumption	28 314 896	29 585 938
Unbilled authorised consumption	6 129 208	7 404 479
Apparent losses	2 894 420	2 409 504
Real losses	7 442 795	6 195 869
Estimated non-revenue water	16 466 423	16 009 852
	106 029 061	**107 384 290**

Number of connections	44 651	43 388

Real losses %	16.62 %	13.53 %
Water losses %	23.08 %	18.80 %
Non-revenue water %	36.77 %	34.97 %
	- %	**- %**

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	3 988 613	3 366 984
Amount paid - current year	(3 988 613)	(3 366 984)
	-	-

No amounts were outstanding at the end of the financial year.

Audit fees

Current year subscription / fee	6 093 485	3 730 746
Amount paid - current year	(4 097 498)	(3 730 746)
	1 995 987	-

No amounts were outstanding at the end of the financial year.

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

PAYE and UIF

Current year subscription / fee	63 385 643	60 547 096
Amount paid - current year	(62 391 886)	(56 152 980)
	993 757	**4 394 116**

No amounts were outstanding at the end of the financial year.

Pension and Medical Aid Deductions

Current year subscription / fee	87 391 216	81 297 483
Amount paid - current year	(82 567 338)	(81 297 483)
	4 823 878	**-**

No amounts were outstanding at the end of the financial year.

VAT

VAT payable	45 558 550	9 547 913

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor NH Gumede	2 780	18 615	21 395
Councillor ZK Dladla	184	9 896	10 080
Councillor TB Cele	2 216	8 000	10 216
Councillor MA Manyoni	178	5 978	6 156
Councillor GD & JE Henderson	2 279	408	2 687
Councillor PH Mthiyane	570	1 149	1 719
	8 207	**44 046**	**52 253**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor MA Manyoni	338	31 404	31 742
Councillor NH Gumede	3 693	11 590	15 283
Councillor SA Khawula	1 295	920	2 215
Councillor TB Cele	285	2 120	2 405
	5 611	**46 034**	**51 645**

Non-compliance

In terms on Section 125 (2) (e) of Municipal Finance Management Act 2003, there were no non-compliance were identified during the financial period.

Notes to the Annual Financial Statements

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52. S36 Deviation from supply chain management regulations

Section 36 deviations	17 676 764	278 827 097

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 Council and includes a note to the annual financial statements.

Deviations from the tender stupulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Notes to the Annual Financial Statements

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53. Contingent assets and contigent liabilities

No.	Name of entity/subsidiary	Management's description of matter (including amount claimed and legal counsel)	Management's estimate of the financial exposure (including costs and disbursements)	Legal Services/Counsel remarks
1	Ingrid Gramony	2014 - Plaintiffs husband fell into trench allegedly created by the Municipality for pipeline replacement and died Claim: R1 347 538.00Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±350 000.00	Awaiting Trial date
2	PV Conco	2015 - Allegations that the Municipality has built property on land belonging to Umzumbe Municipality without authorisation. They require the municipality to return undistributed and rehabilitated use of land to them.Claim: R 600 000.00Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±160 000.00	Pending negotiations to settle
3	Msawenkosi Patrick Sakha	2016 - Claim for damages for pain and suffering. The employee sued the municipality for pain and suffering after not have been appointed on a position that they had acted in and claimed unfair labour practice. Claim: R194 466.87Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R21 000.00	Attorneys are setting the matter down for trial
4	San Lameer Home Owners Association	2016 - The Municipality is the fourth Respondent of six, Plaintiff alleges that the Municipality has failed to deal with the first respondents lack of compliance to our By-Laws for public health in respect of offensive smell from Pig Farming activities.Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±123 000.00	Awaiting trial date. In the interim briefing Council.
5	Shembe	2017 - Attorneys allege that the Municipality constructed a pipeline on property belonging to Shembe without consultation and compensationClaim: The property was valued at R274 000.Legal Counsel: N/A - Internal representation	Total costs of outstanding legal fees or estimated costs: R±100 000.00	This is not a litigation but a claim for land used without consent.
6	RNP Agencies	June 2018- Allegation of amounts paid/ deposited by the Municipality to incorrect accountLegal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±100 00.00	Matter is awaiting trial date

Notes to the Annual Financial Statements

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53. Contingent assets and contigent liabilities (continued)

7	Bendigo Electrical cc	June 2018 - Allegation of non-payment for services in respect of building of Phase 1 Disaster Management CentreLegal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R ±20 000.00	Matter is awaiting trial date
8	Shivani Bagratee and 3 others	Nov 2018 -Applicant launched an application to evict the respondents, and those occupying the property through them. The Municipality is the 40th respondent in this allegation.Legal counsel: Seethal Attorneys	Total costs of outstanding legal fees or estimated costs: R±135 000.00	Our application for recession of the order against the municipality has been finalised. The attorneys are attending to the issuing and service of same.
9	Charl Wilcocks	Dec 2018 - The employee alleges that he was unfairly dismissed the arbitrator ruled in favour of the municipality however the former employee referred the arbitrator ruling to the Labour Court for Review. Legal Counsel: Shepstone & Wylie	Total costs of outstanding legal fees or estimated costs: R±101 000.00	Awaiting trial dates.
10	Yvonne Draai	Dec 2018 - Contract employee alleges unfair dismissal after termination of contract employment. Arbitrator found in favour of the municipality however the former employee has referred the arbitrators decision to the Labour Court for review. Legal Counsel: Shepstone & Wylie	Total costs of outstanding legal fees or estimated costs: R±110 000.00	Awaiting trial dates.
11	Cyassound Hildings	Feb 2019 -Cancellation of lease agreement the municipality has instructed the attorneys to cancel the lease and collect the arrear rentals and water account.Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±150 000.00	Matter is in progress.
12	Mr Cool Air-conditioning Pty Ltd	Mar 2019 - Tender objection. The plaintiff applied for interdict alleging that the municipality awarded the incorrect service provider. The court did not grant the interdict and ruled that the municipality may proceed with the award as long as the municipality ensures that the awarded service provider does not break the Occupational Health and Safety Act. Legal Counsel: Tomilson Mnguni James	Total costs of outstanding legal fees or estimated costs: R±100 000.00	The appellant referred the award for review the High Court