Harry Gwala District Municipality
(Registration number DC 43)
Financial statements
for the year ended 30 June 2019

General Information

Legal form of entity	District Municipality
Nature of business and principal activities	Provision of water and sanitation
Mayoral committee	
Executive Mayor	M Ndobe (Resigned May 2019)
Deputy Mayor	NH Duma (Acting Mayor from May 2019)
Speaker	TN Jojozi
Member of the Executive Committee	BP Nzimande
Member of the Executive Committee	N Mavuka
Member of the Executive Committee	LG Seja (Resigned May 2019)
Councillors	WB Dlamini
	SS Mavuma
	NW Dladla
	TG Soni
	V Xotongo
	BL Marnce
	B Caluza
	TC Dlamini
	ZC Khumalo
	S Nkala
	S Magaqa
	SN Madziba
	BZ Magaqa
	SV Zulu
	P Shange
	VW Zaza
	ZR Tshazi
	BC Mncwabe
	SJ Phakathi
Grading of local authority	Grade 4
Chief Finance Officer (CFO)	Mr M Mkatu
Accounting Officer	Mrs AN Dlamini
Business address	40 Main Street Ixopo 3276
Postal address	Private Bag X501 Ixopo 3276
Bankers	First National Bank
Auditors	Auditor General South Africa
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

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The reports and statements set out below comprise the 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
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out in pages 4 to 57 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 34 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mrs AN Dlamini
Municipal Manager

Friday, 30 August 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Notes	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	247 710	170 585
Receivables from non-exchange transactions	4	6 057 815	5 776 600
VAT receivable	5	10 869 089	37 565 377
Consumer debtors	6	26 933 367	21 915 134
Cash and cash equivalents	7	58 362 814	96 962 031
		102 470 795	**162 389 727**
Non-Current Assets			
Property, plant and equipment	8	2 170 542 330	1 968 798 196
Intangible assets	9	1 151 698	1 377 540
Investments in controlled entities	10	100	100
		2 171 694 128	**1 970 175 836**
Total Assets		**2 274 164 923**	**2 132 565 563**
Liabilities			
Current Liabilities			
Borrowings	11	4 101 623	6 159 439
Finance lease obligation	12	8 426 135	4 884 263
Payables from exchange transactions	13	105 501 099	155 021 623
Consumer deposits	14	1 768 018	1 605 611
Employee benefit obligation	15	318 714	732 466
Unspent conditional grants and receipts	16	44 632 694	61 251 430
		164 748 283	**229 654 832**
Non-Current Liabilities			
Borrowings	11	4 555 057	8 656 680
Finance lease obligation	12	8 985 901	8 099 954
Employee benefit obligation	15	18 621 498	22 216 863
Long terrm payables from exchange transactions		11 661 265	10 930 228
		43 823 721	**49 903 725**
Total Liabilities		**208 572 004**	**279 558 557**
Net Assets		**2 065 592 919**	**1 853 007 006**
Accumulated surplus		2 065 592 919	1 853 007 006

* See Note 38

Statement of Financial Performance

Figures in Rand	Note	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	58 420 643	53 962 321
Other income	19	743 465	710 231
Interest received	20	19 757 937	20 331 866
Total revenue from exchange transactions		**78 922 045**	**75 004 418**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	658 444 867	637 071 975
Public contributions and donations	22	13 424 405	17 014 265
Total revenue from non-exchange transactions		**671 869 272**	**654 086 240**
Total revenue	17	**750 791 317**	**729 090 658**
Expenditure			
Bulk purchases	23	17 975 968	13 638 102
Contracted services	24	141 448 278	149 805 988
Debt Impairment	25	19 110 917	24 717 388
Depreciation and amortisation	26	66 993 428	65 608 947
Employee related costs	27	181 161 151	152 334 146
Finance costs	28	3 752 248	4 496 678
Impairment loss	29	2 750 050	2 445 022
Inventory consumed	30	31 005 899	23 948 500
Operational costs	31	51 573 359	43 521 006
Remuneration of councillors	32	6 952 424	5 963 561
Transfer payments	33	14 000 000	11 707 789
Total expenditure		**536 723 722**	**498 187 127**
Operating surplus		**214 067 595**	**230 903 531**
Loss on disposal of assets		(8 948 027)	(410 258)
Actuarial gains/losses	15	7 466 339	2 066 752
		(1 481 688)	**1 656 494**
Surplus for the year		**212 585 907**	**232 560 025**

* See Note 38

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 614 042 460	1 614 042 460
Adjustments		
Prior year adjustments	6 404 521	6 404 521
Balance at 01 July 2017 as restated*	**1 620 446 981**	**1 620 446 981**
Changes in net assets		
Surplus for the year	232 560 025	232 560 025
Total changes	232 560 025	232 560 025
Opening balance as previously reported	1 824 437 544	1 824 437 544
Adjustments		
Prior year adjustments	28 569 468	28 569 468
Restated* Balance at 01 July 2018 as restated*	**1 853 007 012**	**1 853 007 012**
Changes in net assets		
Surplus for the year	212 585 907	212 585 907
Total changes	212 585 907	212 585 907
Balance at 30 June 2019	**2 065 592 919**	**2 065 592 919**

* See Note 38

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Water, sanitation and other receipts		44 595 527	40 968 700
Grants		641 826 131	649 089 597
Interest income		9 839 028	8 968 803
		696 260 686	699 027 100
Payments			
Employee costs		(182 497 514)	(156 166 113)
Suppliers		(280 824 161)	(235 022 144)
Finance costs		(3 752 248)	(4 496 678)
		(467 073 923)	(395 684 935)
Net cash flows from operating activities	34	**229 186 763**	**303 342 165**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(256 582 632)	(220 392 889)
Cash flows from financing activities			
Repayment of borrowings		(6 159 439)	(3 330 122)
Movement in long terrm payables from exchange transactions		731 037	-
Finance lease payments		(5 774 946)	(6 929 674)
Net cash flows from financing activities		**(11 203 348)**	**(10 259 796)**
Net increase/(decrease) in cash and cash equivalents		**(38 599 217)**	**72 689 480**
Cash and cash equivalents at the beginning of the year		96 962 031	24 272 551
Cash and cash equivalents at the end of the year	7	**58 362 814**	**96 962 031**

* See Note 38

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	63 465 516	19 375 087	82 840 603	-		82 840 603	58 420 643		(24 419 960)	71 %	92 %
Investment revenue	16 486 200	1 950 601	18 436 801	-		18 436 801	19 757 937		1 321 136	107 %	120 %
Transfers recognised - operational	321 592 000	55 503 000	377 095 000	-		377 095 000	372 119 025		(4 975 975)	99 %	116 %
Other own revenue	1 114 679	-	1 114 679	-		1 114 679	8 209 804		7 095 125	737 %	737 %
Total revenue (excluding capital transfers and contributions)	**402 658 395**	**76 828 688**	**479 487 083**	**-**		**479 487 083**	**458 507 409**		**(20 979 674)**	**96 %**	**114 %**
Employee costs	(162 677 999)	(18 711 321)	(181 389 320)	-	-	(181 389 320)	(181 161 151)	-	228 169	100 %	111 %
Remuneration of councillors	(6 847 696)	(165 312)	(7 013 008)	-	-	(7 013 008)	(6 952 424)	-	60 584	99 %	102 %
Debt impairment	(25 266 207)	19 305 330	(5 960 877)			(5 960 877)	(19 110 917)	13 150 040	(13 150 040)	321 %	76 %
Depreciation and asset impairment	(41 276 459)	4 405 643	(36 870 816)			(36 870 816)	(69 743 478)	32 872 662	(32 872 662)	189 %	169 %
Finance charges	(3 954 391)	-	(3 954 391)	-	-	(3 954 391)	(3 752 248)	-	202 143	95 %	95 %
Materials and bulk purchases	(15 000 000)	2 124 131	(12 875 869)	-	-	(12 875 869)	(17 975 968)	5 100 099	(5 100 099)	140 %	120 %
Contracted services	(83 302 733)	(73 945 492)	(157 248 225)	-	-	(157 248 225)	(141 448 278)	-	15 799 947	90 %	170 %
Transfer payments	(16 830 000)	2 830 000	(14 000 000)	-	-	(14 000 000)	(14 000 000)	-	-	100 %	83 %
Inventory consumed	(14 615 000)	(6 674 598)	(21 289 598)	-	-	(21 289 598)	(31 005 899)	9 716 301	(9 716 301)	146 %	212 %
Other operating costs	(31 924 493)	(1 631 803)	(33 556 296)	-	-	(33 556 296)	(44 085 338)	10 529 042	(10 529 042)	131 %	138 %
Total expenditure	**(401 694 978)**	**(72 463 422)**	**(474 158 400)**	**-**	**-**	**(474 158 400)**	**(529 235 701)**	**71 368 144**	**(55 077 301)**	**112 %**	**132 %**
Surplus/(Deficit)	**963 417**	**4 365 266**	**5 328 683**	**-**		**5 328 683**	**(70 728 292)**		**(76 056 975)**	**(1 327)%**	**(7 341)%**

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	349 213 000	(25 696 698)	323 516 302	-		323 516 302	286 325 842		(37 190 460)	89 %	82 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	13 424 405		13 424 405	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**350 176 417**	**(21 331 432)**	**328 844 985**	**-**		**328 844 985**	**229 021 955**		**(99 823 030)**	**70 %**	**65 %**
Surplus/(Deficit) for the year	**350 176 417**	**(21 331 432)**	**328 844 985**	**-**		**328 844 985**	**229 021 955**		**(99 823 030)**	**70 %**	**65 %**

Capital expenditure and funds sources

	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
Total capital expenditure	349 292 000	(20 891 689)	328 400 311	-		328 400 311	266 785 397		(61 614 914)	81 %	76 %
Sources of capital funds											
Transfers recognised - capital	341 982 000	(18 465 698)	323 516 302	-		323 516 302	-		(323 516 302)	- %	- %
Internally generated funds	7 310 000	(2 425 991)	4 884 009	-		4 884 009	-		(4 884 009)	- %	- %
Total sources of capital funds	**349 292 000**	**(20 891 689)**	**328 400 311**	**-**		**328 400 311**	**-**		**(328 400 311)**	**- %**	**- %**

Harry Gwala District Municipality

(Registration number DC 43)
Financial Statements for the year ended 30 June 2019

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
Cash flows											
Net cash from (used) operating	376 436 000	-	376 436 000	-		376 436 000	229 186 763		(147 249 237)	61 %	61 %
Net cash from (used) investing	(341 982 000)	-	(341 982 000)	-		(341 982 000)	(256 582 632)		85 399 368	75 %	75 %
Net cash from (used) financing	(3 130 000)	-	(3 130 000)	-		(3 130 000)	(11 203 348)		(8 073 348)	358 %	358 %
Net increase/(decrease) in cash and cash equivalents	**31 324 000**	**-**	**31 324 000**	**-**		**31 324 000**	**(38 599 217)**		**(69 923 217)**	**(123)%**	**(123)%**
Cash and cash equivalents at the beginning of the year	96 962 031	-	96 962 031	-		96 962 031	96 962 031		-	100 %	100 %
Cash and cash equivalents at year end	**128 286 031**	**-**	**128 286 031**	**-**		**128 286 031**	**58 362 814**		**69 923 217**	**45 %**	**45 %**

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade 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 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.

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].

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

1.3 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 15.

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.

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport Assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years
Computer Equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years
River	Straight line	
• Structure - Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure - buildings		55 years
• Structure - Clarifiers		55 years
• Structure - Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade - Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure - Concrete		50 years
• Structure - Galaxy		30 years
• Structure - Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground	Straight line	
• Chambers		30 years
• Manholes		30 years

1.4 Property, plant and equipment (continued)

Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years
• Standpipes		20 years
Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure - Drying beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 years

The 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:

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

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.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

Accounting Policies

1.6 Investments in controlled entities

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

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

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

1.7 Financial instruments

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

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

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

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

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

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.

Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

1.7 Financial instruments (continued)

Classification

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

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

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

Class	Category
Long-term borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Short-term loans	Financial liability measured at amortised cost
Finance leases	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Gains and losses

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.7 Financial instruments (continued)

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.

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.7 Financial instruments (continued)

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

Presentation

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

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.

1.8 Tax

Value added tax

The Municipality accounts for Value added tax on the payments basis.

1.9 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs 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.

1.10 Inventories (continued)

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

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

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

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.12 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

1.12 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

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

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

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

1.12 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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.

1.13 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.

1.13 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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 an 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

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.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

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

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.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

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

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

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

Tariff Charges

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

Interest

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

1.16 Revenue from non-exchange transactions

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

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

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.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Government grants

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

The municipality assesses the degree of certainty 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 service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue 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 grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

1.17 Investment income

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

1.18 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.

1.19 Comparative figures

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

1.20 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.

Accounting Policies

1.21 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.

1.22 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.

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.

1.23 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 2018/07/01 to 2019/06/30.

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

1.23 Budget information (continued)

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

1.24 Related parties

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

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

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

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

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

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

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

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

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

1.25 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 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 38: Disclosure of Interests in Other Entities

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

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

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

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

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

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

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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

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

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

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

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

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

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

Notes to the Financial Statements

Figures in Rand	2019	2018

3. Inventories

Water	247 710	170 585

4. Receivables from non-exchange transactions

Unauthorised expenditure	5 979	5 979
Debtor-Kokstad deposits	105 753	105 753
Councillors laptops	94 045	94 045
ACB/debtors	424 247	424 247
Other debtors	3 226 995	2 945 780
Cyclone construction - Farmers market	2 000 000	2 000 000
Councillors bursary	19 537	19 537
SARS - debtors/salaries	181 259	181 259
	6 057 815	**5 776 600**

5. VAT receivable

VAT	10 869 089	37 565 377

6. Consumer debtors

Gross balances		
Water	108 370 289	113 345 927
Value Added Tax	16 899 186	12 128 612
Sewerage	52 374 004	56 110 467
	177 643 479	**181 585 006**
Less: Allowance for impairment		
Water	(89 829 804)	(98 344 717)
Value Added Tax	(13 975 098)	(10 349 182)
Sewerage	(46 905 210)	(50 975 973)
	(150 710 112)	**(159 669 872)**
Net balance		
Water	18 540 485	15 001 210
Value Added Tax	2 924 088	1 779 430
Sewerage	5 468 794	5 134 494
	26 933 367	**21 915 134**
Water		
Current (0 -30 days)	10 090 866	7 900 829
31 - 60 days	4 019 650	2 006 316
61 - 90 days	3 079 361	2 419 418
91 - 120 days	2 983 362	18 539 643
>120 days	88 197 050	82 479 721
	108 370 289	**113 345 927**

Notes to the Financial Statements

Figures in Rand	2019	2018

6. Consumer debtors (continued)

Value Added Tax		
Current (0 -30 days)	1 655 976	1 373 830
31 - 60 days	618 896	332 119
61 - 90 days	509 691	346 214
91 - 120 days	485 814	373 303
>120 days	13 628 808	9 703 146
	16 899 185	**12 128 612**

Sewerage		
Current (0 -30 days)	3 235 953	2 870 512
31 - 60 days	1 462 689	998 019
61 - 90 days	1 126 258	802 951
91 - 120 days	1 122 575	9 010 312
>120 days	45 426 528	42 428 673
	52 374 003	**56 110 467**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(159 669 872)	(154 549 136)
Contributions to allowance	(19 110 915)	(24 717 388)
Debt impairment written off against allowance	28 070 675	19 596 652
	(150 710 112)	**(159 669 872)**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	300	10 557
Bank balances	2 788 082	2 822 218
Short-term deposits	55 574 432	94 129 256
	58 362 814	**96 962 031**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for Eskom account	200 000	200 000

Notes to the Financial Statements

Figures in Rand	2019	2018

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2019	Bank statement balances 30 June 2018	Bank statement balances 30 June 2017	Cash book balances 30 June 2019	Cash book balances 30 June 2018	Cash book balances 30 June 2017
FNB Ixopo branch account number 62022648169	2 799 177	2 793 500	1 597 841	2 788 082	2 822 218	1 597 841
FNB call account number 62032587331	513 547	180 802	13 504 348	513 547	180 802	13 504 348
FNB call account number 62095523281	1 356 057	1 243 741	5 870 388	1 356 057	1 243 741	5 870 388
FNB call account number 62138538692	18 656 530	34 075 686	1 000	18 656 530	34 075 686	1 000
FNB call account number 62398395204	27 061 010	17 289 757	1 000	27 061 010	17 289 757	1 000
FNB call account number 62434145331	4 484	2 605	5 076	4 484	2 605	5 076
FNB call account number 62434147072	3 149 929	9 190 531	2 769	3 149 929	9 190 531	2 769
FNB call account number 62434151239	3 602	68 407	1 005	3 602	68 407	1 005
FNB call account number 62414264797	5 983	9 600	3 134	5 983	9 600	3 134
Investec bank call account number 50006688425	4 823 284	32 071 021	3 285 691	4 823 284	32 071 021	3 285 961
Total	**58 373 603**	**96 925 650**	**24 272 252**	**58 362 508**	**96 954 368**	**24 272 522**

Notes to the Financial Statements

Figures in Rand

8. 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	13 672 272	-	13 672 272	13 672 272	-	13 672 272
Buildings	34 780 745	(10 279 957)	24 500 788	34 780 745	(9 212 082)	25 568 663
Machinery and equipment	2 184 368	(1 642 753)	541 615	2 099 060	(1 423 043)	676 017
Furniture and office equipment	5 517 800	(4 167 788)	1 350 012	5 149 255	(3 590 150)	1 559 105
Transport assets	9 905 983	(6 849 145)	3 056 838	8 637 205	(5 733 798)	2 903 407
Computer equipment	5 398 489	(2 320 992)	3 077 497	2 995 116	(1 549 752)	1 445 364
Infrastructure: information and communication	1 262 001	(935 748)	326 253	1 262 002	(817 794)	444 208
Infrastructure	2 596 463 210	(489 515 471)	2 106 947 739	2 330 752 356	(422 026 285)	1 908 726 071
Community	5 188 302	(2 110 543)	3 077 759	5 188 302	(1 870 322)	3 317 980
Leased assets	30 222 687	(16 231 130)	13 991 557	20 006 136	(9 521 027)	10 485 109
Total	**2 704 595 857**	**(534 053 527)**	**2 170 542 330**	**2 424 542 449**	**(455 744 253)**	**1 968 798 196**

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	25 568 663	-	-	-	(1 067 875)	-	24 500 788
Machinery and equipment	676 017	85 308	-	-	(204 956)	(14 754)	541 615
Furniture and office equipment	1 559 105	466 921	(10 844)	-	(654 824)	(10 346)	1 350 012
Transport assets	2 903 407	1 268 778	-	-	(1 115 347)	-	3 056 838
Computer equipment	1 445 364	2 418 572	(1 583)	-	(773 250)	(11 606)	3 077 497
Infrastructure: information and communication	444 208	-	-	-	(117 955)	-	326 253
Infrastructure: water reticulation	1 908 726 071	252 343 053	(8 935 600)	13 424 405	(55 896 846)	(2 713 344)	2 106 947 739
Community assets	3 317 980	-	-	-	(240 221)	-	3 077 759
Leased assets	10 485 109	10 202 765	-	-	(6 696 317)	-	13 991 557
	1 968 798 196	**266 785 397**	**(8 948 027)**	**13 424 405**	**(66 767 591)**	**(2 750 050)**	**2 170 542 330**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Lease Modification	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	26 636 537	-	-	-	-	(1 067 874)	-	25 568 663
Machinery and equipment	959 532	-	(70 649)	-	-	(212 866)	-	676 017
Furniture and office equipment	2 292 671	-	(74 056)	-	-	(659 510)	-	1 559 105
Transport assets	3 985 833	-	-	-	-	(1 082 426)	-	2 903 407
Computer equipment	1 268 780	724 545	(62 039)	-	-	(485 922)	-	1 445 364
Infrastructure: information and communication	868 668	-	(152 722)	-	-	(271 738)	-	444 208
Infrastructure: water reticulation	1 727 825 119	219 668 344	-	17 014 265	-	(53 336 635)	(2 445 022)	1 908 726 071
Community assets	3 561 439	-	-	-	-	(243 459)	-	3 317 980
Leased assets	18 397 799	-	(49 718)	-	136 270	(7 999 242)	-	10 485 109
	1 799 468 650	**220 392 889**	**(409 184)**	**17 014 265**	**136 270**	**(65 359 672)**	**(2 445 022)**	**1 968 798 196**

Figures in Rand	2019	2018

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	408 628 097	408 628 097
Additions/capital expenditure	252 343 054	252 343 054
Transfer received from COGTA	2 240 255	2 240 255
Transferred to completed items	(34 297 683)	(34 297 683)
Written off - prior period error	(2 791 094)	(2 791 094)
	626 122 629	**626 122 629**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	356 710 765	356 710 765
Additions/capital expenditure	219 668 334	219 668 334
Transferred to completed items	(167 751 002)	(167 751 002)
	408 628 097	**408 628 097**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	11 652 798	2 887 544
Materials consumed	25 588 572	7 923 726
	37 241 370	**10 811 270**

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.

9. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	3 642 132	(2 490 434)	1 151 698	3 598 216	(2 220 676)	1 377 540

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	1 377 540	(225 842)	1 151 698

Figures in Rand	2019	2018

9. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Disposals	Amortisation	Total
Computer software	1 658 032	(1 074)	(279 418)	1 377 540

10. Investments in controlled entities

Subsidiary	Held by	% holding 2019	% holding 2018	Carrying amount 2019	Carrying amount 2018
Harry Gwala Development Agency	Harry Gwala District Municipality	100,00 %	100,00 %	100	100

11. Borrowings

	2019	2018
At amortised cost		
ABSA loan	8 656 680	14 816 119
The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually.The loan is redeemable in twenty equal installments bi-annually in arrears on 30 June and 31 December each year until 30 June 2021 .		
Non-current liabilities		
At amortised cost	4 555 057	8 656 680
Current liabilities		
At amortised cost	4 101 623	6 159 439

12. Finance lease obligation

	2019	2018
Minimum lease payments due		
- within one year	9 963 051	6 929 465
- in second to fifth year inclusive	9 620 328	9 212 678
	19 583 379	16 142 143
less: future finance charges	(2 171 343)	(3 157 926)
Present value of minimum lease payments	**17 412 036**	**12 984 217**
Present value of minimum lease payments due		
- within one year	8 426 136	4 884 263
- in second to fifth year inclusive	8 985 900	8 099 954
	17 412 036	**12 984 217**
Non-current liabilities	8 985 901	8 099 954
Current liabilities	8 426 135	4 884 263
	17 412 036	**12 984 217**

It is municipality policy to lease certain motor vehicles and printers under finance leases.

The average lease term was 4 years and the average effective borrowing rate was 12% (2018: 13%).

Interest rates are linked to prime at the contract date. All leases escalate at the CPI% p.a and no arrangements have been entered into for contingent rent.

Notes to the Financial Statements

Figures in Rand	2019	2018

13. Payables from exchange transactions

Trade payables	29 209 228	95 524 747
Retentions	51 387 878	38 315 757
Accrued leave pay	11 000 334	9 573 961
Debtors with credit balances	6 976 757	5 000 614
Other payables	688 543	1 179 136
Payroll third party payments accrued	6 238 359	5 427 408
	105 501 099	**155 021 623**

14. Consumer deposits

Water	1 768 018	1 605 611

15. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

- Bonitas
- Keyhealth
- LA Health

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

Carrying value		
Post-retirement health care benefit liability	(11 438 391)	(17 727 986)
Long service awards	(7 501 821)	(5 221 343)
	(18 940 212)	**(22 949 329)**
Non-current liabilities	(18 621 498)	(22 216 863)
Current liabilities	(318 714)	(732 466)
	(18 940 212)	**(22 949 329)**

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

Opening balance	17 727 986	16 962 824
Benefits paid	(52 537)	(49 293)
Net expense recognised in the statement of financial performance	(6 237 058)	814 455
	11 438 391	**17 727 986**

Net expense recognised in the statement of financial performance

Current service cost	1 469 279	1 483 569
Interest cost	1 748 991	1 716 732
Actuarial (gains) losses	(9 455 328)	(2 385 846)
	(6 237 058)	**814 455**

Figures in Rand	2019	2018

15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,82 %	9,88 %
Expected increase in healthcare costs	7,19 %	7,59 %
Net Effective Discount Rate	2,45 %	2,13 %

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

- Bonitas
- Keyhealth
- LA Health
- Samwumed

Long service awards

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

Opening balance	5 221 343	4 552 281
Benefits paid	(679 929)	(518 324)
Net expense recognised in the statement of financial performance	2 960 407	1 187 386
	7 501 821	**5 221 343**

Net expense recognised in the statement of financial performance

Current service cost	551 996	504 919
Interest cost	419 422	363 373
Actuarial losses	1 988 989	319 094
	2 960 407	**1 187 386**

Key assumptions used

Discount rate	8,31%	8,58%
Salary cost inflation rate	5,64%	6,20%
Net effective discount rate	2,53%	2,20%
Expected retirement age - females	62	55
Expected retirement age - males	62	60
		-

The municipality operate an unfunded defined benefit plan for all its employees. Under the plan a Long-service Award is payable after 10 years thereafter to employees.The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

Notes to the Financial Statements

Figures in Rand	2019	2018

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal infrastructure grant	23 237 887	10 039 000
Water services infrastructure grant	-	49 012 312
Drought relief	20 000 000	-
Rural transportation service infrastructure grant	-	4 351
Development planning shared services grant	818 472	1 164 043
Regional bulk infrastructure grant	-	10 375
Sihleza maize production project	242 413	242 413
Signage grant	98 112	98 112
Government experts grant	-	445 014
Gijima grant	235 810	235 810
	44 632 694	**61 251 430**

See note 21 for reconciliation of grants from National/Provincial Government.

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

17. Revenue

Service charges	58 420 643	53 962 321
Other income	743 465	710 231
Interest received	19 757 937	20 331 866
Government grants & subsidies	658 444 867	637 071 975
Public contributions and donations	13 424 405	17 014 265
	750 791 317	**729 090 658**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	58 420 643	53 962 321
Other income	743 465	710 231
Interest received	19 757 937	20 331 866
	78 922 045	**75 004 418**

The amount included in revenue arising from non-exchange transactions is as follows:

Transfer revenue		
Government grants & subsidies	658 444 867	637 071 975
Public contributions and donations	13 424 405	17 014 265
	671 869 272	**654 086 240**

18. Service charges

Sale of water	43 001 397	38 411 217
Sewerage and sanitation charges	15 419 246	15 551 104
	58 420 643	**53 962 321**

Notes to the Financial Statements

Figures in Rand	2019	2018

19. Other income

Clearance certificate	3 643	2 494
Insurance refunds	-	109 794
Tender documents	693 700	575 650
Management fees	46 122	22 293
	743 465	**710 231**

20. Investment revenue

Interest revenue		
Interest on outstanding debtors	9 918 909	11 363 063
Interest on investments	9 839 028	8 968 803
	19 757 937	**20 331 866**

Figures in Rand	2019	2018

21. Government grants and subsidies

Operating grants		
Equitable share	318 074 028	285 028 617
Expanded public works programme	2 518 000	1 718 000
District growth summit	-	331 301
Financial management grant	1 000 000	1 250 000
Local Govt. sector education training authority	287 131	230 587
Municipal infrastructure grant	30 394 621	68 902 874
Water services infrastructure grant	16 828 660	-
Rural transportation service infrastructure grant	2 226 000	2 220 948
Energy efficiency demand management grant	-	12 809 200
Government experts grant	445 014	-
Development shared services grant	345 571	-
	372 119 025	**372 491 527**
Capital grants		
Regional bulk infrastructure grant	70 000 000	89 989 626
Municipal infrastructure grant	152 754 502	125 603 125
Water services infrastructure grant	63 571 340	48 987 697
	286 325 842	**264 580 448**
	658 444 867	**637 071 975**

Equitable Share

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

Municipal infrastructure grant

Balance unspent at beginning of year	10 039 000	-
Current-year receipts	196 587 000	204 545 000
Conditions met transferred to revenue (current year allocation - capital)	(142 954 492)	(125 603 126)
Conditions met transferred to revenue (current year allocation - operational)	(30 394 621)	(68 902 874)
Conditions met transferred to revenue (approved rollover- capital)	(9 800 000)	-
Repayment of unspent portion	(239 000)	-
	23 237 887	**10 039 000**

Conditions still to be met - remain liabilities (see note 16).

The municipal infrastructure grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.

Financial management grant

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

Conditions still to be met - remain liabilities (see note 16).

Financial management grant is used to implement financial management reforms required by the MFMA.

Expanded public works programme

Current-year receipts	2 518 000	1 718 000
Conditions met - transferred to revenue	(2 518 000)	(1 718 000)

Figures in Rand	2019	2018

21. Government grants and subsidies (continued)

	-	-

Conditions still to be met - remain liabilities (see note 16).

Expanded public works programme grant is used to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas. The current year receipt was used to fund expenditure during the current year and thus accordingly recognised as revenue.

Public transport grant

	2019	2018
Balance unspent at beginning of year	-	66 587
Adjustment	-	(66 587)
	-	-

Water services infrastructure grant

	2019	2018
Balance unspent at beginning of year	49 012 312	15 261 555
Current-year receipts	80 400 000	98 000 000
Conditions met transferred to revenue (current year allocation - capital)	(63 571 340)	(48 987 688)
Conditions met transferred to revenue (current year allocation - operational)	(16 828 660)	-
Repayment of unspent portion	(49 012 312)	(15 261 555)
	-	**49 012 312**

Conditions still to be met - remain liabilities (see note 16).

The water services infrastructure grant is used to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services. The current year receipts were used to fund expenditure during the current year and thus accordingly recognised as revenue.

Water services infrastructure grant - drought relief

	2019	2018
Current-year receipts	20 000 000	-

Conditions still to be met - remain liabilities (see note 16).

The unspent water services infrastructure grant allocation is in relation to the drought relief project, drilling and equipping of boreholes, static tanks and spring protection.

Rural roads asset management system grant

	2019	2018
Balance unspent at beginning of year	4 351	4 299
Current-year receipts	2 226 000	2 221 000
Conditions met - transferred to revenue	(2 226 000)	(2 220 948)
Repayment of unspent portion	(4 351)	-
	-	**4 351**

Conditions still to be met - remain liabilities (see note 16).

Rural roads asset management system grant is utilised to assess traffic management initiatives.

Development planning shared services

	2019	2018
Balance unspent at beginning of year	1 164 043	1 164 043
Conditions met - transferred to revenue	(345 571)	-
	818 472	**1 164 043**

Figures in Rand	2019	2018

21. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

The grant received from COGTA is to be utilised in developing shared municipal services between municipalities.

Energy effeciency demand side management Grant

Balance unspent at beginning of year	-	4 809 200
Current-year receipts	-	8 000 000
Conditions met - transferred to revenue	-	(12 809 200)
	-	-

District Growth Summit - COGTA

Balance unspent at beginning of year	-	31 301
Current-year receipts	-	300 000
Conditions met - transferred to revenue	-	(331 301)
	-	-

Conditions still to be met - remain liabilities (see note 16).

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

Regional bulk infrastructure grant

Balance unspent at beginning of year	10 375	26 942 062
Current-year receipts	70 000 000	90 000 000
Conditions met - transferred to revenue	(70 000 000)	(89 989 625)
Repayment of unspent portion	(10 375)	(26 942 062)
	-	**10 375**

Conditions still to be met - remain liabilities (see note 16).

Regional bulk infrastructure grant is utilised to address water infrastructure projects approved.

Sihleza maize production project

Balance unspent at beginning of year	242 413	242 413

Conditions still to be met - remain liabilities (see note 16).

Signage grant

Balance unspent at beginning of year	98 112	98 112

Conditions still to be met - remain liabilities (see note 16).

Government experts

Balance unspent at beginning of year	445 014	445 014
Conditions met - transferred to revenue	(445 014)	-
	-	**445 014**

Conditions still to be met - remain liabilities (see note 16).

Notes to the Financial Statements

Figures in Rand	2019	2018

21. Government grants and subsidies (continued)

Gijima grant

Balance unspent at beginning of year	235 810	235 810

Conditions still to be met - remain liabilities (see note 16).

22. Public contributions and donations

Assets received from other organs of state	13 424 405	17 014 265

23. Bulk purchases

Water	17 975 968	13 638 102

24. Contracted services

Outsourced Services		
Administrative and Support Staff	14 988 322	16 846 007
Burial Services	5 000	2 000
Business and Advisory	8 489 910	14 608 661
Catering Services	414 074	3 702 746
Cleaning Services	79 198	87 825
Meter Management	-	5 408 519
Security Services	26 557 177	22 512 287
Sewerage Services	611 359	-
Water Takers	4 395 681	1 605 627
Consultants and Professional Services		
Business and Advisory	4 711 639	3 314 567
Infrastructure and Planning	1 439 189	-
Legal Cost	5 414 764	10 514 601
Contractors		
Audio-visual Services	37 000	87 195
Catering Services	26 432	94 243
Electrical	-	6 988 268
Employee Wellness	119 371	241 545
Event Promoters	6 753 850	1 298 494
Gardening Services	-	25 000
Maintenance of Buildings and Facilities	1 166 787	1 727 033
Maintenance of Unspecified Assets	10 486 011	2 706 014
Rural roads site supervision and consulting	2 002 874	1 947 762
Sewerage Services	53 742 340	55 992 584
Stage and Sound Crew	7 300	95 010
	141 448 278	**149 805 988**

25. Debt impairment

Debt impairment	19 110 917	24 717 388

Notes to the Financial Statements

Figures in Rand	2019	2018

26. Depreciation and amortisation

Property, plant and equipment	66 767 586	65 235 602
Intangible assets	225 842	373 345
	66 993 428	**65 608 947**

Figures in Rand	2019	2018

27. Employee related costs

Basic	99 979 496	89 175 263
Bonus	6 855 080	6 531 222
Medical aid - company contributions	7 260 577	7 503 030
UIF	664 327	594 729
Leave pay provision charge	1 966 754	1 531 556
Health care retirement benefit	3 165 733	3 151 008
Pension fund - company contributions	14 209 023	9 993 163
SALGBC - company contributions	36 721	31 212
Travel, motor car, accommodation, subsistence and other allowances	17 990 005	14 297 538
Overtime payments	22 214 615	17 029 206
Long-service awards	917 846	865 398
Housing benefits and allowances	413 229	718 157
	175 673 406	**151 421 482**

Remuneration of municipal manager

Annual remuneration	928 379	981 704
Car allowance	160 595	282 099
Cell phone allowance	18 091	17 694
Housing allowance	54 655	-
Rural allowance	45 301	-
Contributions to UIF	1 785	1 785
Contributions to medical aid	49 793	46 339
Contributions to SALGBC	103	97
	1 258 702	**1 329 718**

Remuneration of chief finance officer

Annual remuneration	622 846	860 660
Bonus	-	67 487
Housing allowance	46 385	-
Rural allowance	33 278	-
Car allowance	152 250	242 106
Cell phone allowance	18 091	17 694
Contributions to UIF	1 785	1 785
Contributions to medical aid	35 762	36 969
Contributions to SALGBC	103	98
	910 500	**1 226 799**

Remuneration of social services executive director

Annual Remuneration	643 734	710 341
Bonus	93 453	-
Rural allowance	30 419	-
Car allowance	121 350	181 533
Cell phone allowance	16 537	17 404
Contributions to UIF	1 636	1 785
Contributions to SALGBC	95	97
	907 224	**911 160**

Remuneration of corporate services executive director

Annual remuneration	645 686	722 768
Car allowance	175 246	226 116

Figures in Rand	2019	2018

27. Employee related costs (continued)

Bonus	-	64 116
Rural allowance	33 278	-
Cellphone allowances	18 091	17 694
Contributions to UIF	1 785	1 785
Contributions to medical aid	20 347	22 206
Contributions to SALGBC	103	98
	894 536	**1 054 783**

Remuneration of water services executive director

Annual remuneration	411 783	617 637
Car allowance	103 936	150 667
Cellphone allowances	12 431	10 321
Housing allowance	27 997	-
Rural allowance	21 344	-
Contributions to UIF	1 190	1 041
Contributions to SALGBC	70	57
	578 751	**779 723**

Remuneration of infrastructure executive director

Annual remuneration	698 052	1 266 849
Car allowance	144 000	164 209
Bonus	53 044	92 485
Rural allowance	33 278	-
Cell phone allowance	7 770	4 423
Contributions to UIF	1 785	1 785
Contributions to SALGBC	103	98
	938 032	**1 529 849**

28. Finance costs

Non-current borrowings	3 752 248	4 496 678

29. Impairment of assets

Impairments		
Property, plant and equipment	2 750 050	2 445 022

30. Inventory consumed

Consumables:Standard Rated	204 339	394 877
Consumables:Zero Rated	5 212 988	4 475 914
Materials and supplies	25 588 572	19 077 709
	31 005 899	**23 948 500**

Notes to the Financial Statements

Figures in Rand	2019	2018

31. Operational costs

Advertising	1 274 879	2 287 457
Auditors remuneration	3 433 670	2 605 814
Bank charges	208 675	176 960
Hire	111 525	575 121
Insurance	366 630	1 273 649
Vehicle expenses	6 513 301	5 667 613
Promotions and sponsorships	-	167 500
Motor vehicle licence and registrations	2 073 481	207 227
Fuel and oil	5 871 389	6 451 749
Printing, publications and books	937 277	1 039 201
Protective clothing	1 326 915	793 997
Software expenses	2 046 865	3 094 404
Bursaries for employees	507 570	314 846
Subscriptions and membership fees	63 128	66 908
Communication	4 149 983	3 630 018
Transport	382 689	758 334
Travel and subsistence	4 532 004	904 834
Electricity	13 622 843	10 790 221
Event registration fees	-	35 150
Rental of offices	2 630 217	1 313 986
Skills development levy	1 474 818	1 266 350
Signage	45 500	99 667
	51 573 359	**43 521 006**

32. Remuneration of councillors

Executive Major	799 680	589 240
Deputy Executive Mayor	729 627	467 880
Mayoral Committee Members	1 461 120	942 301
Speaker	728 375	473 733
Councillors allowances	2 363 256	2 530 496
Meeting allowance	165 749	283 088
Travel and accomodation	704 617	676 823
	6 952 424	**5 963 561**

33. Transfers and subsidies

Harry Gwala Develpment Agency	14 000 000	8 000 000
South Africa Local Government Association	-	3 289 477
Bursaries (Non-Employee)	-	402 670
National Youth Commission	-	15 642
	14 000 000	**11 707 789**

Notes to the Financial Statements

Figures in Rand	2019	2018

34. Cash generated from operations

Surplus	212 585 907	232 560 025
Adjustments for:		
Depreciation and amortisation	66 993 428	65 608 947
Loss on disposal of assets	8 948 027	410 258
Impairment deficit	2 750 050	2 445 022
Debt impairment	19 110 917	24 717 388
Movements in retirement benefit assets and liabilities	(4 009 117)	1 434 225
Leave pay provision	-	(1 409 962)
Assets transfered from other organs of state	(13 424 403)	(17 014 265)
Changes in working capital:		
Inventories	(77 125)	9 260
Consumer debtors	(24 129 150)	(23 910 026)
Other receivables from non-exchange transactions	(281 215)	(1 166 149)
Payables from exchange transactions	(49 520 515)	29 332 994
VAT	26 696 288	(21 857 398)
Unspent conditional grants and receipts	(16 618 736)	12 017 622
Consumer deposits	162 407	164 224
	229 186 763	**303 342 165**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	419 802 093	425 085 356
Total capital commitments		
Already contracted for but not provided for	419 802 093	425 085 356

Total commitments

Total commitments		
Authorised capital expenditure	419 802 093	425 085 356

36. Contingencies

Contingent liabilities		
Bhungane Built Environment	-	3 103 364
Sifiso Gregory Mkize	21 295	21 295
Matatiele Local Municipality	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	1 604 000	1 604 000
Sektor Consulting and engineers - Estimated legal Costs	50 000	480 000
Unitrade 1047 CC T/A Isidingo Security Services.	26 000 000	26 000 000
Unlawful arrest and detention	710 000	-
	31 326 544	**34 149 908**

Figures in Rand	2019	2018

37. Related parties

Relationships

Harry Gwala Development Agency	Refer to note 10

Harry Gwala District Municipality has 100% shareholding in Harry Gwala Development Agency.

Harry Gwala Development Agency is a registered (PTY) Ltd company in terms of the Company Act 71 of 2008.

The key management personnel of Harry Gwala Development Agency are:

- The Chief Executive Officer Ms NC James
- The Chief Financial Officer Mrs N R Shabalala

Related party transactions

Transfers and subsidies

	2019	2018
Harry Gwala Develeopment Agency	14 000 000	8 000 000

The transfer relates to the equitable share allocation for the entity.

38. Prior-year adjustments

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

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Land	8	17 080 597	-	(3 408 325)	13 672 272
Buildings	8	22 968 747	(808 409)	3 408 325	25 568 663
Machinery and equipment	8	344 505	331 512	-	676 017
Furniture and office equipment	8	1 403 703	155 402	-	1 559 105
Transport assets	8	2 814 446	88 961	-	2 903 407
Computer equipment	8	1 363 903	81 461	-	1 445 364
Infrastructure water and sanitation	8	1 882 063 790	26 662 282	-	1 908 726 072
Leased assets	8	10 426 397	58 712	-	10 485 109
Intangible assets	9	1 347 031	30 509	-	1 377 540
Long terrm payables from exchange transactions		-	-	(10 930 228)	(10 930 228)
Accumulated surplus		(1 824 437 544)	(28 569 463)	-	(1 853 007 007)
VAT receivable	5	39 146 513	(1 581 138)	-	37 565 375
Consumer debtors	6	21 971 476	(56 343)	-	21 915 133
Payable from exchange transactions	13	(168 824 189)	2 872 344	10 930 228	(155 021 617)
Unspent conditional grants and receipts	16	(61 985 601)	734 170	-	(61 251 431)
		(54 316 226)	**-**	**-**	**(54 316 226)**

Statement of financial performance

38. Prior-year adjustments (continued)

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Government grants & subsidies	21	636 404 392	667 583	-	637 071 975
Bulk purchases	23	(14 434 430)	796 328	-	(13 638 102)
Contracted services	24	(151 199 632)	1 393 644	-	(149 805 988)
Depreciation and amortisation	26	(64 437 705)	(1 171 242)	-	(65 608 947)
Employee related costs	27	(150 226 814)	-	(2 066 752)	(152 293 566)
Operational costs	31	(47 025 829)	3 504 823	-	(43 521 006)
Actuarial gains/losses	15	-	-	2 066 752	2 066 752
Surplus for the year		**209 079 982**	**5 191 136**	**-**	**214 271 118**

Land and buildings

During the current financial year buidlings to the amount amount of R3 408 325 was reclassified from land. These buildings were erroneously accounted for as part of the land when they were purrchased in June 2011. This reclassification resulted in an increase in depreciation of R114 128 in the 2017/18 financial year and 694 280 in the prior years.

Infrastructure assets

During the current year assets transfered from other organs of state were recorded for the first time in the municipality's books. The transfer date on the agreements signed by both parties have a prior year dates and further to that the assets were already being operated and maintained by the muncipality's techinical department. This resulted in the assets being brought into the fixed asset register at the date of transfer agreement. Infrastructure at cost has been adjusted by R17 014 265,01 and R13 344 127,44 in 2017/18 and 2016/17 financial year respectively. The cost adjustment has a prior period effect on the depreciation of R987 977.

Infrastructure assets to the value of R34 297 683 were capitalised from work in progress to completed assets during the current financial year, R8 617 810 ofwhich had a prior year completion date. The resulted in a prior year depreciation adjustment of R329 046

Work in progress amounting to R2 791 094,45 was written off from the fixed asset register. This relates to expenditure inccured while constructing a cross border scheme between Harry Gwala District Municipality and uMgungundlovu District Municipality. This portion of expenditure was capitalised in uMgungundlovu District Municipality books, however the amount remained in Harry Gwala District Municipality books. The Write off has the effect of reducing the accumulated surplus and infrastructure assest by the same amount.

Reestimation of useful life of property plant and equipment

During the current financial the muncipality identified assets fully depreciated but still in use. The useful life of these assets was reestimated resulting correction of the prior years depreciation. The change in useful life resulted in the the following adjustments to accumulated depreciation; machinery and equipment R331 512, furniture and office equioment R155 402; transport assets R88 961, computer equipment R81 461, Infrastructure assets R411 997 and leased assets 58712.

Vat receivable

During the 2016/17 financial year, VAT was incorrectly accounted for on the general ledger. VAT for an invoice from UGU District Municipality was accounted for in the expenditure Vote and vise versa resulting in the overstatement of VAT by amount of R1 490 134,68 and understament of expenditure by the same amount. Furthermore in the same financial year various invoices were captured at an incorrect percentage resuting in the VAT adjustment of R131 309,86.

38. Prior-year adjustments (continued)

Payables from exchange transactions

During the 2017/18 financial year various invoices were duplicated in the general ledger. This resulted in the overstatement of expenditure and accounts payable by an amount of R5 942 246. There was no impact on vat input as the duplictate entry was accounted for inclusive of vat.

During the current financial year a review of the debtors with credit balance was perfomed by comparing the general ledger to the debtors age analysis. It was discovered that the general ledger was understated by an amount of 74 362.90 and an adjustment was processed.

The municipality received a service from Bhungane built environmnent consulting and support services during the 2012 financial year. A dispute arose resulting between the municipality and the service provider resulting in the invoices not being recorded or paid. A case was opened against the municipality and during the current financial period legal services department adviced the municipality to start settling the the debt as it was highly likely that the municipality would loose the case. The municipality therefore paid an amount of R1 250 111,97 and raised a liability amounting to R1 417 210,05 during the current financial year. There was no impact of vat receivable since the invoices are more than 5 years old therefore not claimable from SARS.

The municipality received a service from Nemai Consulting during the 2017/18 financial year. The invoice was erromeuosly ommitted from the accounting records. The invoice was settled during the current financial year. This resulted in the understatement of payables from exchange transactions, contracted services and vat receivable by R328 217, R287 910 and R40 307 respectiively.

Unspent conditional grants and receipts

During the 2017/18 financial year, claims approved per the certificate of expenditure from Cogta were erroneusly ommitted when recognising revenue for the municipal infrastructure grant. The omiited expenditure amounted to R667 583,38 resuting in the understatement of revenue by R667 583.38 and the overstatement of the unspent liability by the same amount.

Public transport unspent grant amounting to R66 587 was wrriten off during the current year. This amount relates to an old grant received and fully spend but the balance remained on the AFS for a number of years.

Reclassifications

The following reclassifications adjustment occurred:

Long terrm payables from exchange transactions

During the current financial year the municipality entered into an arrangement with the Special Investigating Unit (SIU) to repay the amount owed by the municipality in monthly installment of R200 000. There is no interest charged on the oustanding balance. The amount not payable within the next 12 months was therefore reclassified to non - current liabilities.

39. Risk management

Financial risk management

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

Liquidity risk

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

39. Risk management (continued)

Credit risk

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

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

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

Financial instrument	2019	2018
Cash and cash equivalents	58 362 814	96 962 031
Trade and other receivables	32 991 182	27 691 734

Market risk

Interest rate risk

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

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

40. Going concern

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

41. Unauthorised expenditure

	2019	2018
Opening balance	413 807 042	316 916 181
Add current year expenditure	71 368 144	148 460 509
Approved by council	-	(51 569 648)
	485 175 186	**413 807 042**

42. Fruitless and wasteful expenditure

	2019	2018
Opening balance	3 967 385	3 448 469
Add current year expenditure	70 084	518 916
	4 037 469	**3 967 385**

43. Irregular expenditure

	2019	2018
Opening balance	460 044 832	344 021 428
Add: Irregular Expenditure - current year	138 486 434	116 023 404
	598 531 266	**460 044 832**

Notes to the Financial Statements

Figures in Rand	2019	2018

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 730 870	3 289 477
Amount paid - current year	(1 730 870)	(3 289 477)
	-	-

Material losses

Water losses	9 015 759	9 106 988

The water losses of 31.9% (2017/18 :38.2 %) is calculated on the total consumption of 4 004 130kl (2017/18 3 850 033kl) purchasesd at an average price of R7.05 (2017/18 : R6.20) per kl. Total water stock losses amounts to 1 278 831kl (2017/18 : 1 468 869kll)

Audit fees

Current year subscription / fee	3 433 670	2 605 814
Amount paid - current year	(3 433 670)	(2 605 814)
	-	-

PAYE and UIF

Opening balance	2 350 739	1 893 947
Current year subscription / fee	29 719 621	34 971 532
Amount paid - current year	(27 576 516)	(32 620 793)
Amount paid - previous years	(2 350 739)	(1 893 947)
	2 143 105	**2 350 739**

Pension and Medical Aid Deductions

Opening balance	3 076 669	-
Current year subscription / fee	34 399 932	17 496 193
Amount paid - current year	(31 425 181)	(14 475 778)
Amount paid - previous years	(3 076 669)	-
	2 974 751	**3 020 415**

VAT

VAT receivable	10 869 089	37 565 377

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

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

Notes to the Financial Statements

Figures in Rand	2019	2018

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been approved.

Incident		
Afrostructure (Pty) Ltd	25 642 552	16 309 548
Utility System	122 801	-
SABC Vuka Sizwe	469 890	-
ESRI South Africa	174 802	-
FYNN Construction	125 580	-
SSR Security T/A Mahlubi Plant Hire	71 645	-
Judy Magwaza Trading Enterprise	1 150 000	-
BnB Transport and Plant Hire	912 000	-
	28 669 270	**16 309 548**