Harry Gwala District Municipality
(Registration number DC 43)
Consolidated Annual 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 executive committe	BP Nzimande
Member of executive committe	N Mavuka
Member of executive committe	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
Registered office	Harry Gwala District Municipality Main office 40 Main street Ixopo 3276
Business address	40 Main street Ixopo 3276
Postal address	Private Bag X501 Ixopo 3276
Controlling entity	Harry Gwala District Municipality
Controlled entity	Harry Gwala Economic Development Agency (Pty) Ltd

General Information

Bankers	First National Bank
Auditors	Auditor General South Africa
Level of assurance	These consolidated annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The consolidated annual financial statements were internally compiled by: Deputy Chief Financial Officer
Telephone number	039 - 834 8700
Website	http://www.harrygwaladm.gov.za/
Harry Gwala Development Agency board members	Dr IB Mkhize - Chairperson (Contract ended - 30 June 2019) Mr VIV Made (Contract ended - 30 June 2019) Mr PZ Duma (Contract ended - 30 June 2019)

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
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)

Approval of financial statements

I am responsible for the preparation of these Annual Financial Statements, which are set out in pages 5 to 76 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act..

Mrs AN Dlamini
Municipal Manager

Monday, 30 September 2019

Statement of Financial Position as at 30 June 2019

		Group		Controlling entity	
	Note(s)	2019	2018 Restated*	2019	2018 Restated*
Assets					
Current Assets					
Inventories	3	247 710	170 585	247 710	170 585
Receivables from exchange transactions	4	1 139	13 728	-	-
Receivables from non-exchange transactions	5	6 644 738	6 363 523	6 057 815	5 776 600
VAT receivable	6	11 342 674	37 546 497	10 801 191	37 497 479
Consumer debtors	7	26 933 367	21 915 134	26 933 367	21 915 134
Cash and cash equivalents	8	71 592 765	112 335 670	58 362 814	96 962 031
		116 762 393	**178 345 137**	**102 402 897**	**162 321 829**
Non-Current Assets					
Property, plant and equipment	9	2 192 629 037	1 991 669 216	2 170 542 330	1 968 798 196
Intangible assets	10	1 530 636	1 820 084	1 151 698	1 377 540
Investments in controlled entities	11	-	-	100	100
		2 194 159 673	**1 993 489 300**	**2 171 694 128**	**1 970 175 836**
Total Assets		**2 310 922 066**	**2 171 834 437**	**2 274 097 025**	**2 132 497 665**
Liabilities					
Current Liabilities					
Borrowings	12	4 101 623	6 159 439	4 101 623	6 159 439
Finance lease obligation	13	8 576 373	4 884 263	8 426 135	4 884 263
Payables from exchange transactions	14	105 920 729	155 483 349	104 979 179	154 499 690
Consumer deposits	15	1 768 018	1 605 611	1 768 018	1 605 611
Employee benefit obligation	16	318 714	732 466	318 714	732 466
Unspent conditional grants and receipts	17	54 142 586	73 266 489	44 632 694	61 251 430
		174 828 043	**242 131 617**	**164 226 363**	**229 132 899**
Non-Current Liabilities					
Borrowings	12	4 555 057	8 656 680	4 555 057	8 656 680
Finance lease obligation	13	9 105 355	8 104 730	8 985 901	8 099 954
Employee benefit obligation	16	18 621 498	22 216 863	18 621 498	22 216 863
Long term payable from non exchange	18	11 661 265	10 930 228	11 661 265	10 930 228
		43 943 175	**49 908 501**	**43 823 721**	**49 903 725**
Total Liabilities		**218 771 218**	**292 040 118**	**208 050 084**	**279 036 624**
Net Assets		**2 092 150 848**	**1 879 794 319**	**2 066 046 941**	**1 853 461 041**
Accumulated surplus		2 092 150 848	1 879 794 319	2 066 046 941	1 853 461 041

* See Note 48

Statement of Financial Performance

		Group		Controlling entity	
	Note(s)	2019	2018 Restated*	2019	2018 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	19	58 420 643	53 962 321	58 420 643	53 962 321
Other income	20	784 865	751 620	743 465	710 231
Interest received - investment	21	19 965 337	20 407 978	19 757 937	20 331 866
Total revenue from exchange transactions		**79 170 845**	**75 121 919**	**78 922 045**	**75 004 418**
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	22	661 444 867	637 071 975	658 444 867	637 071 975
Public contributions and donations	23	13 424 405	17 014 265	13 424 405	17 014 265
Total revenue from non-exchange transactions		**674 869 272**	**654 086 240**	**671 869 272**	**654 086 240**
Total revenue	24	**754 040 117**	**729 208 159**	**750 791 317**	**729 090 658**
Expenditure					
Bulk purchases	25	(17 975 968)	(13 638 102)	(17 975 968)	(13 638 102)
Contracted services	26	(142 060 301)	(150 661 538)	(141 448 278)	(149 805 988)
Debt Impairment	27	(19 110 917)	(24 717 388)	(19 110 917)	(24 717 388)
Depreciation and amortisation	28	(68 346 321)	(67 008 159)	(66 993 428)	(65 608 947)
Employee related costs	30	(190 694 567)	(161 382 371)	(181 161 151)	(152 334 146)
Finance costs	31	(3 765 020)	(4 499 127)	(3 752 248)	(4 496 678)
Inventory consumed	32	(31 005 899)	(23 948 500)	(31 005 899)	(23 948 500)
Lease rentals on operating lease	29	(46 628)	(100 657)	-	-
Operational costs	33	(57 234 987)	(48 381 263)	(51 573 359)	(43 521 006)
Remuneration of councillors	34	(6 952 424)	(5 963 561)	(6 952 424)	(5 963 561)
Transfer payments	35	-	(3 707 789)	(14 000 000)	(11 707 789)
Total expenditure		**(537 193 032)**	**(504 008 455)**	**(533 973 672)**	**(495 742 105)**
Operating surplus		**216 847 085**	**225 199 704**	**216 817 645**	**233 348 553**
Loss on disposal of assets		(8 948 027)	(498 803)	(8 948 027)	(410 258)
Actuarial gains/losses	16	7 466 339	2 066 752	7 466 339	2 066 752
Impairment loss	36	(2 750 050)	(2 445 022)	(2 750 050)	(2 445 022)
		(4 231 738)	**(877 073)**	**(4 231 738)**	**(788 528)**
Surplus for the year		**212 615 347**	**224 322 631**	**212 585 907**	**232 560 025**

* See Note 48

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Group		
Opening balance as previously reported	1 649 077 952	1 649 077 952
Adjustments		
Prior year adjustments	6 393 736	6 393 736
Balance at 01 July 2017 as restated*	**1 655 471 688**	**1 655 471 688**
Changes in net assets		
Surplus for the year	224 322 631	224 322 631
Total changes	224 322 631	224 322 631
Opening balance as previously reported	1 851 544 782	1 851 544 782
Adjustments		
Prior year adjustments	27 990 719	27 990 719
Restated* Balance at 01 July 2018 as restated*	**1 879 535 501**	**1 879 535 501**
Changes in net assets		
Surplus for the year	212 615 347	212 615 347
Total changes	212 615 347	212 615 347
Balance at 30 June 2019	**2 092 150 848**	**2 092 150 848**
Controlling entity		
Opening balance as previously reported	1 630 973 180	1 630 973 180
Adjustments		
Prior year adjustments	(10 072 177)	(10 072 177)
Balance at 01 July 2017 as restated*	**1 620 901 003**	**1 620 901 003**
Changes in net assets		
Surplus for the year	232 560 038	232 560 038
Total changes	232 560 038	232 560 038
Opening balance as previously reported	1 824 437 544	1 824 437 544
Adjustments		
Prior year adjustments	29 023 490	29 023 490
Balance at 01 July 2017 as restated*	**1 853 461 034**	**1 853 461 034**
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	**2 066 046 941**	**2 066 046 941**

* See Note 48

Cash Flow Statement

		Group		Controlling entity	
	Note(s)	2019	2018 Restated*	2019	2018 Restated*
Cash flows from operating activities					
Receipts					
Sale of goods and services		44 726 641	41 442 761	44 595 527	40 968 700
Grants		642 320 964	652 089 597	641 826 131	649 089 597
Interest income		10 046 428	9 699 760	9 839 028	8 968 803
		697 094 033	703 232 118	696 260 686	699 027 100
Payments					
Employee costs		(196 364 497)	(164 873 727)	(182 497 514)	(156 166 113)
Suppliers		(269 681 383)	(233 733 866)	(280 824 161)	(235 022 144)
Finance costs		(3 765 020)	(4 499 127)	(3 752 248)	(4 496 678)
		(469 810 900)	(403 106 720)	(467 073 923)	(395 684 935)
Net cash flows from operating activities	37	**227 283 133**	**300 125 398**	**229 186 763**	**303 342 165**
Cash flows from investing activities					
Purchase of property, plant and equipment	9	(256 894 466)	(220 516 883)	(256 582 632)	(220 392 889)
Purchase of other intangible assets	10	(193 140)	-	-	-
Net cash flows from investing activities		**(257 087 606)**	**(220 516 883)**	**(256 582 632)**	**(220 392 889)**
Cash flows from financing activities					
Repayment of borrowings		(6 159 439)	(3 330 122)	(6 159 439)	(3 330 122)
Movement in long term payable from non exchange		731 037	-	731 037	-
Finance lease payments		(5 510 030)	(6 965 742)	(5 774 946)	(6 929 674)
Net cash flows from financing activities		**(10 938 432)**	**(10 295 864)**	**(11 203 348)**	**(10 259 796)**
Net increase/(decrease) in cash and cash equivalents		**(40 742 905)**	**69 312 651**	**(38 599 217)**	**72 689 480**
Cash and cash equivalents at the beginning of the year		112 335 670	43 023 019	96 962 031	24 272 551
Cash and cash equivalents at the end of the year	8	**71 592 765**	**112 335 670**	**58 362 814**	**96 962 031**

* See Note 48

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Group - 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	16 786 200	2 270 601	19 056 801	-		19 056 801	19 965 337		908 536	105 %	119 %
Transfers recognised - operational	328 823 000	51 271 698	380 094 698	-		380 094 698	375 119 025		(4 975 673)	99 %	114 %
Other own revenue	735 063	7 500	742 563	-		742 563	784 865		42 302	106 %	107 %
Total revenue (excluding capital transfers and contributions)	**409 809 779**	**72 924 886**	**482 734 665**	**-**		**482 734 665**	**454 289 870**		**(28 444 795)**	**94 %**	**111 %**
Employee costs	(169 312 198)	(19 178 821)	(188 491 019)	-	-	(188 491 019)	(190 694 567)	(2 203 548)	(2 203 548)	101 %	113 %
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	(42 076 459)	4 220 643	(37 855 816)			(37 855 816)	(71 096 371)	(33 240 555)	(33 240 555)	188 %	169 %
Finance charges	(3 963 391)	-	(3 963 391)	-	-	(3 963 391)	(3 765 020)	-	198 371	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 %
Inventory consumed	(14 615 000)	(6 674 598)	(21 289 598)	-	-	(21 289 598)	(31 005 899)	-	(9 716 301)	146 %	212 %
Contracted services	(83 756 733)	(74 130 492)	(157 887 225)	-	-	(157 887 225)	(142 060 301)	-	15 826 924	90 %	170 %
Operational costs	(38 837 493)	(4 026 803)	(42 864 296)	-	-	(42 864 296)	(54 531 565)	(11 667 269)	(11 667 269)	127 %	140 %
Total expenditure	**(399 675 177)**	**(78 525 922)**	**(478 201 099)**	**-**	**-**	**(478 201 099)**	**(537 193 032)**	**(65 361 511)**	**(58 991 933)**	**112 %**	**134 %**
Surplus/(Deficit)	**10 134 602**	**(5 601 036)**	**4 533 566**	**-**		**4 533 566**	**(82 903 162)**		**(87 436 728)**	**(1 829)%**	**(1 829)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	341 982 000	(18 465 698)	323 516 302	-		323 516 302	286 325 842		(37 190 460)	89 %	84 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	13 424 405		13 424 405	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**352 116 602**	**(24 066 734)**	**328 049 868**	**-**		**328 049 868**	**216 847 085**		**(111 202 783)**	**66 %**	**62 %**
Surplus/(Deficit) for the year	**352 116 602**	**(24 066 734)**	**328 049 868**	**-**		**328 049 868**	**216 847 085**		**(111 202 783)**	**66 %**	**62 %**

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	350 286 602	(22 186 190)	328 100 412	-		328 100 412	266 845 087		(61 255 325)	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	7 807 301	(2 923 190)	4 884 111	-		4 884 111	-		(4 884 111)	- %	- %
Total sources of capital funds	**349 789 301**	**(21 388 888)**	**328 400 413**	**-**		**328 400 413**	**-**		**(328 400 413)**	**- %**	**- %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	361 933 448	(79 627 406)	282 306 042	-		282 306 042	227 283 133		(55 022 909)	81 %	63 %
Net cash from (used) investing	(341 982 000)	(3 891 689)	(345 873 689)	-		(345 873 689)	(257 087 606)		88 786 083	74 %	75 %
Net cash from (used) financing	(3 129 763)	-	(3 129 763)	-		(3 129 763)	(10 938 432)		(7 808 669)	349 %	349 %
Net increase/(decrease) in cash and cash equivalents	**16 821 685**	**(83 519 095)**	**(66 697 410)**	**-**		**(66 697 410)**	**(40 742 905)**		**25 954 505**	**61 %**	**(242)%**
Cash and cash equivalents at the beginning of the year	31 730 385	1 575 231	33 305 616	-		33 305 616	112 335 670		79 030 054	337 %	354 %
Cash and cash equivalents at year end	**48 552 070**	**(81 943 864)**	**(33 391 794)**	**-**		**(33 391 794)**	**71 592 765**		**104 984 559**	**(214)%**	**147 %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Controlling entity - 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)	-	(549 481)	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)**	**(55 626 782)**	**112 %**	**132 %**
Surplus/(Deficit)	**963 417**	**4 365 266**	**5 328 683**	**-**		**5 328 683**	**(70 728 292)**		**(76 606 456)**	**(1 327)%**	**(7 341)%**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	349 213 000	(20 891 689)	328 321 311	-		328 321 311	286 325 842		(41 995 469)	87 %	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**	**(16 526 423)**	**333 649 994**	**-**		**333 649 994**	**229 021 955**		**(104 628 039)**	**69 %**	**65 %**
Surplus/(Deficit) for the year	**350 176 417**	**(16 526 423)**	**333 649 994**	**-**		**333 649 994**	**229 021 955**		**(104 628 039)**	**69 %**	**65 %**
Capital expenditure and funds sources											
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)**	**- %**	**- %**

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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 %**

Appropriation Statement

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

Reasons for variances

Appropriation Statement

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

Service Charges - The budgeted amount was based on month to month billing reports from the sub ledger. Adjustments for factors like reversal of interims charged was therefore not taken into account during the budgeting process resulting in the overstatement of the budgeted figure for water and sanitaion compared to the actuals.

Other Income - The Budgted amount includes line items like connection and reconnection fees for consumers which are reported under service charges.

Interest Revenue - The actaul outcome is higher than budgeted due higher interest being earned than anticipated. This is mainly due to the slower spending on conditional grants resulting in more funds being available for investment.

Government Grants and Subsidies - The actual outcome is lower than anticipated due to lower spending of the municipal infrastructure grant and water services infrastructure drought relief grant.

Employee related costs - The variance is within acceptable limits. The small variance is mainly as a result of the impact of valuation of long service awards and post retirement health care provision. The valuations are perfomed at year by acturial scientists which makes it difficult to accrurately budget for these items.

Remuneration of Councillors - The variance is within acceptable limits. The small variance is mainly as a result of the resignation of the Mayor and a Executive Committe Member.

Debt Impairment - The budget for non cash items was grossly understated during the budgeting process. This was necessitated by the recommandation from Treasury which states that municipalities should not budget for a deficit. In a bid to avoid a deficit so as to make it possible to upload the budget on the system, the municipality took a decison to cut the budget on non cash items. This resulted in the higher actual outcome than budgeted for.

Depreciation and Impairment loss - The budget for non cash items was grossly understated during the budgeting process. This was necessitated by the recommandation from Treasury which states that municipalities should not budget for a deficit. In a bid to avoid a deficit so as to make it possible to upload the budget on the system, the municipality took a decison to cut the budget on non cash items. This resulted in the higher actual outcome than budgeted for.

Finance Charges - The variance is due to finances e.g Nashua and Old Afrirent lease agreements and the ABSA loan approaching the end date of the contracts resulting in lower interest portion than the capital portion per each installment. This factor was not considered during the budgteting process.

Bulk Purchases - The Original budgeted amount was reduced during the adjustment budget process. The adjutment was as made as a result of the under perfomance on the budget for the first six months of the financial year however the muncipality mistakenly did not consider the late invoicing by UGU District Municipality. Invoices for the entire financial year were received very late resulting in the more expenditure than anticipated during the adjustment budget process.

Contracted services - The municipality is continuiously identifying cost drivers to try and minimise expenditure so that the municipality moves towards archieving the goal of eliminating the unfunded budget. The municipality therefore reduced expenditure on activities like catering and outsourced administrative and support stuff. Other costs which are operational in nature were erroneously budgeted for under contracted services resulting in over expenditure on operational costs and under expenditure on contracted services.

Appropriation Statement

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

Inventory Consumed - More materials were purchased than inticially anticipated during the budgeting process. The budget is aligned to the operations and maintenance plan, however the actual work performed was more than what was intially budgeted for.

Other Operating Costs - The actual amount reported per the appropriation statement includes loss on disposal of assets which was not budgeted for. Other costs which are operational in nature were erroneously budgeted for under contracted services resulting in over expenditure on operational costs and under expenditure on contracted services.

Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Consolidation

Basis of consolidation

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

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

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

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

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

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

1.4 Consolidation (continued)

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

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

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

1.5 Significant judgements and sources of estimation uncertainty

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

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

The economic entity 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.

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.

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 economic entity 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 economic entity 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 post health care retirement and long service awards obligations are based on current market conditions. Additional information is disclosed in Note 16.

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 gross carrying amount and the provision for bad bebts calculated at year end.

1.6 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

1.6 Property, plant and equipment (continued)

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 Estalishment		30 years
Pump Stations	Straight line	
• Structure- buildings		55 years
• Structure-Clarifiers		55 years
• Structure-Filters		55 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
Underground: Chambers & Manholes	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years
Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure – Drying Beds		55 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 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 economic entity. 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 economic entity assesses at each reporting date whether there is any indication that the economic entity 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 economic entity 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.

1.6 Property, plant and equipment (continued)

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 economic entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

The economic entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

1.7 Intangible assets (continued)

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

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

1.8 Investments in controlled entities

Controlling entity consolidated annual financial statements

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

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

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

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

Accounting Policies

1.9 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

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.

1.9 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.

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.9 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

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

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

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

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.

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

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

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

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

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

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

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

1.10 Tax

Value Added Tax

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

1.11 Leases

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

When a lease includes both land and buildings elements, the 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.

1.12 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

1.12 Inventories (continued)

- 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.

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

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

The cost of inventories 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 economic entity.

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

1.13 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 economic entity; or
- the number of production or similar units expected to be obtained from the asset by the economic entity.

1.14 Employee benefits

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

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

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

1.14 Employee benefits (continued)

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

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

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

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

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Pension obligations

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

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

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

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

Post-retirement Health Care Benefits:

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

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

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

Long-service Allowance

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

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

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

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

Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.14 Employee benefits (continued)

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

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

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

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

1.15 Provisions and contingencies (continued)

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the economic entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 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.

1.17 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.

1.17 Revenue from exchange transactions (continued)

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

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

Measurement

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

Service Charges

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

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

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

Interest

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

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

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

1.18 Revenue from non-exchange transactions

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

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

Public contributions

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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

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

Government grants

Government grants are recognised as revenue when:

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

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.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable
.

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

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.

1.19 Investment income

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

1.20 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.

1.21 Comparative figures

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

1.22 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.

Accounting Policies

1.22 Unauthorised expenditure (continued)

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

1.23 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.

1.24 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.

1.25 Budget information

Economic Entity 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 economic entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

1.25 Budget information (continued)

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.

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

1.26 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 economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

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

The economic entity 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 economic entity 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 economic entity is exempt from the disclosures in accordance with the above, the economic entity 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 consolidated annual financial statements.

1.27 Events after reporting date

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

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

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

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

The economic entity expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

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

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

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

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

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

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An economic entity applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The economic entity has adopted the interpretation for the first time in the 2017/2020 consolidated annual financial statements.

The impact of the amendment is not material.

GRAP 34: Separate Financial Statements

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

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

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2019/2020 consolidated annual financial statements.

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

GRAP 35: Consolidated Financial Statements

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

To meet this objective, the Standard:

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

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

The effective date of the standard is for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2019/2020 consolidated annual financial statements.

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

GRAP 38: Disclosure of Interests in Other Entities

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

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

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 for years beginning on or after 01 April 2020.

The economic entity expects to adopt the standard for the first time in the 2019/2020 consolidated annual financial statements.

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

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An economic entity applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

2. New standards and interpretations (continued)

The economic entity expects to adopt the interpretation for the first time in the 2019/2020 consolidated annual financial statements.

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The economic entity expects to adopt the amendment for the first time in the 2019/2019 consolidated annual financial statements.

It is unlikely that the amendment will have a material impact on the economic entity's consolidated annual financial statements.

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive’s Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

The economic entity expects to adopt the directive for the first time in the 2018/2019 consolidated annual financial statements.

Notes to the Consolidated Annual Financial Statements

2. New standards and interpretations (continued)

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

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

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

The economic entity expects to adopt the standard for the first time in the 2019/2019 consolidated annual financial statements.

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s consolidated annual 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 consolidated annual 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 Consolidated Annual 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 for years beginning on or after 01 April 2019.

The economic entity expects to adopt the standard for the first time in the 2019/2019 consolidated annual financial statements.

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

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

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

The economic entity 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 economic entity's consolidated annual financial statements.

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

3. Inventories

Water for distribution	247 710	170 585	247 710	170 585

4. Receivables from exchange transactions

Prepayments	1 139	13 728	-	-

5. Receivables from non-exchange transactions

Unauthorised expenditure	5 979	5 979	5 979	5 979
Debtor - Kokstad deposits	105 753	105 753	105 753	105 753
Councillors laptops	94 045	94 045	94 045	94 045
ACB/debtors	424 247	424 247	424 247	424 247
Other debtors	3 813 918	3 532 703	3 226 995	2 945 780
Cyclone construction - Farmers market	2 000 000	2 000 000	2 000 000	2 000 000
Councillors bursary	19 537	19 537	19 537	19 537
SARS - debtors/salaries	181 259	181 259	181 259	181 259
	6 644 738	**6 363 523**	**6 057 815**	**5 776 600**

6. VAT receivable

VAT	11 342 674	37 546 497	10 801 191	37 497 479

7. Consumer debtors

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

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

7. Consumer debtors (continued)

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

Sewerage				
Current (0 -30 days)	3 235 975	2 870 512	3 235 975	2 870 512
31 - 60 days	1 462 689	998 019	1 462 689	998 019
61 - 90 days	1 126 258	802 951	1 126 258	802 951
91 - 120 days	1 122 575	9 010 312	1 122 575	9 010 312
> 120 days	45 426 528	42 428 673	45 426 528	42 428 673
	52 374 025	**56 110 467**	**52 374 025**	**56 110 467**

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

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 361	11 019	300	10 557
Bank balances	4 409 719	6 926 935	2 788 082	2 822 218
Short-term deposits	67 176 685	105 397 716	55 574 432	94 129 256
	71 592 765	**112 335 670**	**58 362 814**	**96 962 031**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
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 number62434145331	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	3 285 961	4 823 284	32 071 021	3 285 961
FNB Ixopo branch account number 62313233504	1 621 367	4 104 717	6 529 193	1 621 367	4 104 717	6 529 193
Standard Bank - Kloof branch - 251660419	833 833	840 685	846 594	833 833	840 685	846 594
FNB - Ixopo branch - 62372506306	241 690	399 740	1 828 194	241 690	399 740	1 828 194
Standard Bank - Kloof branch - 254472435	10 409 473	9 915 188	9 435 082	10 409 473	9 915 188	9 435 082
FNB - 62478289989	117 257	113 116	109 409	117 257	113 116	109 409
Total	**71 597 223**	**112 299 096**	**43 020 994**	**71 586 128**	**112 327 814**	**43 020 994**

9. Property, plant and equipment

Group	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	61 235 605	(15 335 671)	45 899 934	61 182 015	(13 339 734)	47 842 281
Machinery and equipment	2 282 617	(1 723 208)	559 409	2 197 309	(1 480 666)	716 643
Furniture and office equipment	6 205 875	(4 608 723)	1 597 152	5 831 230	(3 947 432)	1 883 798
Transport assets	9 905 983	(6 849 145)	3 056 838	8 637 205	(5 733 798)	2 903 407
Computer equipment	6 198 584	(2 698 460)	3 500 124	3 543 067	(1 865 620)	1 677 447
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	**2 732 637 136**	**(540 008 099)**	**2 192 629 037**	**2 452 271 894**	**(460 602 678)**	**1 991 669 216**

Notes to the Consolidated Annual Financial Statements

9. Property, plant and equipment (continued)

Controlling entity	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**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group - 2019

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	13 672 272
Buildings	47 842 281	53 590	-	-	(1 995 937)	-	45 899 934
Machinery and equipment	716 643	85 308	-	-	(227 788)	(14 754)	559 409
Furniture and office equipment	1 883 798	473 021	(10 844)	-	(738 477)	(10 346)	1 597 152
Transport assets	2 903 407	1 268 778	-	-	(1 115 347)	-	3 056 838
Computer equipment	1 677 447	2 670 716	(1 583)	-	(834 850)	(11 606)	3 500 124
Infrastructure: information and communication	444 208	-	-	-	(117 955)	-	326 253
Infrastructure	1 908 726 071	252 343 053	(8 935 600)	13 424 405	(55 896 846)	(2 713 344)	2 106 947 739
Community	3 317 980	-	-	-	(240 221)	-	3 077 759
Leased assets	10 485 109	10 202 765	-	-	(6 696 317)	-	13 991 557
	1 991 669 216	**267 097 231**	**(8 948 027)**	**13 424 405**	**(67 863 738)**	**(2 750 050)**	**2 192 629 037**

Reconciliation of property, plant and equipment - Group - 2018

	Opening balance	Additions	Disposals	Transfers received	Lease modification	Depreciation	Impairment loss	Total
Land	13 672 272	-	-	-	-	-	-	13 672 272
Buildings	49 871 111	-	(32 893)	-	-	(1 995 937)	-	47 842 281
Machinery and equipment	1 023 285	2 450	(72 220)	-	-	(236 872)	-	716 643
Furniture and office equipment	2 712 077	950	(75 029)	-	-	(754 200)	-	1 883 798
Transport assets	3 985 833	-	-	-	-	(1 082 426)	-	2 903 407
Computer equipment	1 547 479	845 139	(115 146)	-	-	(600 025)	-	1 677 447
Infrastructure: information and communication	868 668	-	(152 722)	-	-	(271 738)	-	444 208
Infrastructure	1 727 825 119	219 668 344	-	17 014 265	-	(53 336 635)	(2 445 022)	1 908 726 071
Community	3 561 439	-	-	-	-	(243 459)	-	3 317 980
Leased assets	18 397 799	-	(49 718)	-	136 270	(7 999 242)	-	10 485 109
	1 823 465 082	**220 516 883**	**(497 728)**	**17 014 265**	**136 270**	**(66 520 534)**	**(2 445 022)**	**1 991 669 216**

Notes to the Consolidated Annual Financial Statements

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 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	1 908 726 071	252 343 053	(8 935 600)	13 424 405	(55 896 846)	(2 713 344)	2 106 947 739
Community	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 - Controlling entity- 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
Plant and machinery	959 532	-	(70 649)	-	-	(212 866)	-	676 017
Furniture and fixtures	2 292 671	-	(74 055)	-	-	(659 511)	-	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	1 727 825 119	219 668 344	-	17 014 265	-	(53 336 635)	(2 445 022)	1 908 726 071
Community	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**	**(409 183)**	**17 014 265**	**136 270**	**(65 359 673)**	**(2 445 022)**	**1 968 798 196**

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress Group - 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)
	628 913 723	**628 913 723**

Reconciliation of Work-in-Progress Group - 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	11 692 798	2 887 544	11 652 798	2 887 544
Material consumed	25 588 572	7 923 726	25 588 572	7 923 726
Other	85 655	48 405	-	-
	37 367 025	**10 859 675**	**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.

10. Intangible assets

Group	2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying v**
Computer software, other	4 880 278	(3 349 642)	1 530

10. Intangible assets (continued)

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

Reconciliation of intangible assets - Group - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 820 084	193 140	(482 588)	1 530 636

Reconciliation of intangible assets - Group - 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	2 339 327	(1 074)	(518 169)	1 820 084

Reconciliation of intangible assets - Controlling entity - 2019

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

Reconciliation of intangible assets - Controlling entiry - 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	1 658 032	(1 075)	(279 417)	1 377 540

	Group		Controlling entity	
	2019	2018	2019	2018

11. Investments in controlled entities

Name of company	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

12. Borrowings

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

13. Finance lease obligation

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Minimum lease payments due				
- within one year	10 113 289	6 934 241	9 963 051	6 929 465
- in second to fifth year inclusive	9 739 782	9 212 678	9 620 328	9 212 678
	19 853 071	16 146 919	19 583 379	16 142 143
less: future finance charges	(2 171 343)	(3 157 926)	(2 171 343)	(3 157 926)
Present value of minimum lease payments	**17 681 728**	**12 988 993**	**17 412 036**	**12 984 217**
Present value of minimum lease payments due				
- within one year	8 576 373	4 884 263	8 426 136	4 884 263
- in second to fifth year inclusive	9 105 355	8 104 730	8 985 900	8 099 954
	17 681 728	**12 988 993**	**17 412 036**	**12 984 217**
Non-current liabilities	9 105 355	8 104 730	8 985 901	8 099 954
Current liabilities	8 576 373	4 884 263	8 426 135	4 884 263
	17 681 728	**12 988 993**	**17 412 036**	**12 984 217**

Harry Gwala District Municipality entered into a new lease with Afrient for the rental of vehicles.

The lease term is 4 years and he interest rate implicit in the lease varies per each vehicle. The lease payments escalate at 6% p.a and no arrangements have been entered into for contingent rent.

Interest rates are linked to prime at the contract date. All leases escalate at 6% p.a and no arrangements have been entered into for contingent rent.

Harry Gwala District Municipality may purchase the leased vehicle at any time during the lease agreement from Afrirent as an early termination. The settlement value is the capital balance outstanding plus a "re-purchase fee. .

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

14. Payables from exchange transactions

Trade payables	28 642 945	95 320 130	28 293 217	95 002 814
Retentions	51 387 878	38 315 757	51 387 878	38 315 757
Accrued leave pay	11 345 687	10 063 193	11 000 334	9 573 961
Debtors with credit balance	6 976 757	5 000 614	6 976 757	5 000 614
Other payables	1 082 634	1 179 136	1 082 634	1 179 136
Payroll third party payments accrued	6 484 828	5 604 519	6 238 359	5 427 408
	105 920 729	**155 483 349**	**104 979 179**	**154 499 690**

15. Consumer deposits

Water	1 768 018	1 605 611	1 768 018	1 605 611

16. Employee benefit obligations

Defined benefit plan

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)	(11 438 391)	(17 727 986)
Long service awards	(7 501 821)	(5 221 343)	(7 501 821)	(5 221 343)
	(18 940 212)	**(22 949 329)**	**(18 940 212)**	**(22 949 329)**

Non-current liabilities	(18 621 498)	(22 216 863)	(18 621 498)	(22 216 863)
Current liabilities	(318 714)	(732 466)	(318 714)	(732 466)
	(18 940 212)	**(22 949 329)**	**(18 940 212)**	**(22 949 329)**

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
- Samwumed

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

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

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

16. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

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

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(9 455 328)	(2 385 846)	(9 455 328)	(2 385 846)

Key assumptions used

Assumptions used at the reporting date:

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

Long service awards

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

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

Net expense recognised in the statement of financial performance

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

Key assumptions used

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

	Group		Controlling entity	
	2019	2018	2019	2018

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts				
Department of higher education and training grant	8 455 831	7 960 998	-	-
Development bank of South Africa	1 054 061	1 054 061	-	-
Development planning shared services grant	818 472	1 164 043	818 472	1 164 043
Gijima grant	235 810	235 810	235 810	235 810
Government experts grant	-	445 014	-	445 014
Municipal Infrastructure Grant	23 237 887	10 039 000	23 237 887	10 039 000
Radical agrarian aocio-economic transformation (RASET)	-	3 000 000	-	-
Rural bulk infrastructure grant	-	10 375	-	10 375
Rural roads asset management system grant	-	4 351	-	4 351
Signage grant - Cogta	98 112	98 112	98 112	98 112
Sihleza maize production project (cogta)	242 413	242 413	242 413	242 413
Water services infrastructure grant	-	49 012 312	-	49 012 312
Water services infrastructure grant - Drought relief	20 000 000	-	20 000 000	-
	54 142 586	**73 266 489**	**44 632 694**	**61 251 430**

See note 22 for reconciliation of grants from National/Provincial Government.

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

18. Long term payable from non exchange

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.

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

19. Service charges

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

20. Operational revenue

Clearance certificate	3 643	2 494	3 643	2 494
Insurance refunds	-	139 443	-	109 794
Tender documents	735 100	587 390	693 700	575 650
Management fees	46 122	22 293	46 122	22 293
	784 865	**751 620**	**743 465**	**710 231**

21. Interest income

Interest revenue				
Interest on outstanding debtors	9 918 909	11 363 063	9 918 909	11 363 063
Interest received - Investments	10 046 428	9 044 915	9 839 028	8 968 803
	19 965 337	**20 407 978**	**19 757 937**	**20 331 866**

Notes to the Consolidated Annual Financial Statements

22. Government grants and subsidies

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Operating grants				
Equitable share	318 074 028	285 028 617	318 074 028	285 028 617
Expanded public works programme	2 518 000	1 718 000	2 518 000	1 718 000
District growth summit COGTA	-	331 301	-	331 301
Radical agrarian socio-economic transformation (RASET)	3 000 000	-	-	-
Financial management grant	1 000 000	1 250 000	1 000 000	1 250 000
Local Govt. sector education training authority	287 131	230 587	287 131	230 587
Municipal infrastructure grant	30 394 621	68 902 874	30 394 621	68 902 874
Water services infrastructure grant	16 828 660	-	16 828 660	-
Rural roads asset management system grant	2 226 000	2 220 948	2 226 000	2 220 948
Energy efficient and demand management grant	-	12 809 200	-	12 809 200
Government experts	445 014	-	445 014	-
Development planning shared services grant	345 571	-	345 571	-
	375 119 025	**372 491 527**	**372 119 025**	**372 491 527**
Capital grants				
Rural Bulk Infrastructure grant	70 000 000	89 989 626	70 000 000	89 989 626
Municipal Infrastructure grant	152 754 502	125 603 125	152 754 502	125 603 125
Water services infrastructure grant	63 571 340	48 987 697	63 571 340	48 987 697
	286 325 842	**264 580 448**	**286 325 842**	**264 580 448**
	661 444 867	**637 071 975**	**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

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Balance unspent at beginning of year	10 039 000	-	10 039 000	-
Current-year receipts	196 587 000	204 545 000	196 587 000	204 545 000
Conditions met transferred to revenue (current year allocation - capital)	(142 954 462)	(125 603 126)	(142 954 492)	(125 603 126)
Conditions met transferred to revenue (current year allocation - oerational)	(30 394 621)	(68 902 874)	(30 394 621)	(68 902 874)
Conditions met transferred to revenue (approved rollover- capital)	(9 800 000)	-	(9 800 000)	-
Repayment of unspent portion	(239 000)	-	(239 000)	-
	23 237 917	**10 039 000**	**23 237 887**	**10 039 000**

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

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

Water services infrastructure grant

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

	Group		Controlling entity	
	2019	2018	2019	2018

22. Administrative expenditure (continued)

Repayment of unspent portion	(49 012 312)	(15 261 555)	(49 012 312)	(15 261 555)
	-	**49 012 312**	**-**	**49 012 312**

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

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

Current-year receipts	20 000 000	-	20 000 000	-

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

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.

Regional bulk infrastructure grant

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

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

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

Financial management grant

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

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

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.

Rural roads asset management system grant

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

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

22. Administrative expenditure (continued)

	-	**4 351**	**-**	**4 351**

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

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

Development planning shared services

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

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

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

Radical agrarian socio-economic transformation (RASET)

Balance unspent at beginning of year	3 000 000	-	-	-
Current-year receipts	-	3 000 000	-	-
Conditions met - transferred to revenue	(3 000 000)	-	-	-
	-	**3 000 000**	**-**	**-**

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

Development Bank of South Africa

Balance unspent at beginning of year	1 054 061	1 054 061	-	-

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

The purpose of this grant is to capacitate co-operatives through jobs fund projects.

The grant could not be spend fully in the current year financial year as there were no jobs fund projects during the year.

Department of higher education and training grant

Balance unspent at beginning of year	7 960 998	6 841 346	-	-
Interest received	494 833	1 119 652	-	-
	8 455 831	**7 960 998**	**-**	**-**

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

The purpose of this grant is provide funding through National Skills Fund for the capacitation of the youth with skills.

The grant could not be fully spent in the current year as the negotiations with the department of higher education and training are ongoing.

Public transport grant

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

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

22. Administrative expenditure (continued)

Sihleza maize production project

Balance unspent at beginning of year	242 413	242 413	242 413	242 413

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

Signage grant

Balance unspent at beginning of year	98 112	98 112	98 112	98 112

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

Government Experts

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

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

Gijima Grant

Balance unspent at beginning of year	235 810	235 810	235 810	235 810

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

Energy effeciency demand side management grant

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

District Growth Summit CoGTA

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

23. Public contributions and donations

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

	Group		Controlling entity	
	2019	2018	2019	2018

24. Revenue

Service charges	58 420 643	53 962 321	58 420 643	53 962 321
Operational revenue	784 865	751 620	743 465	710 231
Interest income	19 965 337	20 407 978	19 757 937	20 331 866
Government grants & subsidies	661 444 867	637 071 975	658 444 867	637 071 975
Public contributions and donations	13 424 405	17 014 265	13 424 405	17 014 265
	754 040 117	**729 208 159**	**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	58 420 643	53 962 321
Operational revenue	784 865	751 620	743 465	710 231
Interest income	19 965 337	20 407 978	19 757 937	20 331 866
	79 170 845	**75 121 919**	**78 922 045**	**75 004 418**

The amount included in revenue arising from non-exchange transactions is as follows:				
Transfer revenue				
Government grants & subsidies	661 444 867	637 071 975	658 444 867	637 071 975
Public contributions and donations	13 424 405	17 014 265	13 424 405	17 014 265
	674 869 272	**654 086 240**	**671 869 272**	**654 086 240**

25. Bulk purchases

Water	17 975 968	13 638 102	17 975 968	13 638 102

26. Contracted services

Outsourced Services				
Administrative and Support Staff	14 988 322	16 846 007	14 988 322	16 846 007
Burial Services	5 000	2 000	5 000	2 000
Business and Advisory	8 489 910	14 608 661	8 489 910	14 608 661
Catering Services	433 324	3 986 187	414 074	3 702 746
Hygiene Services	79 198	87 825	79 198	87 825
Meter Management	-	5 408 519	-	5 408 519
Personnel and Labour	-	158 000	-	-
Security Services	27 031 071	22 855 011	26 557 177	22 512 287
Sewerage Services	611 359	-	611 359	-
Water Takers	4 395 681	1 605 627	4 395 681	1 605 627
Consultants and Professional Services				
Business and Advisory	4 711 639	3 314 567	4 711 639	3 314 567
Infrastructure and Planning	1 439 189	-	1 439 189	-
Legal Cost	5 447 988	10 537 580	5 414 764	10 514 601

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

26. Contracted services (continued)

Contractors				
Audio-visual Services	37 000	87 195	37 000	87 195
Catering Services	26 432	94 243	26 432	94 243
Electrical	-	6 988 268	-	6 988 268
Employee Wellness	119 371	241 545	119 371	241 545
Event Promoters	6 753 850	1 298 494	6 753 850	1 298 494
Gardening Services	-	25 000	-	25 000
Maintenance of Buildings and Facilities	1 252 442	1 775 439	1 166 787	1 727 033
Maintenance of Unspecified Assets	10 486 011	2 706 014	10 486 011	2 706 014
Relief Drivers	2 002 874	1 947 762	2 002 874	1 947 762
Sewerage Services	53 742 340	55 992 584	53 742 340	55 992 584
Stage and Sound Crew	7 300	95 010	7 300	95 010
	142 060 301	**150 661 538**	**141 448 278**	**149 805 988**

27. Contribution to bad debt provision

Contribution to bad debt provision	19 110 917	24 717 388	19 110 917	24 717 388

28. Depreciation and amortisation

Property, plant and equipment	67 863 733	66 396 063	66 767 586	65 235 602
Intangible assets	482 588	612 096	225 842	373 345
	68 346 321	**67 008 159**	**66 993 428**	**65 608 947**

29. Lease rentals on operating lease

Motor vehicles				
Contractual amounts	46 628	100 657	-	-

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

30. Employee related costs

Basic	106 663 516	95 494 157	99 979 496	89 175 263
Bonus	7 237 056	7 100 149	6 855 080	6 531 222
Social contributions - medical aid	7 627 523	7 923 267	7 260 577	7 503 030
Unemployment insurance fund	716 063	650 014	664 327	594 729
Leave pay provision charge	2 082 354	1 592 661	1 966 754	1 531 556
Health care retirement benefit	3 165 733	3 151 008	3 165 733	3 151 008
Social contributions - pension fund	15 726 802	11 337 434	14 209 023	9 993 163
Social contribution - SALGBC	36 721	31 212	36 721	31 212
Travel, motor car, accommodation, subsistence and other allowances	17 990 005	14 297 538	17 990 005	14 297 538
Overtime payments	22 214 615	17 029 206	22 214 615	17 029 206
Long-service awards	917 846	865 398	917 846	865 398
Housing benefits and allowances	413 229	718 157	413 229	718 157
	184 791 463	**160 190 201**	**175 673 406**	**151 421 482**

Remuneration of municipal manager

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

Remuneration of chief finance officer

Annual Remuneration	622 846	928 147	622 846	928 147
Car Allowance	152 250	242 106	152 250	242 106
Cellphone Allowances	18 091	17 694	18 091	17 694
Housing allowance	46 385	-	46 385	-
Rural allowance	33 278	-	33 278	-
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to medical aid	35 762	36 969	35 762	36 969
Contributions to SALGBC	103	36 969	103	36 969
	910 500	**1 263 670**	**910 500**	**1 263 670**

Remuneration of social services executive director

Annual Remuneration	737 187	710 341	737 187	710 341
Car Allowance	30 419	64 116	30 419	64 116
Rural allowance	121 350	181 533	121 350	181 533
Car allowance	16 537	17 404	16 537	17 404
Contributions to UIF	1 636	1 785	1 636	1 785
Contributions to SALGBC	95	97	95	97
	907 224	**975 276**	**907 224**	**975 276**

Ms NC James resigned in May 2019. The position was vacant at year end.

Remuneration of corporate services executive director

	Group		Controlling entity	
	2019	2018	2019	2018

30. Contracted services (continued)

Annual Remuneration	645 686	786 884	645 686	786 884
Car Allowance	175 246	226 116	175 246	226 116
Rural allowance	33 278	-	33 278	-
Cellphone allowances	18 091	17 694	18 091	17 694
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to medical aid	20 347	22 206	20 347	22 206
Contributions to SALGBC	103	98	103	98
	894 536	**1 054 783**	**894 536**	**1 054 783**

Remuneration of water services executive director

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

Remuneration of infrastructure executive director

Annual Remuneration	751 096	1 359 334	751 096	1 359 334
Car Allowance	144 000	164 209	144 000	164 209
Rural allowance	33 278	-	33 278	-
Cell phone allowance	7 770	4 423	7 770	4 423
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions to SALGBC	103	98	103	98
	938 032	**1 529 849**	**938 032**	**1 529 849**

Remuneration of Chief Executive Officer - Harry Gwala Development Agency

Annual Remuneration	1 230 934	1 267 184	-	-
Car Allowance	110 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	248 573	297 933	-	-
13th Cheque	57 779	115 599	-	-
Acting Allowance	183 658	-	-	-
	1 830 944	**1 800 716**	**-**	**-**

Remuneration of chief financial officer - Harry Gwala Development Agency

Annual Remuneration	905 261	905 261	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	223 261	210 604	-	-
Honorarium	12 000	-	-	-
13th Cheque	85 438	85 438	-	-
Acting Allowance	118 465	-	-	-
	1 464 425	**1 321 303**	**-**	**-**

Remuneration of board members - fees

IB Mkhize	146 846	162 828	-	-
VIV Made	86 603	32 174	-	-

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

30. Contracted services (continued)

PZ Duma	65 677	25 920	-	-
	299 126	**220 922**	**-**	**-**

Remuneration of Board Members - Travelling re-imbursements

IB Mkhize	64 248	31 923	-	-
VIV Made	31 495	14 248	-	-
PZ Duma	20 490	12 413	-	-
	116 233	**58 584**	**-**	**-**

31. Finance costs

External borrowings and finance leases	3 765 020	4 499 127	3 752 248	4 496 678

32. Inventory consumed

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

Notes to the Consolidated Annual Financial Statements

33. Operational costs

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Advertising	1 375 087	2 305 800	1 274 879	2 287 457
Auditors remuneration	3 819 747	3 115 382	3 433 670	2 605 814
Bank charges	226 368	198 077	208 675	176 960
Cleaning	5 943	34 302	-	-
Communication	4 478 495	3 930 092	4 149 983	3 630 018
Conferences and seminars	77 468	53 653	-	-
Electricity	13 622 843	10 790 221	13 622 843	10 790 221
Event regstration fees	-	35 150	-	35 150
Financial system support	342 238	941 816	-	-
Fuel and oil	5 912 449	6 460 893	5 871 389	6 451 749
Health and safety	1 965	-	-	-
Hire	111 525	575 121	111 525	575 121
ICT support	22 007	-	-	-
Insurance	499 877	1 395 145	366 630	1 273 649
Motor vehicle licence and registrations	2 073 481	207 227	2 073 481	207 227
Printing and stationery	1 010 358	1 172 390	937 277	1 039 201
Promotions and sponsorships	94 443	764 300	-	167 500
Protective clothing	1 349 998	793 997	1 326 915	793 997
Refuse	5 326	-	-	-
Rental of offices	2 630 217	1 313 986	2 630 217	1 313 986
Signage	45 500	108 360	45 500	99 667
Skills development levy	1 550 673	1 374 401	1 474 818	1 266 350
Software expenses	2 046 865	3 094 404	2 046 865	3 094 404
Staff welfare	510 924	316 204	507 570	314 846
Subscriptions and membership fees	80 376	69 114	63 128	66 908
Tourism development	799 466	1 702 053	-	-
Training	-	61 008	-	-
Transport	2 993 333	758 334	382 689	758 334
Travel and accomodation	5 028 594	1 135 915	4 532 004	904 834
Union fees	6 120	6 305	-	-
Vehicle expenses	6 513 301	5 667 613	6 513 301	5 667 613
	57 234 987	**48 381 263**	**51 573 359**	**43 521 006**

34. Remuneration of councillors

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Executive Major	799 680	589 240	799 680	589 240
Deputy Executive Mayor	729 627	467 880	729 627	467 880
Mayoral Committee Members	1 461 120	942 301	1 461 120	942 301
Speaker	728 375	473 733	728 375	473 733
Salaries	2 363 256	2 530 496	2 363 256	2 530 496
Meeting allowance	165 749	283 088	165 749	283 088
Travelling allowance	704 617	676 823	704 617	676 823
	6 952 424	**5 963 561**	**6 952 424**	**5 963 561**

35. Transfer Payments

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Harry Gwala Development Agency	-	-	14 000 000	8 000 000
South Africa Local Government Association	-	3 289 477	-	3 289 477
Bursaries (Non-Employee)	-	402 670	-	402 670
National Youth Commission	-	15 642	-	15 642
	-	**3 707 789**	**14 000 000**	**11 707 789**

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

36. Impairment of assets

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

37. Cash generated from operations

Surplus	212 615 347	224 322 631	212 585 907	232 560 025
Adjustments for:				
Depreciation and amortisation	68 346 321	67 008 159	66 993 428	65 608 947
Gain on sale of assets and liabilities	8 948 027	498 803	8 948 027	410 258
Impairment deficit	2 750 050	2 445 022	2 750 050	2 445 022
Debt impairment	19 110 917	24 717 388	19 110 917	24 717 388
Movements in retirement benefit assets and liabilities	(4 009 117)	1 434 225	(4 009 117)	1 434 225
Other non-cash items	(258 831)	(464 806)	-	-
Leave provision movement	-	(1 348 857)	-	(1 409 962)
Assets received from other organs of state	(13 424 403)	(17 014 265)	(13 424 403)	(17 014 265)
Changes in working capital:				
Inventories	(77 125)	9 260	(77 125)	9 260
Receivables from exchange transactions	12 589	(6 799)	-	-
Consumer debtors	(24 129 150)	(23 910 026)	(24 129 150)	(23 910 026)
Other receivables from non-exchange transactions	(281 215)	(1 166 149)	(281 215)	(1 166 149)
Payables from exchange transactions	(49 562 604)	29 160 025	(49 520 515)	29 332 994
VAT	26 203 823	(21 860 710)	26 696 288	(21 857 398)
Unspent conditional grants and receipts	(19 123 903)	16 137 273	(16 618 736)	12 017 622
Consumer deposits	162 407	164 224	162 407	164 224
	227 283 133	**300 125 398**	**229 186 763**	**303 342 165**

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for				
• Property, plant and equipment	419 802 093	425 085 356	419 802 093	425 085 356
• Current expepnditure	582 286	19 267	-	-
	420 384 379	**425 104 623**	**419 802 093**	**425 085 356**

Total capital commitments				
Already contracted for but not provided for	420 384 379	425 104 623	419 802 093	425 085 356

Authorised operational expenditure

Total commitments

Total commitments				
Authorised capital expenditure	420 384 379	425 104 623	419 802 093	425 085 356

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

39. Contingencies

Bhungane Built Environment	-	3 103 364	-	3 103 364
Matatiele Local Municipality	2 941 249	2 941 249	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	1 604 000	1 604 000	1 604 000	1 604 000
Sektor Consulting and engineers	-	480 000	50 000	480 000
Sifiso Gregory Mkize	21 295	21 295	21 295	21 295
Unitrade 1047 CC T/A Isidingo Security Services	26 000 000	26 000 000	26 000 000	26 000 000
Unlawful arrest and deyention	710 000	-	-	-
National Treasury jobs Fund Project	1 937 245	1 937 245	1 937 245	1 937 245
	33 213 789	**36 087 153**	**32 553 789**	**36 087 153**

- Sifiso Gregory Mkize

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

- Matatiele Local Municipality

  This is a claim for rates for Matetiele Local Municipality.

- Mdlebeni Trading (Pty) Ltd

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

- Sektor Consulting and engineers

  This is a claim for payment for services rendered. The matter has been defended. The amount remaining relates to estimated legal costs.

- National Treasury Jobs Fund Project

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

- Unitrade 1047 CC T/A Isidingo Security Services

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

	Group		Controlling entity	
	2019	2018	2019	2018

40. Related parties

Controlled entity	Harry Gwala Economic Development Agency (Pty) Ltd
Controlling entity	Harry Gwala District Municipality

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

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

Related party transactions

	Group 2019	Group 2018	Controlling entity 2019	Controlling entity 2018
Transfer payments				
Harry Gwala Develeopment Agency (Pty) Ltd			14 000 000	8 000 000

During the year Harry Gwala District Municipality transferred money to Harry Gwala Develeopment Agency (Pty) Ltd to cover its operations.

Key management information

The key management personnel of Harry Gwala Development Agency are.

The Chief Executive Officer Ms NC James.

The Chief Financial office Mrs N R Shabalala

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

41. Risk management

Liquidity risk

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

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

Group

Credit risk

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

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

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

Financial instrument	Group- 2019	Group - 2018	Municipality - 2019	Municipality - 2018
Cash and cash equivalents	71 592 765	112 335 670	58 362 814	96 962 031
Trade and other receivables	33 579 244	28 292 385	32 991 182	27 691 734

Market risk

Interest rate risk

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

The economic entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the economic entity to fair value interest rate risk. During 2019 and 2018, the economic entity's borrowings at variable rate were denominated in the Rand.

42. Going concern

The consolidated annual 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.

43. Events after the reporting date

Subsequent to year end, Department of Higher Education (DHET) / National Schools Fund (NSF) called back their conditional grant funding from the entity. The amount of R8 201 504.43 was transferred to DHET/NSF on 13 August 2019.

RASET Program was suspended by CoGTA on 2 July 2019 until further notice.

The entity's Board of Directors contracts ended at 30 June 2019. The new Board of Directors was appointed on 8 August 2019

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

44. Unauthorised expenditure

Opening balance as previously reported	413 807 042	316 916 181	413 807 042	316 916 181
Opening balance as restated	**413 807 042**	**316 916 181**	**413 807 042**	**316 916 181**
Add: Irregular Expenditure	80 337 853	148 460 509	80 337 853	148 460 509
Approved by council	-	(51 569 648)	-	(51 569 648)
Closing balance	**494 144 895**	**413 807 042**	**494 144 895**	**413 807 042**

45. Fruitless and wasteful expenditure

Opening balance as previously reported	4 431 553	3 681 367	3 967 385	3 448 469
Opening balance as restated	**4 431 553**	**3 681 367**	**3 967 385**	**3 448 469**
Add: Irregular Expenditure	70 084	750 186	70 084	518 916
Closing balance	**4 501 637**	**4 431 553**	**4 037 469**	**3 967 385**

46. Irregular expenditure

Opening balance as previously reported	486 059 620	370 036 216	460 044 832	344 021 428
Opening balance as restated	**486 059 620**	**370 036 216**	**460 044 832**	**344 021 428**
Add: Irregular Expenditure	138 486 434	116 023 404	138 486 434	116 023 404
Closing balance	**624 546 054**	**486 059 620**	**598 531 266**	**460 044 832**

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

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

Material losses Incurred

Water loses	9 015 759	9 106 988	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 (2016-18 : 1 468 869 kl).

Audit fees

Current year subscription / fee	3 819 747	3 115 382	3 433 670	2 605 814
Amount paid - current year	(3 819 747)	(3 115 382)	(3 433 670)	(2 605 814)
	-	-	-	-

PAYE and UIF

Opening balance	2 350 739	1 893 947	2 350 739	1 893 947
Current year subscription / fee	31 452 561	36 617 091	29 719 621	34 971 532
Amount paid - current year	(29 309 456)	(34 266 352)	(27 576 516)	(32 620 793)
Amount paid - previous years	(2 350 739)	(1 893 947)	(2 350 739)	(1 893 947)
	2 143 105	**2 350 739**	**2 143 105**	**2 350 739**

Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2019	2018	2019	2018

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

Pension and Medical Aid Deductions

Opening balance	3 076 669	-	3 076 669	-
Current year subscription / fee	35 857 711	19 316 955	34 399 932	17 552 447
Amount paid - current year	(32 942 960)	(16 240 286)	(31 425 181)	(14 475 778)
Amount paid - previous years	(3 076 669)	-	(3 076 669)	-
	2 914 751	**3 076 669**	**2 974 751**	**3 076 669**

VAT

VAT receivable	11 342 674	37 546 497	10 801 191	37 497 479

VAT output payables and VAT input receivables are shown in Note 5.

Supply chain management regulations

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

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

Incident				
Afrostructure (Pty) Ltd	25 642 552	16 309 548	25 642 552	16 309 548
Utility System	122 801	-	122 801	-
SABC Vuka Sizwe	469 890	-	469 890	-
ESRI South Africa	174 802	-	174 802	-
FYNN Construction	125 580	-	125 580	-
SSR Security T/A Mahlubi Plant Hire	71 645	-	71 645	-
Judy Magwaza Trading Enterprise	1 150 000	-	1 150 000	-
BnB Transport and Plant Hire	912 000	-	912 000	-
Total deviations for the agency	3 458 041	360 495	-	-
	32 127 311	**16 670 043**	**28 669 270**	**16 309 548**

48. 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

Notes to the Consolidated Annual Financial Statements

48. Prior-year adjustments (continued)

Group - 2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Land	9	17 080 597	-	(3 408 325)	13 672 272
Buildings	9	45 242 365	(808 409)	3 408 325	47 842 281
Machinery and equipment	9	344 505	331 512	-	676 017
Furniture and office equipment	9	1 728 396	155 402	-	1 883 798
Transport assets	9	2 814 446	88 961	-	2 903 407
Computer equipment	9	1 586 644	90 803	-	1 677 447
Infrastructure water and sanitation	9	1 882 063 790	26 662 282	-	1 908 726 072
Leased assets	9	10 426 397	58 712	-	10 485 109
Intangible assets	10	1 712 026	108 058	-	1 820 084
Long terrm payables from exchange transactions	18	-	-	(10 930 228)	(10 930 228)
Accumulated surplus		(1 851 803 598)	(27 990 719)	-	(1 879 794 317)
VAT receivable	6	39 195 532	(1 649 035)	-	37 546 497
Consumer debtors	7	21 971 476	(56 343)	-	21 915 133
Payable from exchange transactions	14	(169 807 834)	3 394 257	10 930 228	(155 483 349)
Unspent conditional grants and receipts	17	(72 881 009)	(385 481)	-	(73 266 490)
		(70 326 267)	**-**	**-**	**(70 326 267)**

Statement of financial performance

Group - 2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Government grants & subsidies	22	636 404 392	667 583	-	637 071 975
Bulk purchases	25	(14 434 430)	796 328	-	(13 638 102)
Contracted services	26	(151 771 740)	1 393 644	-	(150 378 096)
Depreciation and amortisation	28	(65 923 808)	(1 171 242)	-	(67 095 050)
Operational costs	33	(52 169 527)	3 504 823	-	(48 664 704)
Employee related costs	30	(158 995 533)	-	(2 346 258)	(161 341 791)
Actuarial gains/losses	16	-	-	2 066 752	2 066 752
Directors fees	30	(279 506)	-	279 506	-
Surplus for the year		**192 829 848**	**5 191 136**	**-**	**198 020 984**

Errors

The following prior period errors adjustments occurred:

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 R694 280 in the prior years.

48. Prior-year adjustments (continued)

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.

48. Prior-year adjustments (continued)

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.

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.

Interest on the on the money invested in call accounts for the department of higher education and training grant was previously recognised as interest revenue. This resulted in the overstatement of the interest revenue and understatement of the unspent conditional liability by R1 119 651

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.