Setsoto Local Municipality
(Registration number Municipal demarcation code FS191)
Financial statements
for the year ended 30 June 2020
Auditor-General of South Africa

General Information

Legal form of entity	A Municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
Legislation governing the municipality's operations	Local Govenment: Municipal Finance Management Act (No. 56 of 2003)
	Local Govenment: Municipal Systems Act (No. 32 of 2000)
	Local Govenment: Municipal Systems Amendment Act (No. 44 of 2003)
	Local Government: Municipal Structures Act (No. 117 of 1998)
	Local Government: Municipal Structures Amendment Act (No.33 of 2000)
	Housing Act (No. 107 of 1997)
	Constitution of the Republic of South Africa (No. 108 of 1996)
	Property Rates Act (No. 6 of 2004)
	Annual Division of Revenue Act
	Municipal Demarcation Act (No. 27 of 1998)
	Local Government: Transition Act Second Amendment (No. 97 of 1996)
	Water Services Act (No. 108 of 1997)
	Electricity Act (No. 41 of 1987)
	Intergovernmental Fiscal Relations Act (No. 97 of 1997)
	Intergovernmental Relations Framework Act (No. 13 of 2005)
Mayor / Executive Mayor	Maoke, Nthateng Alice - Ended 20 December 2019 Koalane, Komane Elias - From 20 December 2019
Executive Committee / Mayoral Committee	Koalane, Komane Elias - Ended 19 December 2019
	Taylor, Nnini Annie
	Hlakane, Moeketsi
	Selasi, Motsamai William
	Khitsane, Nthatisi Petronella
Councillors	Speaker - Mokhuoane, Krog Sexton
	Koqo, Palesa Elizabeth
	Mokhele, Modise Moses
	Mathuhle, Motsamai John
	Schee, Pulane Constance
	Lipoko, Ratsholwane Shadrack
	Makhubu, Ntahli Selina
	Mohosho, Andronika Modiehi
	Strydom, Evert Phillip
	Matsau, Malefane Patrick
	Makhalanyane, Tieho George
	Moipatli, Chere Daniel
	Mothibeli, Moselantja Mercy
	Selikane, Thabiso Shadrack
	Mthimkulu, Mamotena Lydia
	Ralehlatsi, Mahlomola Klaas
	Makobane, Serame Ishmael
	Khatlake, Ntema Peter
	Jakobo, Tsheliso Bernard

General Information

	Mthimkhulu, Thabo Isaac Vries, Isak Semahla, Mookho Hilda Matobako, Puseletso Constance Sellane, Matieho Theresia Mokoena, Teboho Jacob Maveleliso, Paka Isaac Maoke, Nthateng Alice - From 20 December 2019 Heymans, Maria Cornelia
Grading of local authority	06 - Meduim Capacity
Accounting Officer	Mr. STR Ramakarane
Chief Finance Officer (CFO)	Mr. NL Moletsane
Registered office	27 Voortrekker Street Ficksburg 9730
Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank, a division of First Rand Limited
Auditors	Auditor-General of South Africa
Legal Manager	PM Koalane P O Box 116, Ficksburg, 9730 matshediso@setsoto.co.za
Telephone Number	(051) 933 9300
Fax Number	(051) 933 9363

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

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

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CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
mSCOA	Municipal Standard Chart of Accounts
IGRAP	Interpretation of the Standard of Generally Recognised Accounting Practice

Accounting Officer's Responsibilities and Approval

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

The financial statements have been prepared as required by in terms of Section 122 of the Municipal Finance Management Act (No. 56 of 2003) and in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Setsoto Local Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

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

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

The financial statements set out on pages 7 to 98, which have been prepared on the going concern basis (Please refer to Note 53), were approved by the accounting officer on 31 October 2020

Mr. STR Ramakarane
Municipal Manager

Audit & Performance Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2020.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year a number of 8 meetings were held.

Name of member	Number of meetings attended
Mr H B Mathibela - Chairperson	8
Mr T Zororo	5
Mr L S Mofokeng	8
Mrs F Kobo	8
Mrs S Masite	4

All members are independent with no interest in the management or conduct of the business of the Municipality and the members of the Audit and Performance Audit Committee were appointed on the 26 June 2017 and their contract will end on 27 July 2022.

Audit and Performance Committee responsibility

The Audit and Performance Audit Committee reports complies with its responsibilitites arising from section 166(2)(a) and (b) of the MFMA.

The Audit and Performance Audit Committee has adopted appropriate formal terms of reference as its Audit and Performance Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilitites as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is considered generally adequate in design and is partially ineffective in its implementation on some entities and this was evident by the reasonable assurance given by the Internal Audit Unit. However, there have been some vast improvements on some internal controls. The identification of corrective actions and suggested enhancements to the controls were done through risk management process and interaction with management on the action plan on audited report.

Evaluation of financial statements

The Audit and Performance Audit Committee has:

- reviewed and discussed the unaudited financial statements that will be presented to the Auditor-General South Africa;
- reviewed changes in accounting policies and practices;
- reviewed the adjustments made which appear on notes of prior year period error and re-classification;
- provide assurance on irregular, fruitless and wastefull expenditure;
- monitors asset management;
- monitor the implementation of the procurement plan;
- monitor the implementation of the SCM policy on deviation;

Internal audit

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

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 38 745 438 (2019: deficit R 265 625 277).

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 2 935 188 626 and that the municipality's total assets exceed its liabilitites by R 2 935 188 626.

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would impact on the financial results as disclosed in these financial statements.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements prepared as required in terms of Section 122 of the Municipal Finance Management Act (No. 56 of 2003) and in accordance with the South African Standards of Generally Recognized Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed framework by National Treasury.

6. Employee Benefits

Management performed an actuarial valuation of the Employee Benefits of the employer's liability as arising from the Post-Retirement Healthcare Subsidy ("RHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and have determined the items required for disclosure in terms of this standard.

Refer to note 20 for detail about these valuations.

7. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

8. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. STR Ramakarane	RSA

9. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

Accounting Officer's Report

10. Jurisdiction

Setsoto Local Municipality includes the following areas:

- Ficksburg
- Senekal
- Marquard
- Clocolan

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	3	2 751 139	5 850 736 *
Receivables from exchange transactions	6	200 815 148	208 757 363
Receivables from non-exchange transactions	7	43 575 983	39 882 399 *
VAT receivable	8	13 302 005	-
Cash and cash equivalents	9	30 216 676	29 385 855
		290 660 951	**283 876 353**
Non-Current Assets			
Investment property	10	64 837 312	67 037 792
Property, plant and equipment	11	2 838 585 796	2 864 987 638 *
Intangible assets	12	115 529	515 610
Heritage assets	13	15 385 903	15 385 902
Other financial assets	4	3 498 052	3 723 058
		2 922 422 592	**2 951 650 000**
Total Assets		**3 213 083 543**	**3 235 526 353**
Liabilities			
Current Liabilities			
Other financial liabilities	14	8 100 734	7 637 045
Payables from exchange transactions	16	134 951 926	143 649 018 *
VAT payable	21	-	3 631 098 *
Consumer deposits	17	3 157 199	3 219 260
Employee benefit obligation	20	3 101 000	2 613 024
Unspent conditional grants and receipts	18	47 605 354	8 979 260
		196 916 213	**169 728 705**
Non-Current Liabilities			
Other financial liabilities	14	12 671 614	20 772 460
Employee benefit obligation	20	52 503 000	55 967 573
Provisions	19	15 804 090	15 123 550
		80 978 704	**91 863 583**
Total Liabilities		**277 894 917**	**261 592 288**
Net Assets		**2 935 188 626**	**2 973 934 065**
Accumulated surplus		2 935 188 626	2 973 934 065 *

The accounting policies on pages 18 to 45 and the notes on pages 46 to 98 form an integral part of the financial statements.

* See Note 53

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	189 848 624	178 270 347
Rental of facilities and equipment	24	1 631 309	1 497 060
Interest received (trading)		33 665 399	33 531 202
Licences and permits		36 776	22 720
Commissions received		1 042 203	902 458
Sale of land		64 449	1 631 658
Actuarial Gains		9 883 257	-
Other income	23	1 814 253	3 878 137
Interest received - investment	25	4 166 869	3 582 050
Dividends received	25	45 156	59 666
Total revenue from exchange transactions		**242 198 295**	**223 375 298**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	53 030 041	64 465 591 *
Transfer revenue			
Government grants & subsidies	27	308 252 655	295 147 986
Donated assets		1 012 368	-
Fines, Penalties and Forfeits		636 300	1 635 725
Total revenue from non-exchange transactions		**362 931 364**	**361 249 302**
Total revenue	28	**605 129 659**	**584 624 600**
Expenditure			
Employee related costs	29	207 911 862	187 091 940
Remuneration of councillors	30	13 208 568	13 350 038
Repairs and maintenance		3 254 919	3 541 338 *
Depreciation and amortisation	32	136 668 317	226 699 455 *
Impairment loss	33	3 039 741	1 268 460
Finance costs	34	6 998 353	9 265 518 *
Lease rentals on operating lease		4 606 557	3 006 212
Debt Impairment	35	120 358 734	104 984 116
Bulk purchases	36	72 862 820	74 869 012 *
Contracted services	37	13 470 172	12 894 665
Transfers and Subsidies	38	183 144	241 014
Loss on disposal of assets		16 932 414	168 253 753 *
Fair value adjustments		276 979	-
Actuarial losses		-	3 278 597
General Expenses	39	44 102 517	41 505 759 *
Total expenditure		**643 875 097**	**850 249 877**
Deficit for the year		**(38 745 438)**	**(265 625 277)**

The accounting policies on pages 18 to 45 and the notes on pages 46 to 98 form an integral part of the financial statements.

* See Note 53

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3 248 778 096	3 248 778 096
Adjustments		
Correction of errors	(9 218 754)	(9 218 754)
Balance at 01 July 2018 as restated*	**3 239 559 342**	**3 239 559 342**
Changes in net assets		
Deficit for the year	(265 625 277)	(265 625 277)*
Total changes	(265 625 277)	(265 625 277)
Restated* Balance at 01 July 2019	**2 973 934 064**	**2 973 934 064** *
Changes in net assets		
Deficit for the year	(38 745 438)	(38 745 438)
Total changes	(38 745 438)	(38 745 438)
Balance at 30 June 2020	**2 935 188 626**	**2 935 188 626**

Note(s)

* See Note 53

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property Rates		43 880 765	75 582 061
Sale of goods and services		121 375 998	83 382 219
Grants		346 878 749	295 147 986
Interest income		4 114 895	3 582 050
Dividends received		45 156	59 666
Other receipts		636 300	4 233 338
		516 931 863	461 987 320
Payments			
Employee costs		(213 878 236)	(195 499 744)
Suppliers		(161 180 692)	(109 570 525)
Finance costs		(6 998 353)	(9 265 518)*
		(382 057 281)	(314 335 787)
Net cash flows from operating activities	40	**134 874 582**	**147 651 533 ***
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(126 777 185)	(111 758 715)
Proceeds from sale of property, plant and equipment	11	370 579	-
Proceeds from sale of intangible assets	12	-	189 377
Purchase of financial assets		-	(243 203)
Net cash flows from investing activities		**(126 406 606)**	**(111 812 541)**
Cash flows from financing activities			
Take up/(Repayment) of other financial liabilities		(7 637 157)	(6 830 653)*
Net cash flows from financing activities		**(7 637 157)**	**(6 830 653)**
Net increase/(decrease) in cash and cash equivalents		**830 819**	**29 008 339**
Cash and cash equivalents at the beginning of the year		29 385 855	377 515
Cash and cash equivalents at the end of the year	9	**30 216 674**	**29 385 854**

* - Amount has been restated, for details refer to Note 53.

* See Note 53

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	222 549 751	(14 793 392)	**207 756 359**	189 848 624	**(17 907 735)**	Increased usage resulting in additional charges.
Rental of facilities and equipment	1 547 196	195 696	**1 742 892**	1 631 309	**(111 583)**	Ending of rental contract resulting in less charges than budgeted.
Interest received (trading)	32 572 932	2 545 936	**35 118 868**	33 665 399	**(1 453 469)**	Due to debt write-off less interest was charged.
Licences and permits	40 404	2 662	**43 066**	36 776	**(6 290)**	Decrease in payments received from Department of Justice.
Commissions received	193 668	338 875	**532 543**	1 042 203	**509 660**	Increase due to additional commissions received.
Sale of land and erven	66 792	(1 506)	**65 286**	64 449	**(837)**	Immaterial variance.
Actuarial Gains	-	-	**-**	9 883 257	**9 883 257**	Economic change attribute to realise gains.
Other income - (rollup)	4 413 360	(2 499 782)	**1 913 578**	1 814 253	**(99 325)**	Decrease in sundry services due to lockdown.
Interest received - investment	1 599 996	2 564 470	**4 164 466**	4 166 869	**2 403**	Immaterial variance.
Dividends received	70 992	17 434	**88 426**	45 156	**(43 270)**	Overbudgeting of dividends received.
Total revenue from exchange transactions	**263 055 091**	**(11 629 607)**	**251 425 484**	**242 198 295**	**(9 227 189)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	62 335 824	3 428 417	**65 764 241**	53 030 041	**(12 734 200)**	Due to correction of rates levied.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Transfer revenue						
Government grants & subsidies	341 306 940	5 056 327	**346 363 267**	308 252 655	**(38 110 612)**	Not all capital grants being utilised.
Public contributions and donations	-	-	**-**	1 012 368	**1 012 368**	Donated assets received were not budgeted for.
Fines, Penalties and Forfeits	-	798 617	**798 617**	636 300	**(162 317)**	Covid-19 contributed to decrease.
Total revenue from non-exchange transactions	**403 642 764**	**9 283 361**	**412 926 125**	**362 931 364**	**(49 994 761)**	
Total revenue	**666 697 855**	**(2 346 246)**	**664 351 609**	**605 129 659**	**(59 221 950)**	
Expenditure						
Personnel	(216 114 432)	16 586 667	**(199 527 765)**	(207 911 862)	**(8 384 097)**	Increase in employee benefits.
Remuneration of councillors	(13 725 204)	1 152 554	**(12 572 650)**	(13 208 568)	**(635 918)**	Increase in councillors remuneration.
Repairs and maintanance	(5 127 084)	1 884 546	**(3 242 538)**	(3 254 919)	**(12 381)**	Increased maintenance of fixed assets required.
Depreciation and amortisation	(119 014 752)	-	**(119 014 752)**	(136 668 317)	**(17 653 565)**	Reversal of write-offs resulted in additional depreciation.
Impairment loss/ Reversal of impairments	-	-	**-**	(3 039 741)	**(3 039 741)**	Impairment of fines budgeted under debt impairment.
Finance costs	(7 965 924)	175 788	**(7 790 136)**	(6 998 353)	**791 783**	Redemption of loans resulting in less interest being paid.
Lease rentals on operating lease	(9 473 340)	5 321 017	**(4 152 323)**	(4 606 557)	**(454 234)**	New operating leases entered into during the year.
Debt Impairment	(50 672 652)	(3 233 036)	**(53 905 688)**	(120 358 734)	**(66 453 046)**	Increased outstanding debt contribute to increased debt impairment.
Bulk purchases	(76 973 616)	8 591 194	**(68 382 422)**	(72 862 820)	**(4 480 398)**	Increase in consumption.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Contracted Services	(59 684 796)	46 084 558	**(13 600 238)**	(13 470 172)	**130 066**	Decreased utilisation of councillors.
Transfers and Subsidies	(17 313 540)	(11 565 784)	**(28 879 324)**	(183 144)	**28 696 180**	Immaterial variance.
General Expenses	(22 618 656)	(18 238 934)	**(40 857 590)**	(44 102 517)	**(3 244 927)**	Cost containment measures implemented.
Total expenditure	**(598 683 996)**	**46 758 570**	**(551 925 426)**	**(626 665 704)**	**(74 740 278)**	
Operating deficit	**68 013 859**	**44 412 324**	**112 426 183**	**(21 536 045)**	**(133 962 228)**	
Loss on disposal of assets and liabilities	-	306 031	**306 031**	(16 932 414)	**(17 238 445)**	
Fair value adjustments	-	-	**-**	(276 979)	**(276 979)**	Fair value adjustments not budgeted for.
	-	**306 031**	**306 031**	**(17 209 393)**	**(17 515 424)**	
Deficit before taxation	**68 013 859**	**44 718 355**	**112 732 214**	**(38 745 438)**	**(151 477 652)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**68 013 859**	**44 718 355**	**112 732 214**	**(38 745 438)**	**(151 477 652)**	

Reconciliation

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Property rates	52 820 724	2 727 128	55 547 852	-		55 547 852	53 030 041		(2 517 811)	95 %	100 %
Service charges	215 114 580	(25 927 215)	189 187 365	-		189 187 365	189 848 624		661 259	100 %	88 %
Investment revenue	1 670 988	2 581 904	4 252 892	-		4 252 892	4 212 025		(40 867)	99 %	252 %
Transfers recognised - operational	196 382 964	556 327	196 939 291	-		196 939 291	196 954 749		15 458	100 %	100 %
Other own revenue	38 834 352	1 686 529	40 520 881	-		40 520 881	105 116 030		64 595 149	259 %	271 %
Total revenue (excluding capital transfers and contributions)	**504 823 608**	**(18 375 327)**	**486 448 281**	**-**		**486 448 281**	**549 161 469**		**62 713 188**	**113 %**	**109 %**
Employee costs	(217 847 496)	16 299 327	(201 548 169)	-	-	(201 548 169)	(207 911 862)	-	(6 363 693)	103 %	95 %
Remuneration of councillors	(13 725 204)	1 152 554	(12 572 650)	-	-	(12 572 650)	(13 208 568)	-	(635 918)	105 %	96 %
Debt impairment	(50 672 652)	(3 233 036)	(53 905 688)			(53 905 688)	(120 552 550)	-	(66 646 862)	224 %	238 %
Depreciation and asset impairment	(119 014 752)	-	(119 014 752)			(119 014 752)	(139 514 242)	-	(20 499 490)	117 %	117 %
Finance charges	(7 965 924)	175 788	(7 790 136)	-	-	(7 790 136)	(6 998 353)	-	791 783	90 %	88 %
Materials and bulk purchases	(76 973 616)	8 591 194	(68 382 422)	-	-	(68 382 422)	(72 862 820)	-	(4 480 398)	107 %	95 %
Transfers and grants	(709 092)	523 247	(185 845)	-	-	(185 845)	(183 144)	-	2 701	99 %	26 %
Other expenditure	(88 245 936)	17 696 220	(70 549 716)	-	-	(70 549 716)	(138 985 642)	-	(68 435 926)	197 %	157 %
Total expenditure	**(575 154 672)**	**41 205 294**	**(533 949 378)**	**-**	**-**	**(533 949 378)**	**(700 217 181)**	**-**	**(166 267 803)**	**131 %**	**122 %**
Surplus/(Deficit)	**(70 331 064)**	**22 829 967**	**(47 501 097)**	**-**		**(47 501 097)**	**(151 055 712)**		**(103 554 615)**	**318 %**	**215 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	144 923 976	4 500 000	149 423 976	-		149 423 976	111 297 906		(38 126 070)	74 %	77 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1 012 368		1 012 368	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**74 592 912**	**27 329 967**	**101 922 879**	**-**		**101 922 879**	**(38 745 438)**		**(140 668 317)**	**(38)%**	**(52)%**
Surplus/(Deficit) for the year	**74 592 912**	**27 329 967**	**101 922 879**	**-**		**101 922 879**	**(38 745 438)**		**(140 668 317)**	**(38)%**	**(52)%**

Accounting Policies

1. Presentation of Financial Statements

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

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

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

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating and non-cash generating asset 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 assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives and residual values of property, plant and equipmet and intangible assets

The municipality's management determines the estimated useful lives and related depreciation charges of property, plant, equipment and intangible assets. The municipality re-assess the useful lives on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

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

GRAP 24: Presentation of budget information

Deviations between the budget and actual amounts are regarded as material if they exceed a 10% deviation.

All material differences are explained in the notes /appendices to the annual financial statements.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Operating lease commitments

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 80 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.4 Property, plant and equipment

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

1.4 Property, plant and equipment (continued)

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	10 - 80 years
Plant and machinery	Straight line	2 - 20 years
Furniture and Office equipment	Straight line	5 - 10 years
Transport Assets	Straight line	5 - 20 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 7 years
Computer Equipment	Straight line	3 - 6 years
Infrastructure - Electricity	Straight line	5 - 50 years
Buildings and other structure (Community)	Straight line	25 - 50 years
Other property, plant and equipment	Straight line	3 - 7 years
Infrastructure Waste Management	Straight line	5 - 40 years
Infrastructure road, Pavement, Bridges and Storm water	Straight line	5 - 80 years

1.4 Property, plant and equipment (continued)

Infrastructure water	Straight line	5 - 80 years
Infrastructure - Waste Water Mananagement	Straight line	10 - 60
Work in process	Straight line	Transfer to assets on completion

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 11).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.5 Intangible assets

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

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

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

1.5 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	3 - 5 Years

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

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

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

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

1.6 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Accounting Policies

1.6 Heritage assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.7 Financial instruments

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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.

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.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

Debtors

Debtors are initially recognised at fair value plus any transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified in the Statement of Financial Performance.

Creditors

Trade payables are initially measured at fair value plus any transaction costs,and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

These are initially and subsequently recorded at amortised cost.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments, and bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost.

Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

Fixed and Negotiable Deposits

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Accounting Policies

1.7 Financial instruments (continued)

Fixed and negotiable deposits are initially and subsequently measured at fair value which in the case of investments that have an original maturity date of less than 12 months equates the cost. Fixed and negotiable deposits held for greater than 12 months are fair valued annually and the difference recognised in the statement of financial performance.

On disposal of Fixed and negotiable deposits, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.8 Tax

The Municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

1.9 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

1.9 Leases (continued)

Operating leases - lessee

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

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

1.10 Inventories

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

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

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

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

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

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

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

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

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

1.11 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.12 Conditional grants and receipts

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

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

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

1.12 Conditional grants and receipts (continued)

- 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.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of 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 should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. 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 should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

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

- the amount of the revenue can be measured reliably, and

- to the extent that there has been compliance with any restrictions associated with the grant.

1.13 Related parties

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

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

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

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

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

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

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

Accounting Policies

1.13 Related parties (continued)

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

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

1.14 Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

- Approved but not yet contracted commitments, where the expenditure has been approved and the contract

  has yet to be awarded or is awaiting finalisation at the reporting date.

- Items are classified as commitments where the municipality commits itself to future transactions that will

  normally result in the outflow of resources.

- Contracts that are entered into before the reporting date, but goods and services have not yet been received

  are disclosed in the disclosure notes to the financial statements.

- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts

  should relate to something other than the business of the municipality.

1.15 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.

1.15 Impairment of cash-generating assets (continued)

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

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

Value in use

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

1.16 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

- the number of production or similar units expected to be obtained from the asset by the municipality.

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

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units' approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units' expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.17 Employee Benefits

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

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

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

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

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

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

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

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

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

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 cell phones) for current employees.

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

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

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

1.17 Employee Benefits (continued)

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.

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit planWhen sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

Post-employment benefits: Defined benefit plans

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

1.17 Employee Benefits (continued)

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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 measures 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.

Accounting Policies

1.17 Employee Benefits (continued)

The entity determines 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 financial statements do not differ materially from the amounts that would be determined at the reporting date.

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

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

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

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

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

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

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

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

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 presented as the net of the amount recognised for a reimbursement.

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

1.17 Employee Benefits (continued)

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

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

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

Other post retirement obligations

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

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

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

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

1.17 Employee Benefits (continued)

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

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

1.18 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 52.

1.19 Revenue from exchange transactions

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

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

1.19 Revenue from exchange transactions (continued)

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

When uncertainty arises about the collectibility of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

Revenue from rental of facilitites and equipment is recognised on a straightline basis over the term of the lease agreement.

Interest and dividends

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

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

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

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

1.20 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

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

Measurement

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

1.20 Revenue from non-exchange transactions (continued)

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

Assessment Rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.20 Revenue from non-exchange transactions (continued)

Services in-kind

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

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

1.21 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.

1.22 Comparative figures

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

1.23 Unauthorised expenditure

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

MFMA Circular No 68 and section 32 of the Municipal Finance Management Act No. 56 of 2003 states the following::

Irregular expenditure is defined in section 1 of the MFMA as follows:

"irregular expenditure", in relation to a municipality or municipal entity, means

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

1.25 Irregular expenditure (continued)

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality's supply chain management policy, and any by-laws giving effect to that policy

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

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

1.26 Use of estimates

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

1.27 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the Standard rate (15%) in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 01/07/2019 to 30/06/2020.

1.28 Budget information (continued)

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

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

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

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified: those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date). The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

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

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the annual financial statements.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

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

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.30 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

1.30 Accounting by principals and agents (continued)

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

Notes to the Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

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

The municipality has adopted the guideline for the first time in the 2020/2019 financial statements.

The impact of the guideline is not material.

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

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

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

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

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

The municipality has adopted the interpretation for the first time in the 2020/2020 financial statements.

The impact of the interpretation is not material.

GRAP 109: Accounting by Principals and Agents

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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

The municipality has adopted the standard for the first time in the 2020/2020 financial statements.

The impact of the standard is not material.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The municipality has adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of the interpretation is not material.

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 municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- 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).

2. New standards and interpretations (continued)

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 municipality has adopted the standard for the first time in the 2020/2020 financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	The Municipality might need to revise the categories of financial instruments and the impairment model.
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact

Figures in Rand	2020	2019

3. Inventories

Consumable Stores	2 627 233	5 575 372
Water for distribution	123 906	275 364
	2 751 139	**5 850 736**

Carrying value of inventories carried at fair value less costs to sell	2 751 139	5 213 536
Inventories recognised as an expense during the year	10 438 154	3 837 180

Inventory pledged as security

No inventory was pledged as security for the current year.

4. Other financial assets

Designated at fair value		
Listed shares	849 385	1 126 364
Sanlam		
Unlisted shares	1 264 066	1 288 116
OVK/EFC Shares		
	2 113 451	**2 414 480**
At amortised cost		
Other financial assets	1 384 601	1 308 578
Consist of a Sanlam Redemption fund and a housing collateral at ABSA Bank		
Total other financial assets	**3 498 052**	**3 723 058**

Non-current assets		
Designated at fair value	2 113 451	2 414 480
At amortised cost	1 384 601	1 308 578
	3 498 052	**3 723 058**

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Sanlam	849 384	1 126 364

As at 30 June 2020, the Sanlam share value was: R58,94 (2019: R78,16).

Level 3		
OVK	1 264 066	1 288 116

Notes to the Financial Statements

Figures in Rand	2020	2019

4. Other financial assets (continued)

As at 30 June 2020, the OVK share value was as follows:

OVK Operations R13,85 (2019: R15,65)

OVK Holdings R15,85 (2019: R13,60)

	2 113 450	**2 414 480**

Financial assets at amortised cost

Fair values of financial assets measured or disclosed at fair value

Class 1	1 384 601	1 308 578

5. Consumer debtors disclosure

Gross balances		
Consumer debtors - Rates	61 697 622	52 548 346
Consumer debtors - Electricity	30 999 919	41 387 509
Consumer debtors - Water	141 540 932	152 323 165
Consumer debtors - Sewerage	73 283 449	71 674 009
Consumer debtors - Refuse	98 977 617	95 146 020
Consumer debtors - Other	19 442 581	8 554 729
	425 942 120	**421 633 778**
Less: Allowance for impairment		
Consumer debtors - Rates	(21 809 769)	(16 141 458)
Consumer debtors - Electricity	(9 548 387)	(11 888 404)
Consumer debtors - Water	(64 464 786)	(63 810 115)
Consumer debtors - Sewerage	(36 354 106)	(34 528 722)
Consumer debtors - Refuse	(50 369 649)	(47 382 261)
Consumer debtors - Other	(2 692 422)	(2 718 565)
	(185 239 119)	**(176 469 525)**
Consumer debtors - Rates	39 887 853	36 406 888
Consumer debtors - Electricity	21 451 532	29 499 105
Consumer debtors - Water	77 076 145	88 513 050
Consumer debtors - Sewerage	36 929 343	37 145 287
Consumer debtors - Refuse	48 607 968	47 763 759
Consumer debtors - Other	16 750 159	5 836 164
	240 703 000	**245 164 253**
Rates		
Current (0 - 30 days)	(150 977)	4 176 118
31 - 60 days	4 082 896	2 481 657
61 - 90 days	2 339 395	2 291 393
91 - 120 days	3 142 715	2 213 813
121 - >365 days	52 283 592	41 385 365
Impairment	(21 809 769)	(16 141 458)
	39 887 852	**36 406 888**
Electricity		
Current (0 - 30 days)	9 428 377	15 286 409

Notes to the Financial Statements

Figures in Rand	2020	2019
31 - 60 days	2 377 741	1 870 707
61 - 90 days	1 056 035	948 522
91 - 120 days	739 064	1 109 625
121 - >365 days	17 398 700	22 172 246
Impairment	(9 548 387)	(11 888 404)
	21 451 530	**29 499 105**
Water		
Current (0 - 30 days)	752 594	12 873 955
31 - 60 days	5 760 862	5 545 886
61 - 90 days	4 816 023	5 508 252
91 - 120 days	4 697 612	5 078 197
121 - >365 days	125 513 840	123 316 874
Impairment	(64 464 786)	(63 810 115)
	77 076 145	**88 513 049**
Sewerage		
Current (0 - 30 days)	515	5 526 927
31 - 60 days	2 746 561	2 594 059
61 - 90 days	2 575 580	2 539 256
91 - 120 days	2 467 039	2 497 039
121 - >365 days	65 493 752	58 516 729
Impairment	(36 354 106)	(34 528 722)
	36 929 341	**37 145 288**
Refuse		
Current (0 - 30 days)	814	7 175 661
31 - 60 days	3 535 675	3 389 207
61 - 90 days	3 319 276	3 343 186
91 - 120 days	3 239 948	3 301 450
121 - >365 days	88 881 903	77 936 515
Impairment	(50 369 649)	(47 382 261)
	48 607 967	**47 763 758**
Other		
Current (0 - 30 days)	(4 333 536)	1 549 069
31 - 60 days	717 365	110 393
61 - 90 days	533 314	96 600
91 - 120 days	540 925	150 836
121 - >365 days	21 984 513	6 647 831
Impairment	(2 692 422)	(2 718 565)
	16 750 159	**5 836 164**

Summary of debtors by customer classification

	2020	2019
Consumers		
Current (0 - 30 days)	9 571 188	40 521 552
31 - 60 days	14 338 015	13 558 670
61 - 90 days	12 077 201	12 817 932
91 - 120 days	11 636 387	12 385 009
121 - >365 days	318 607 933	295 212 331
	366 230 724	**374 495 494**
Industrial/Commercial		
Current (0 - 30 days)	849 662	4 462 271

Notes to the Financial Statements

Figures in Rand	2020	2019
31 - 60 days	3 356 897	1 353 377
61 - 90 days	1 623 061	1 063 398
91 - 120 days	1 418 525	1 194 428
121 - >365 days	39 256 252	25 681 467
	46 504 397	**33 754 941**
National and provincial government		
Current (0 - 30 days)	(1 411 163)	1 604 316
31 - 60 days	1 850 714	1 079 863
61 - 90 days	987 599	845 879
91 - 120 days	1 677 030	771 522
121 - >365 days	10 102 815	9 081 763
	13 206 995	**13 383 343**
Totals		
Current (0 - 30 days)	9 009 688	46 588 140
31 - 60 days	19 545 628	15 991 910
61 - 90 days	14 687 863	14 727 209
91 - 120 days	14 731 942	14 350 959
121 - >365 days	367 967 001	329 975 560
Less: Allowance for impairment	(185 239 121)	(176 469 525)
	240 703 001	**245 164 253**
Reconciliation of allowance for impairment		
Balance at the beginning of the year	(176 469 525)	(157 730 761)
Contributions to allowance	(120 358 735)	(104 984 116)
Debt impairment written-off against allowance	111 589 139	86 245 352
	(185 239 121)	**(176 469 525)**

6. Receivables from exchange transactions

Consumer debtors - Electricity	21 451 532	29 499 105
Consumer debtors - Water	77 076 145	88 513 050
Consumer debtors - Sewerage	36 929 343	37 145 286
Consumer debtors - Refuse	48 607 969	47 763 758
Consumer debtors - Other	16 750 159	5 836 164
	200 815 148	**208 757 363**

No consumer debtors were pledged as security for overdraft facilities.

In determining the recoverability of a Consumer Debtor, the municipality considers any change in the credit quality of the Consumer Debtor from date credit was initially granted up to the reporting date. Furthermore the municipality has also placed a strong emphasis on verifying the indigent status of cocentration of credit risk is limited due to customer base being spread over a large number of consumers, and is not concentrated in any particular sector or geographical arear. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

Fair value of trade and other receivables

In determing the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for impairment.

Figures in Rand	2020	2019

7. Receivables from non-exchange transactions

Fines	26 430	131 606
Legal fees recoverable	236 741	-
Cashiers short banking	354 934	382 557
Prepayments (Eskom and Fuel Deposits)	3 070 024	2 961 348
Rates (Details as per note 5 above)	39 887 854	36 406 888
	43 575 983	**39 882 399**

8. VAT receivable

VAT	13 302 005	-

The Municipality is registered on the payment basis; VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors. VAT payables are shown in Note 21.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1 124 417	2 427 931
Short-term deposits	29 083 052	26 948 717
Cash on hand	9 207	9 207
	30 216 676	**29 385 855**

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

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

Credit rating		
BB	-	29 376 648

Cash and cash equivalents pledged as collateral

The Municipality has an overdraft facility of R3,000,000 with First National Bank in 2019.	-	3 000 000

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	**30 June 2019**	**30 June 2018**	**30 June 2020**	**30 June 2019**	**30 June 2018**
FNB BANK - Account Account - 620 480 92647	877 290	2 372 705	298 587	1 124 415	2 427 931	292 530
FNB BANK - Business Money Market - 621 517 83563	717 906	9 540	9 245	717 906	9 540	9 245
FNB BANK - NSTD Account - 620 490 46205	54 009	439 969	10 000	54 009	440 638	14 919
FNB BANK - Call Account - 623 105 40465	28 264 965	26 317 817	10 000	28 264 965	26 498 539	51 614
Total	**29 914 170**	**29 140 031**	**327 832**	**30 161 295**	**29 376 648**	**368 308**

10. Investment property

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	92 944 395	(28 107 083)	64 837 312	93 982 952	(26 945 160)	67 037 792

Reconciliation of investment property - 2020

	Opening balance	**Disposals**	**Impairments**	**Depreciation**	**Total**
Investment property	67 037 792	(1 017 261)	(21 297)	(1 161 922)	64 837 312

Reconciliation of investment property - 2019

	Opening balance	**Depreciation**	**Total**
Investment property	68 198 667	(1 160 875)	67 037 792

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

Notes to the Financial Statements

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11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	55 941 206	(484 898)	55 456 308	56 167 585	(484 898)	55 682 687
Furniture and Office Equipment	6 284 352	(5 888 799)	395 553	6 455 649	(5 970 606)	485 043
Transport assets	49 712 406	(17 268 739)	32 443 667	48 700 042	(14 193 919)	34 506 123
Computer Equipment	7 444 726	(5 444 124)	2 000 602	8 367 981	(5 966 182)	2 401 799
Infrastructure - Electricity	321 942 269	(133 300 728)	188 641 541	302 030 390	(125 673 560)	176 356 830
Buildings & Other Structure Community)	414 292 150	(139 642 948)	274 649 202	401 667 269	(132 230 114)	269 437 155
Infrastructure - Waste management	22 068 205	(5 903 848)	16 164 357	24 687 774	(4 494 812)	20 192 962
Infrastructure: Road, Pavement, Bridges & Storm water	2 761 680 936	(1 769 447 746)	992 233 190	2 759 323 962	(1 692 014 144)	1 067 309 818
Machinery & Equipment	4 354 630	(3 598 497)	756 133	5 263 384	(3 956 109)	1 307 275
Infrastructure - Waste Water (Sanitation)	583 846 460	(149 832 980)	434 013 480	572 469 982	(138 174 642)	434 295 340
Infrastructure - Water	1 052 785 439	(210 953 676)	841 831 763	997 821 592	(194 808 986)	803 012 606
Total	**5 280 352 779**	**(2 441 766 983)**	**2 838 585 796**	**5 182 955 610**	**(2 317 967 972)**	**2 864 987 638**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Reclassifications	Work in Progressadditions/ transfers completed projects)	Depreciation	Impairment loss	Total
Land	55 682 687	-	(226 379)	-	-	-	-	55 456 308
Furniture and Office Equipment	485 043	86 277	(2 690)	-	-	(173 077)	-	395 553
Transport Assets	34 506 123	1 012 364	-	-	-	(3 074 820)	-	32 443 667
Computer Equipment	2 401 799	558 498	(40 682)	-	-	(919 013)	-	2 000 602
Infrastructure Electricity	176 356 830	1 547 042	(733 995)	-	20 959 498	(9 487 834)	-	188 641 541
Buildings & Other Structure Community)	269 437 155	-	(1 524 575)	-	17 144 648	(10 389 846)	(18 180)	274 649 202
Infrastructure - Waste management	20 192 962	-	-	(3 131 758)	-	(896 847)	-	16 164 357
Infrastructure: Road, Pavement, Bridges & Storm water	1 067 309 818	3 494 303	-	-	(1 137 329)	(74 648 452)	(2 785 150)	992 233 190
Machinery & Equipment	1 307 275	24 700	(124 768)	-	-	(451 074)	-	756 133
Infrastructure - Waste Water (Sanitation)	434 295 340	-	(2 061 448)	1 428 234	14 570 265	(14 218 911)	-	434 013 480
Infrastructure Water	803 012 606	13 203 929	(11 569 258)	1 701 587	56 325 358	(20 842 459)	-	841 831 763
	2 864 987 638	**19 927 113**	**(16 283 795)**	**(1 937)**	**107 862 440**	**(135 102 333)**	**(2 803 330)**	**2 838 585 796**

Notes to the Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Work in Progressaddit ions/ tran sfers complet ed projects)	Depreciation	Impairment reversal	Total
Land	55 682 779	-	(92)	-	-	-	55 682 687
Furniture and Office Equipment	576 909	107 469	(404)	-	(198 931)	-	485 043
Transport Assets	40 740 363	-	(1 894 391)	-	(4 339 849)	-	34 506 123
Computer Equipment	2 633 777	878 261	(18 043)	-	(1 092 196)	-	2 401 799
Infrastructure Electricity	181 053 649	3 431 404	(6 404 617)	9 643 125	(11 856 796)	490 065	176 356 830
Buildings & Other Structure Community)	311 875 784	16 455 598	(50 118 043)	4 416 322	(13 418 915)	226 409	269 437 155
Infrastructure: Waste Management	22 930 618	-	(122 661)	(1 651 821)	(963 174)	-	20 192 962
Infrastructure: Road, Pavement, Bridges & Storm water	1 275 287 731	19 171 083	(60 758 509)	(13 948 109)	(153 153 405)	711 027	1 067 309 818
Machinery & Equipment	1 857 004	53 177	(4 277)	-	(598 629)	-	1 307 275
Infrastructure - Waste Water (Sanitation)	446 300 270	11 804 761	(37 472 872)	29 480 154	(16 370 763)	553 790	434 295 340
Infrastructure - Water	807 212 792	6 125 000	(13 251 753)	25 602 910	(22 676 343)	-	803 012 606
	3 146 151 676	**58 026 753**	**(170 045 662)**	**53 542 581**	**(224 669 001)**	**1 981 291**	**2 864 987 638**

Pledged as security

Carrying value of assets pledged as security:

Transport assets	23 440 425	25 635 909
Transport assets purchased on instalment agreement and financed through ABSA and FNB		

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	149 939 103	149 939 103
Additions/capital expenditure	126 105 776	126 105 776
Transferred to completed items	(18 245 274)	(18 245 274)
	257 799 605	**257 799 605**

Description	Opening balance	Cost Addition	Transfer Out	Reclassification	Total
Building and Other structure (Community)	19 604 199	17 144 648	-	-	36 748 847
Infrastructure Electricity	16 354 511	22 504 603	(1 547 042)	-	37 312 072
Infrastructure Roads, Pavements and Bridges	3 271 113	2 356 973	(3 494 303)	-	2 133 783
Infrastructure Waste Management	3 131 808	-	-	(3 131 808)	-
Infrastructure Waste Water Management	55 602 162	14 570 265	-	1 465 617	71 638 044
Infrastructure Water	51 975 310	69 529 287	(13 203 929)	1 666 191	109 966 859
	149 939 103	**126 105 776**	**(18 245 274)**	**-**	**257 799 605**

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	96 396 523	96 396 523
Additions/capital expenditure	113 133 086	113 133 086
Transferred to completed items	(59 590 507)	(59 590 507)
	149 939 102	**149 939 102**

Description	Opening balance	Cost Addition	Transfer Out	Total
Building and Other structure (Community)	15 187 877	20 928 564	(16 512 242)	19 604 199
Infrastructure Electricity	6 711 386	13 081 860	(3 438 735)	16 354 511
Infrastructure Roads, Pavements and Bridges	17 219 222	5 224 244	(19 172 353)	3 271 113
Infrastructure Waste Management	4 783 629	-	(1 651 821)	3 131 808
Infrastructure Waste Water Management	26 122 008	42 170 509	(12 690 355)	55 602 162
Infrastructure Water	26 372 401	31 727 909	(6 125 000)	51 975 310
	96 396 523	**113 133 086**	**(59 590 506)**	**149 939 103**

Expenditure incurred to repair and maintain property, plant and equipment

	2020	2019
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services - Repair and maintenance	3 232 919	3 548 941

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

Notes to the Financial Statements

Figures in Rand

12. Intangible assets

	2020			2019		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	4 585 469	(4 469 940)	115 529	4 585 469	(4 069 859)	515 610

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software, other	515 610	(400 081)	115 529

Reconciliation of intangible assets - 2019

	Opening balance	**Disposals**	**Amortisation**	**Total**
Computer software, other	1 574 564	(189 377)	(869 577)	515 610

13. Heritage assets

	2020			2019		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	15 385 903	-	15 385 903	15 385 902	-	15 385 902

Figures in Rand	2020	2019

13. Heritage assets (continued)

Reconciliation of heritage assets 2020

	Opening balance	**Total**
Historical buildings	15 385 902	15 385 903

Reconciliation of heritage assets 2019

	Opening balance	**Total**
Historical buildings	15 385 902	15 385 902

14. Other financial liabilities

	2020	2019
At amortised cost		
Bank loan	3 246 165	4 160 359
Financial liabilities - Instalment sales agreements	17 526 183	24 249 146
	20 772 348	**28 409 505**
Total other financial liabilities	**20 772 348**	**28 409 505**

Refer to Appendix A for further details on the borrowings.

	2020	2019
Non-current liabilities		
At amortised cost	12 671 614	20 772 460
Current liabilities		
At amortised cost	8 100 734	7 637 045

15. Finance lease obligation

	2020	2019
Minimum lease payments due		
- within one year	9 107 194	9 107 194
- in second to fifth year inclusive	10 768 904	19 876 098
	19 876 098	28 983 292
less: future finance charges	(2 349 917)	(4 734 147)
Present value of minimum lease payments	**17 526 181**	**24 249 145**
Present value of minimum lease payments due		
- within one year	7 511 837	7 579 380
- in second to fifth year inclusive	10 014 344	16 669 765
	17 526 181	**24 249 145**

Finance lease obligations are included and form part of total financial liabilities disclosed in the above note.

It is municipality policy to lease certain vehicles, computers, faxes, equipment and photo copy machines under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 11% (2019: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

Notes to the Financial Statements

Figures in Rand	2020	2019

15. Finance lease obligation (continued)

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

The municipality identified an error in the calculation of minimum lease payments due relating to the 2018/2019 financial year. The minimum lease payments due was only reflecting the capital portion of the payments, instead of the full payment due. This has been corrected as follows:

Minimum lease payments due	**Restated amounts**	**Previously reported**
- within one year	9 107 194	10 240 511
- in second to fifth year inclusive	19 876 098	14 008 635
	28 983 292	24 249 146
less: future finance charges	(4 734 147)	(4 734 147)
Present value of minimum lease payments	**24 249 145**	**19 514 999**

Present value of minimum lease payments due		
- within one year	7 579 380	6 573 721
- in second to fifth year inclusive	16 669 765	12 941 278
	24 249 145	**19 514 999**

16. Payables from exchange transactions

Trade payables	78 144 380	90 346 928
Payments received in advanced	10 146 429	8 080 860
Bonus - 13th Cheque	4 427 371	4 198 829
Accrued leave pay	17 170 013	14 462 394
Salary control - third parties	10 124 575	12 654 718
Retention monies	10 977 577	7 880 554
Unallocated deposits	2 051 478	4 349 885
Payments received in advance - Prepaid electricity	1 910 103	1 674 850
	134 951 926	**143 649 018**

17. Consumer deposits

Electricity	2 765 425	2 825 622
Water	123 870	57 319
Rental Deposits	267 904	336 319
	3 157 199	**3 219 260**

Notes to the Financial Statements

Figures in Rand	2020	2019

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	5 520 276	-
Water Services Infrastructure Grant	9 813 966	-
Regional Bulk Infrastructure Grant (RBIG)	23 291 852	-
Provincial Government - Free State	8 979 260	8 979 260
	47 605 354	**8 979 260**

Movement during the year

Balance at the beginning of the year	8 979 260	8 979 260
Additions during the year	346 878 749	121 220 986
Income recognition during the year	(308 252 655)	(121 220 986)
	47 605 354	**8 979 260**

See note 27 for reconciliation of grants from National/Provincial Government.

19. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Environmental rehabilitation	15 123 550	680 540	15 804 090

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	11 264 000	3 859 550	15 123 550

Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg, Clocolan, Marquard and Senekal. Provision has been made for this cost based on actual cost calculations received from Consulting Engineers. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Total area expected to be rehabilitated: 125 500 square metres;
- Average rate per square metre: R120,53 escalating every year 6,4%;
- Total area to be rehabilitated can reconciled to the different sites as follows:
  - Ficksburg 38 000 m2
  - Senekal 32 400 m2
  - Marquard 27 000 m2
  - Clocolan 28 100 m2

Each of the landfill sites have different remaining lifespans ranging from 3 years to 26 years.

- Ficksburg 20 Years
- Senekal 26 Years
- Marquard 3 Years
- Clocolan 3 Years

20. Employee benefit obligations

Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below and which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:
- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund
- South African Local Authorities Provident Fund
- National Fund for Municipal Workers
- Municipal Employees Pension Fund
- South African Municipal Workers Union Provident Fund
- Municipal Councillors Pension Fund.

The following are defined benefit plans

- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund are R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund were on 30 June 2015. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund are R1 308 million which is adequately financed by assets of R 1 531 million. The actuarial valuation determined that the retirement plan was in a sound financial position.

Notes to the Financial Statements

Figures in Rand	2020	2019

20. Employee benefit obligations (continued)

Post retirement medical aid plan

The Post-retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	527	515
Contribution members (e.g. Retirees, widows, orphans)	33	35
Total members	**560**	**550**

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25. The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme; and
- KeyHealth Medical Scheme

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

Opening balance	(46 089 853)	(45 332 000)
Service cost	(2 512 254)	(2 830 000)
Interest cost	(4 320 501)	(4 414 000)
Actuarial benefits paid	1 472 508	576 000
Actuarial gains/(losses)	8 611 100	5 910 147
As at 30 June	**(42 839 000)**	**(46 089 853)**

Valuation Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation date for the period over which the liability obligations are to be settle.

Discount Rate

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 10.70% (2019: 9.51%) per annum has been used. The corresponding index-linked yield at this term is 4.73% (2019: 3.37%). These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2020.

These rates were calculated by using a liability-weighted average of the yields for the two components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields). The two components are as follows:

20. Employee benefit obligations (continued)

Component	Duration (Years)	Fixed-Interest Yield	Index-Linked Yield
In-service members' retirement liability	22,48	11,47%	4,81%
Continuation members' liability	8,46	8,93%	4,56%
	18,21	**10,70%**	**4,73%**

20. Employee benefit obligations (continued)

Health Care Cost Inflation Rate

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.72% (2019: 6.96%) has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.22% (2019: 5.46%). A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.73% (2019: 2.38%) which derives from ((1+10.70%)/(1+6.72%))-1.

The expected inflation assumption of 5.22% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.73%%) and those of fixed interest bonds (9.51%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.70%-0.50%)/(1+4.73%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2021.

Maximum Subsidy Inflation Rate

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,773.12 (2019: R 4,492.35) for the year ending 30 June 2020. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 6.22% (2019: 6.46%), was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.67% (2019: 4.85%) was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2021.

Replacement Ratio

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic Assumptions

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

Mortality During Employment

SA85-90 ultimate table, adjusted for female lives.

Post-Employment Mortality

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die, i.e. 1.99% is derived from [1 - (1 - 1%)2], and so on.

Notes to the Financial Statements

20. Employee benefit obligations (continued)

Withdrawal from Service

If an in-service member leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age	Withdrawal Rate Females	Withdrawal Rate Males
20	` 9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. In-service members who have passed the assumed retirement age, have been assumed to retire at their next birthday.

Continuation of Membership

It has been assumed that 75% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family Profile

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Medical Scheme Option

It has been assumed that continuation members will remain on the same medical scheme and option.
In-service members were assumed to remain on the same medical scheme and option, should they continue to receive the subsidy after retirement.

Plan Assets

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable and will continue.

Long service bonus

An actuarial valuation of the liability in respect of the long service awards was performed by an independent company.

Figures in Rand	2020	2019

20. Employee benefit obligations (continued)

The primary purpose of this valuation is to enable the municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in the future.

Membership Data		
Number of current employees	644	642

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

Carrying value		
Opening balance	(12 490 744)	(9 970 000)
Service cost	(1 350 919)	(870 000)
Interest cost	(963 893)	(819 000)
Actuarial benefits paid	768 400	1 217 000
Actuarial gains/(losses)	1 272 156	(2 048 744)
As at 30 June	**(12 765 000)**	**(12 490 744)**

20. Employee benefit obligations (continued)

Valuation Assumptions

In estimating the unfunded liability for Long Service Award of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the Long Service Awards arrangement - this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised below.

Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

	(Current Valuation)	(Preceding Valuation)
Discount Rate	7,12%	8,12 %
CPI (Consumer Price Inflation)	3,84%	4,50 %
Normal Salary Increase Rate	6,25%	5,54 %
Net Effective Discount Rate	3,16%	2,44 %

<u>Discount Rate</u>

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 7,12% (2019: 8,12%) per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payments of long service awards, for each employee. The 7,12% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3,68% (2019: 2,95%). These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market lose on 30 June 2020. The liability-weighted average term of the liability is 6,25 (2019: 6,74 years).

<u>Earnings Inflation Rate</u>

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Escalation. The latter is considered under demographic assumptions.

<u>General Earnings Inflation</u>

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1,5% above CPI inflation.

Figures in Rand	2020	2019

20. Employee benefit obligations (continued)
The expected inflation assumption of 2,84% (2019: 4,54%) was obtained from the differential between market yields on index-linked bonds (3,68%) consistent with the estimated terms of the liabilitites and those of nominal bonds (7,12%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0,50%). Therefore, expected inflation is determined as ((1+7,12%-0,50%)/(1+3,68%))-1.

Thus, a general earnings inflation rate of 3,84% per annum over the expected term of the liability has been assumed, which is 1,00% higher than the estimate of CPI inflation over the same term. This assumption refelcts a net discount rate of 3,16%.

It has been assumed that the next earnings increase will take place on 1 July 2021.

Demographic Assumptions

Demographic assumptions are required about the future characteristics of current employees who are eligible for Long Service Awards.

Promotional Earnings Scale

The annual inflation rates below are in addition to the General Earninigs Inflation assumption of 3,84% (2019: 5,54%) per annum for all employees.

In addition to the normal salary inflation rate, we assumed the following promotional salary increase:

Promotional Earnings Scale:

Age Band	Additional promotional scale
20 - 24	5 %
25 - 29	4 %
30 - 34	3 %
35 - 39	2 %
40 - 44	1 %
> 44	0 %

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of all ill-health and early retirement. Employees who have passed the assumed retirement age, have been assumed to retire at their next birthday.

Pre-retirement Mortality

SA85-90 ultimate table, adjusted down for female lives.

20. Employee benefit obligations (continued)

Withdrawal from Service

If an employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age Band	Withdrawal Rate Females	Withdrawal Rate Males
20	` 9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Plan Assets

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

LSA Arrangement Assumptions

It was assumed that the employer’s LSA arrangements would remain as outlined in Section 3, and that the level of benefits in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

21. VAT payable

	2020	2019
VAT payable	53 678 090	42 979 093
VAT receivable	(66 980 095)	(39 347 995)
	(13 302 005)	**3 631 098**

Figures in Rand	2020	2019

22. Service charges

Sale of electricity	76 013 316	71 317 247
Sale of water	50 914 957	49 759 219
Sewerage and sanitation charges	27 779 561	26 223 005
Refuse removal	35 140 790	30 468 642
Other service charges	-	502 234
	189 848 624	**178 270 347**

23. Other income

Sundry income	1 051 851	3 054 325
Cemetery fees	762 402	823 812
	1 814 253	**3 878 137**

24. Rental of facilities and equipment

Premises		
Premises	1 623 296	1 497 060
Facilities and equipment		
Rental of facilities	8 013	-
	1 631 309	**1 497 060**

25. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	45 156	59 666
Interest revenue		
Interest earned on cash and bank	494 673	255 207
Investment and short term deposits	3 672 196	3 326 843
	4 166 869	**3 582 050**
	4 212 025	**3 641 716**

26. Property rates

Rates received

Residential	47 857 777	51 328 444
State	16 407 538	18 967 585
Less: Income forgone	(11 235 274)	(5 830 438)
	53 030 041	**64 465 591**

Valuations

Residential	2 258 492 100	2 708 807 700
Commercial	619 906 000	543 248 000
State	482 636 200	462 064 100
Municipal	939 164 700	558 858 100
Small holdings and farms	3 963 957 300	4 009 768 500
Churches	66 558 000	71 348 900
	8 330 714 300	**8 354 095 300**

Figures in Rand	2020	2019

26. Property rates (continued)

Valuations on land and buildings are performed every 5 years.
Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.02 (2019: R 0.02) is applied to property valuations to determine assessment rates of residential.
A general rate of R 0.04 (2019: R 0.04) is applied to property valuations to determine assessment rates of business.

Rebates of 50% (2019: 50%) are granted to residential and state property owners.

Rates are levied on an annual basis with equal payments over twelve months. Interest at prime plus 1% per annum is levied on outstanding rates.

The general valuation was implemented on 1 July 2018.

Figures in Rand	2020	2019

27. Government grants and subsidies

Operating grants		
Equitable share	192 449 000	173 927 000
EPWP Grant	1 769 000	1 517 000
Financial Management Grant (FMG)	2 165 000	1 700 000
Municipal Disaster Relief Grant	238 000	-
SETA Funding	333 749	339 986
Financial and Infrastructure Support Grant	-	700 000
	196 954 749	**178 183 986**
Capital grants		
Municipal Infrastructure Grant	41 682 724	57 782 000
Water Services Infrastructure Grant	2 686 034	33 500 000
National Government - Integrated National Electricity Grant	2 600 000	682 000
National Government - Regional Bulk Infrastructure	64 329 148	25 000 000
	111 297 906	**116 964 000**
	308 252 655	**295 147 986**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

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

All registered indigents receive a monthly subsidy of R 444 (2019: R 425), which is funded from the grant.

MIG Grant

Current-year receipts	47 203 000	57 782 000
Conditions met - transferred to revenue	(41 682 724)	(57 782 000)
	5 520 276	**-**

Conditions still to be met - remain liabilities (see note 18).

In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The municipality reports at year - end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budget to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants were used construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

EPWP Grant

Current-year receipts	1 769 000	1 517 000
Conditions met - transferred to revenue	(1 769 000)	(1 517 000)
	-	-

The grant is used for job creation projects in previous disadvantage areas.

Figures in Rand	2020	2019

27. Government grants and subsidies (continued)

Water Services Infrastructure Grant

Current-year receipts	12 500 000	33 500 000
Conditions met - transferred to revenue	(2 686 034)	(33 500 000)
	9 813 966	**-**

Conditions still to be met - remain liabilities (see note 18).

This grant was used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

Financial Management Grant (FMG)

Current-year receipts	2 165 000	1 700 000
Conditions met - transferred to revenue	(2 165 000)	(1 700 000)
	-	-

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

INEG Grant

Current-year receipts	2 600 000	682 000
Conditions met - transferred to revenue	(2 600 000)	(682 000)
	-	-

This grant is provided by the Department of Energy to upgrade the electric network.

SETA Funding

Current-year receipts	333 749	339 986
Conditions met - transferred to revenue	(333 749)	(339 986)
	-	-

SETA will ensure that the skill requirements sector is identified and that adequate and appropriate skills are readily given to staff of the Municipality.

Regional Bulk Infrastructure Grant

Current-year receipts	87 621 000	25 000 000
Conditions met - transferred to revenue	(64 329 148)	(25 000 000)
	23 291 852	**-**

Conditions still to be met - remain liabilities (see note 18).

The purpose of the grant is to assist the municipality in alleviating water availability and scarcity in the municipal area.

Notes to the Financial Statements

Figures in Rand	2020	2019

27. Government grants and subsidies (continued)

Provincial Government Free State

Balance unspent at beginning of year	8 979 260	8 979 260
Current-year receipts	-	700 000
Conditions met - transferred to revenue	-	(700 000)
	8 979 260	**8 979 260**

Conditions still to be met - remain liabilities (see note 18).

COGTA also contributed R700 000 during 2019 towards the Municipal Manager's salary.

Municipal Disaster Relief Grant

Current-year receipts	238 000	-
Conditions met - transferred to revenue	(238 000)	-
	-	**-**

The grant was provided to municipalities for response and intervention measures for the COVID-19 pandemic.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2020), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

28. Revenue

Service charges	189 848 624	178 270 347
Rental of facilities and equipment	1 631 309	1 497 060
Interest received (trading)	33 665 399	33 531 202
Licences and permits	36 776	22 720
Commissions received	1 042 203	902 458
Sale of land	64 449	1 631 658
Actuarial Gains	9 883 257	-
Other income	1 814 253	3 878 137
Interest received - investment	4 166 869	3 582 050
Dividends received	45 156	59 666
Property rates	53 030 041	64 465 591
Government grants & subsidies	308 252 655	295 147 986
Public contributions and donations	1 012 368	-
Fines, Penalties and Forfeits	636 300	1 635 725
	605 129 659	**584 624 600**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	189 848 624	178 270 347
Rental of facilities and equipment	1 631 309	1 497 060
Interest received (trading)	33 665 399	33 531 202
Licences and permits	36 776	22 720
Commissions received	1 042 203	902 458
Sales of land	64 449	1 631 658
Actuarial Gains	9 883 257	-
Other income	1 814 253	3 878 137
Interest received - investment	4 166 869	3 582 050
Dividends received	45 156	59 666
	242 198 295	**223 375 298**

Notes to the Financial Statements

Figures in Rand	2020	2019

28. Revenue (continued)

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

Taxation revenue		
Property rates	53 030 041	64 465 591
Transfer revenue		
Government grants & subsidies	308 252 655	295 147 986
Public contributions and donations	1 012 368	-
Fines, Penalties and Forfeits	636 300	1 635 725
	362 931 364	**361 249 302**

29. Employee related costs

Basic salary	117 063 671	110 000 917
Medical aid - company contributions	17 798 489	13 770 163
Unemployment Insurance Fund	1 118 243	1 096 670
Workers Compensation Act Levies	574 213	308 000
Skills Development Levies	1 438 202	1 501 694
Leave pay provision charge	3 948 586	2 643 901
Defined contribution plans	23 772 991	20 206 155
Travel, motor car, accommodation, subsistence and other allowances	12 465 992	12 265 780
Overtime payments	11 918 893	9 750 083
Long-service awards	2 314 813	770 454
Acting allowances	2 640 331	2 556 855
Housing benefits and allowances	2 516 773	2 314 455
Holiday Bonus	9 600 718	9 207 292
Allowance - Telephone	668 235	631 376
Industrial Council Levies	71 712	68 145
	207 911 862	**187 091 940**

Remuneration of Municipal Manager: Mr S T R Ramakarane

Salary	928 827	914 217
Bonus	77 273	77 274
Backpay	17 000	13 066
Travel allowance	168 183	165 163
Housing Allowance	116 700	114 410
Cellphone allowance	40 932	40 404
Non Pension Allowance	790 222	778 270
Reimbursive Tax	98 939	103 812
Subsistance Allowance	13 050	11 790
Allowance not tax	-	660
Company contributions	212 689	21 606
	2 463 815	**2 240 672**

COGTA financed an annual amount of R0 (2019: R700 000) towards the salary of the Municipal Manager.

Remuneration of acting Municipal Manager: Mr T R Zondo

Acting allowance	10 132	-

Mr Zondo was acting Municipal Manager for the period 01 December 2019 until 31 December 2019.

Figures in Rand	2020	2019

29. Employee related costs (continued)

Remuneration of Chief Financial Officer - Mrs M O Masisi

Salary	-	389 920
Bonus	-	40 562
Absenteeism	-	(22 651)
Back-Pay	-	11 423
Travel allowance	-	64 215
Housing allowance	-	29 432
Cell Phone	-	10 703
Non Pensionable	-	129 768
Reimbursive Tax	-	29 514
Subsistance Allowance	-	5 580
Allowance not taxed	-	732
Leave Pay Out	-	17 151
Company contributions	-	7 990
	-	**714 339**

Mrs Mathapelo Masisi was appointed on 1 May 2018 and service terminated on the 29 March 2019.

Remuneration of acting Chief Financial Officer - Mr D J van Tonder

Acting allowance	307 077	63 793

Mr van Tonder was acting CFO for the period 12 July 2019 until 30 June 2020.

Remuneration of acting Chief Financial Officer - Mrs M Marx

Acting allowance	48 915	76 091

Mrs M Marx was acting CFO for the period 29 March 2019 to 11 July 2019.

Remuneration of Corporate Services Director - Mr T Motsima

Salary	291 564	-
Backpay	35 395	-
Non pensionable allowance	18 891	-
Reimbursive Tax	3 223	-
Subsistence allowance	180	-
Travel allowance	118 069	-
	467 322	**-**

Mr Motsima was appointed as Corporate Service Director in February 2020.

Remuneration of Acting Corporate Services Director - Ms S Mihailescu

Acting allowance	-	114 137

Mrs Mihailescu was acting Corporate Services Director for the period 1 August 2017 till 31 December 2017 and 08 September 2018 to 06 December 2018.

Notes to the Financial Statements

Figures in Rand	2020	2019

29. Employee related costs (continued)

Remuneration of Acting Corporate Services Director - Mrs BL Mokoena

Acting allowance	70 451	335 508

Mrs Mokoena was acting director Corporate Services from period 1 December 2019 until 31 January 2020.

Remuneration of Acting Corporate Services Director - Mr S G Skosana

Acting allowance	234 660	-

Mr Skosana was acting director Corporate Services from period 1 July 2019 until 30 November 2019.

Remuneration for Engineering Services Director - Mrs TF Zondi

Annual Remuneration	363 071	-
Backpay	8 335	-
Travel allowance	86 195	-
Housing allowance	27 610	-
Cellphone allowance	18 380	-
Non pensionable allowance	53 953	-
Company contributions	34 614	-
Reimbursive Tax	20 009	-
Subsistence allowance	90	-
	612 257	**-**

Remuneration of acting Engineering Services Director - Mr MS Radiopane

Acting allowance	133 953	65 283

Mr MS Radiopane appointed as Acting Director Engineering Services from 29 March 2019 to 30 September 2019.

Remuneration of acting Engineering Services Director - Mr S Kunene

Acting allowance	22 049	181 232

Mr S Kunene appointed as Acting Director Engineering Services from 01 December 2019 until 31 December 2019.

Remuneration for acting Technical Services Director - Mr MA Mokhethoa

Acting allowance	-	120 818

Mr MA Mokhethoa was appointed as Acting Director Engineering Services from 01 April 2018 to 30 June 2018 and 01 July 2018 to 01 September 2018.

Figures in Rand	2020	2019

29. Employee related costs (continued)

Remuneration of Director Development, Planning, Security Services - Mr T Zondo

Salary	675 001	641 828
Bonus	54 652	54 652
Backpay	210 904	14 000
Travel allowance	112 171	90 013
Acting Allowance	10 132	-
Housing allowance	30 960	27 140
Cellphone allowance	15 300	14 969
Reimbursive tax	12 196	18 407
Subsistence allowance	360	956
Non pensionable allowance	50 522	49 271
Company contributions	160 911	10 497
	1 333 109	**921 733**

30. Remuneration of councillors

Executive Mayor	905 840	880 449
Mayoral Committee Members	3 486 806	3 850 026
Speaker	733 088	715 126
Councillors	8 082 834	7 904 437
	13 208 568	**13 350 038**

31. Administrative expenditure

The Executive Mayor, Speaker and Mayoral Committee are appointed on a full-time basis. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor and Speaker has use of a Council owned vehicle for official duties.

32. Depreciation and amortisation

Property, plant and equipment	135 106 314	225 829 878
Investment property	1 161 923	-
Intangible assets	400 080	869 577
	136 668 317	**226 699 455**

33. Impairment of assets

Impairments		
Property, plant and equipment	2 845 925	-
Impairment Fines Debtors	193 816	1 268 460
	3 039 741	**1 268 460**

Various assets were found to be not in working condition and were impaired in the current year.

34. Finance costs

Trade and other payables	4 089 656	5 564 864
Bank	-	35 873
Other Financial liabilities	2 908 697	3 664 781
	6 998 353	**9 265 518**

Notes to the Financial Statements

Figures in Rand	2020	2019

35. Debt impairment

Contributions to debt impairment provision	8 769 595	18 738 763
Bad debts written off	111 589 139	86 245 353
	120 358 734	**104 984 116**

36. Bulk purchases

Electricity - Eskom	72 862 820	74 869 012

Notes to the Financial Statements

Figures in Rand	2020	2019

37. Contracted services

	2020	2019
Outsourced Services		
Meter Management	66 409	63 521
Consultants and Professional Services		
Business and Advisory	10 212 019	11 167 985
Legal Cost	3 079 835	1 546 480
Contractors		
Electrical	81 854	-
Employee Wellness	2 790	20 659
Maintenance of Assets	-	3 613
Sports and Recreation	27 265	92 407
	13 470 172	**12 894 665**

The prior year balances were reclassified to be in accordance with the MSCOA classification of Outsourced Services, Consultants and Professional Services and Contractors.

The amounts previously disclosed are as follows:

Presented previously	**2019**
Information Technology Services	70 145
Fleet Services	3 012 056
Operating Leases	113 066
Specialist Services	9 590 521
Other Contractors	105 263
Maintenance of Assets	3 613
	12 894 664

38. Transfers and subsidies

	2020	2019
Other subsidies		
Distitutional help	183 144	241 014

Notes to the Financial Statements

Figures in Rand	2020	2019

39. General expenses

Advertising	1 145 070	1 117 637
Auditors remuneration	556 644	510 773
Bank charges	568 176	363 619
Commission paid	2 216 006	1 506 702
Community development and training	422 632	1 459 746
Conferences and seminars	656 196	565 724
Departmental consumption - Inventory	4 645 079	6 175 442
Entertainment	-	64 967
Fuel and oil	5 329 941	7 896 217
IT expenses	2 644 817	3 168 724
Insurance	1 384 150	1 232 272
Laboratory Services - Water	176 598	164 421
Other expenses	263 456	104 652
Postage and courier	501 721	416 530
Printing and stationery	-	417 513
Protective clothing	1 914 257	270 873
Royalties and license fees	508 541	697 616
Security (Guarding of municipal property)	1 169 546	793 048
Subscriptions and membership fees	2 313 316	2 125 291
Telephone and fax	935 139	834 900
Tourism development	-	4 608
Travel - local	1 657 141	1 530 626
Ward committee expenses	1 968 000	2 308 528
Water & Chemicals	13 126 091	7 775 330
	44 102 517	**41 505 759**

Notes to the Financial Statements

Figures in Rand	2020	2019

40. Cash generated from operations

Deficit	(38 745 438)	(265 625 277)
Adjustments for:		
Depreciation and amortisation	136 668 317	226 699 455
Assets write-off	16 932 414	168 253 753
Fair value adjustments	276 979	-
Interest income - Other financial assets	(51 973)	-
Impairment deficit	3 039 741	1 268 460
Debt impairment	120 358 734	104 984 116
Movements in retirement benefit assets and liabilities	(2 976 597)	3 278 597
Movements in provisions	680 540	3 859 550
Other non-cash items - correction of prior prior years payables	-	(2)
Donated Assets	(1 012 368)	-
Other non-cash items	(25 269)	-
Changes in working capital:		
Inventories	3 099 597	(2 989 799)
Receivables from exchange transactions	7 942 215	(27 489 107)
Other receivables from exchange transactions	(120 358 734)	(104 984 116)
Other receivables from non-exchange transactions	(3 887 400)	9 835 946
Payables from exchange transactions	(8 697 094)	34 518 690
VAT	(16 933 115)	(4 390 227)
Unspent conditional grants and receipts	38 626 094	-
Consumer deposits	(62 061)	431 494
	134 874 582	**147 651 533**

41. Capital commitments

Commitments in respect of capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	319 605 344	68 487 548
Not yet contracted for and authorised by accounting officer		
• Property, plant and equipment	261 397 343	75 387 677
Total capital commitments		
Already contracted for but not provided for	319 605 344	68 487 548
Not yet contracted for and authorised by accounting officer	261 397 343	75 387 677
	581 002 687	**143 875 225**

42. Related parties

Related party transactions

Purchases from (sales to) related parties		
ERB Marketing & Business Solution	180 000	210 000
Itumeleng Building & Training	-	5 610
Selane Transport	78 635	-
Mohautse Taxis	-	10 400
Tlou Letebele	104 307	-
Lira Transport	10 190	5 850
Mthembana Construction	1 875	12 150
Eternal City Trading	-	243 695

42. Related parties (continued)

The IT Specialist has close family relations with the management of ERB Marketing that maintains the website of Council.

The owner of Itumeleng Building and Training has close relations with the Manager: Human Resources Mrs B L Mokoena.

The owner of Mthembana Construction has close family relations to Ms S. Metithafa in Corporate Services.

The owner of Selane Transport has close family relations to Ms N M A Selane in the Traffic division of the municipality.

The owner of Mohautse Taxis has close family relations to Mr S Mohautse in Finance Services.

The owner of Lira Transport has close family relations to Mrs MP Lira in the Asset Management services.

The owner of Eternal City Trading has close family relations to Mr LZ Tlale in the Planning and Property Management Department.

The owner of Tlou Letebele is a temporary worker in the EPWP program of the municipality.

43. Unauthorised expenditure

	2020	2019
Opening balance as previously reported	855 835 944	262 833 219
Opening balance as restated	**855 835 944**	**262 833 219**
Add: Expenditure identified - current	127 354 819	616 848 443
Less: Approved/condoned/authorised by council	(855 835 944)	(23 845 718)
Closing balance	**127 354 819**	**855 835 944**

Unauthorised expenditure derived mainly from the correction and revaluation of assets which results in a loss which is a non-cash financial entry against the accumulated surplus account.

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

	2020	2019
Overspending of expenditure votes, mainly contributed by depreciation	127 354 819	616 848 443

44. Fruitless and wasteful expenditure

	2020	2019
Opening balance as previously reported	31 668	623 210
Opening balance as restated	**31 668**	**623 210**
Add: Expenditure identified - current	4 333 747	2 979 591
Less: Amount written off - current	(4 079 061)	(3 571 133)
Closing balance	**286 354**	**31 668**

Details of fruitless and wasteful expenditure

	2020	2019
Payments made on interest and penalties	4 333 747	31 668

45. Irregular expenditure

Opening balance as previously reported	133 404 252	95 769 882
Add: Irregular Expenditure - current year	92 455 092	82 846 851
Less: Amounts written off previous year	**225 859 344**	**178 616 733**
Add: Cashiers short banking - Under investigation	-	1 030
Less: Amounts written off previous year	(18 501 792)	(36 760 451)
Less: Amounts written off current year	(17 385 658)	(3 491 055)
Less: Amounts duplicated on register	-	(4 962 005)
Closing balance	**189 971 894**	**133 404 252**

Incidents/cases identified in the current year include those listed below:

Expenditure items identified where the SCM processes and procedures were not followed	41 690 371	77 307 505
Procurement without inviting competitive bids/Quoatations	50 764 721	4 123 840
Non-compliance with legislation on contracts	-	1 414 476
Cashier's short banking - under investigation	-	1 030
	92 455 092	**82 846 851**

The prior year irregular expenditure balance has been restated due to errors identified in the current year.

The nature of the errors are as follows:

Irregular Expenditure 2019

Balance previously reported	-	41 826 512
Less: Contract amounts included	-	(9 645 344)
Add: Actual expenditure incurred	-	106 185 089
Less: Amounts duplicated on register	-	(4 962 005)
	-	**133 404 252**

Overpayment of councillors to be recouped

Opening Balance	531 145	531 145
Recovered	(528 178)	-
	2 967	**531 145**

46. Audit and Performance Audit Committee Fees

Audit and Performance Audit Committee	556 644	510 773

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	-	(13 613)
Current year subscription / fee	2 298 400	2 074 810
Amount paid - current year	(2 302 790)	(2 061 197)
	(4 390)	**-**

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

The prior year amount was restated to agree to the creditors age analysis. The effect of the restatement is the decrease of R89 431.

Reticulation(Distribution) losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

The implementation of prepaid electricity meters contributed positively to the decrease in electricity losses.

The prescribed norm from National Treasury for electricity losses is estimated to be between 7% and 10%

Electricity		
Estimated electricity losses	11 112 061	8 928 564

Electricity		
Percentage loss	13 %	11 %

Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses included distribution to townships with unmetered water.

The prescribed norm from National Treasury for water losses is estimated to be between 15% and 30%.

Water		
Estimated water losses	15 425 713	15 342 187

Water		
Percentage loss	42 %	42 %

Skills Development Levies

Opening balance	402 906	615 724
Current year subscription / fee	1 437 850	1 620 598
Amount paid - current year	(1 698 849)	(1 833 416)
	141 907	**402 906**

Audit fees

Opening balance	2 947 655	128 347
Current year subscription / fee	6 925 052	6 756 733
Amount paid - current year	(4 677 933)	(3 937 425)
	5 194 774	**2 947 655**

The prior year amount was restated to agree to the creditors age analysis. The effect of the restatement is the decrease of R171 812.

PAYE and UIF

Opening balance	6 178 902	6 780 115
Current year subscription / fee	25 941 576	23 368 093
Amount paid - current year	(25 392 811)	(23 969 306)
	6 727 667	**6 178 902**

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

Pension and Medical Aid Deductions

Opening balance	4 307 788	4 033 358
Current year subscription / fee	54 931 732	49 886 117
Amount paid - current year	(54 576 657)	(49 611 687)
	4 662 863	**4 307 788**

VAT

VAT receivable	66 935 106	39 349 157
VAT payable	(53 678 090)	(42 980 255)
	13 257 016	**(3 631 098)**

VAT output payables are shown in note 21.
VAT input receivables are shown in note 8.

Notes to the Financial Statements

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor A Taylor	1 304	4 423	5 727
Councillor TP Jakobo (Plus one other)	4 060	35 344	39 404
Councillor RS Lipoko	5 276	6 717	11 993
Councillor TG Makhalanyane	1 273	8 790	10 063
Councillor TJ & PE Matobako	-	160	160
Councillor MO Mokhele	4 582	12 504	17 086
Councillor KS Mokhuoane	2 526	31 576	34 102
Councillor TI Mthimkhulu	4 607	3 267	7 874
Councillor P Nephtaly	1 367	1 176	2 543
Councillor MK Ralehlatsi	10 084	2 600	12 684
Councillor TB Jakobo	1 187	23	1 210
Councillor M Makobane	648	-	648
	36 914	**106 580**	**143 494**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor RS Lipoko	4 130	5 361	9 491
Councillor RS Liphoko	4 860	26 710	31 570
Councillor MO Mokhele	5 994	6 855	12 849
Councillor PE Koqo	1 723	1 838	3 561
Councillor KS Mokhuoane	2 195	24 117	26 312
Councillor TJ & PE Matobako	2 170	11 705	13 875
Councillor AN Maoke	7 869	1 156	9 025
Councillor TG Makhalanyane	1 810	13 520	15 330
Councillor A Taylor	1 968	14 411	16 379
Councillor TP Jakobo (Plus one other)	5 531	41 186	46 717
Councillor TI Mthimkhulu	5 737	7 708	13 445
	43 987	**154 567**	**198 554**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
Councillor MO Mokhele	19 576	778
Councillor PE Koqo	3 078	545
Councillor EM Makobane	7 961	410
Councillor RS Lipoko	15 276	228
Councillor MK Ralehlatsi	45 996	718
Councillor TJ & PE Matobako	12 867	751
Councillor TG Makhalanyane	14 806	1 004
Councillor P Nephtaly	12 149	753
Councillor A Taylor	15 516	1 000
Councillor TP Jakobo (Plus one other)	46 052	1 002
Councillor TI Mthimkhulu	12 612	527
	205 889	**7 716**

Notes to the Financial Statements

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

30 June 2019	Highest outstanding amount	Aging (in days)
Councillor TP Jakobo (Plus one other)	41 186	1 014
Councillor RS Liphoko	26 710	780
Councillor KS Mokhuoane	24 117	1 438
Councillor A Taylor	14 411	999
Councillor TG Makhalanyane	13 520	475
Councillor TJ & PE Matobako	11 705	767
Councillor TI Mthimkhulu	7 708	275
Councillor TG Makhalanyane	6 855	282
Councillor MO Mokhele	5 361	276
Councillor RS Lipoko	1 838	248
Councillor PE Koqo	1 156	195
	154 567	**6 749**

48. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Various goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the normal procurement processes as required by paragraph 12(1) of the same gazette. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations were recorded and reported to the meeting of council.

Deviation summary listing		
Emergency cases	3 087 624	2 323 144
Single provider	1 671 888	1 288 081
Impractical	1 046 160	102 061
Technical nature	996 159	407 647
	6 801 831	**4 120 933**

49. Events after the reporting date

There are no significant matters to report after the reporting date.

50. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

50. Risk management (continued)

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	9 107 194	9 107 194	1 661 710	-
Consumer deposits	3 221 649	-	-	-
Unspent conditional grants and receipts	47 605 354	-	-	-
	59 934 197	**9 107 194**	**1 661 710**	**-**

At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	7 637 045	-	20 772 460	-
Consumer deposits	3 219 260	-	-	-
Unspent conditional grants and receipts	8 979 260	-	-	-
	19 835 565	**-**	**20 772 460**	**-**

Credit risk

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

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

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

Financial instrument	2020	2019
Receivables from exchange transactions	200 815 148	208 757 363
Receivables from non-exchange transactions	43 575 983	39 882 399
VAT receivable	10 913 084	-
Cash and cash equivalents	30 216 676	29 385 855

Market risk

Interest rate risk

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

50. Risk management (continued)

At 30 June 2020, if interest rates on Rand-denominated borrowings had been 0.1% higher/lower with all other variables held constant, surplus for the year would have been R 6 825 lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

51. Going concern

We draw attention to the fact that although the municipality reported a deficit of R38 745 438 at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 2 935 188 626 and that the municipality's total assets exceeded its liabilities by R 2 935 188 626.The municipality's current assets exceeds current liabilities by R93 744 738.

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

Covid-19

The coronavirus outbreak has been international news since December 2019, but the South African National Institute for Communicable Diseases only confirmed the first positive case of COVID-19 in South Africa on 5 March 2020. On the 23rd of March 2020 President Cyril Ramaphosa announced the nationwide lockdown. On 30 March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Due to the national state of disaster, various regulatory requirements were instituted in order to ensure that the impact of the spread of the virus is limited. The impact has been devastating to the most vulnerable in our community. As far as possible the Municipality factored in the effect of the lockdown regulations on our economic environment. At this stage, it is still uncertain how long the pandemic will remain or how long the economy will take to recover from the lockdown levels.

The Municipality assessed the impact of COVID-19 pandemic by comparing the financial indicators of 2019 and 2020 as illustrated below:

Current Ratio (norm - 2:1)	1,5	1,7
Creditors days (norm - 30 days or less)	183,53 days	226,92 days
Debtors collection rate (95% or more)	567,74 days	546,42 days

When analysing the results of the ratios, it can be concluded that the COVID-19 pandemic had an adverse effect from a financial sustainability perspective. The results are not solely due to the effects of COVID-19 and subsequent lockdown regulations, but has been significantly impacted by the pandemic. These events or conditions, along with other matters set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality’s ability to continue as a going concern.

COVID-19 - Response Expenditure

There are no prior year information available regarding expenditure in lieu of Covid-19. The summary below indicates the total Covid-19 response expenditure for the period ending 30 June 2020.

Type of expenditure		
Cleaning materials	91 107	-
Food parcels	18 602	-
Masks, gloves and hand sanitizer	223 482	-
Thermometer	28 950	-
Transport	5 175	-
	367 316	**-**

Own Revenue	129 316	-

Notes to the Financial Statements

Figures in Rand	2020	2019

51. Going concern (continued)

Grant Funding	238 000	-
	367 316	**-**

52. Contingencies

From information received from the municipality's Legal section they indicate that the municipality has outstanding claims that could result in a possible contingent liability of R13 304 223 (2019: R7 342 237). A register is available at the municipality.

Contingent Liabilities - Pending claims		
Damage to property - register available at municipality	13 304 223	7 342 237

Notes to the Financial Statements

Figures in Rand	2020	2019

52. Contingencies (continued)

Contingent assets

2020:

There is a civil claim against Sharp Connect, a service provider whose contract was terminated in July 2015. They continued deducting money from the municipality's bank account until December 2015. Civil proceedings have commenced against the service provider concerned to recover an amount of R208 280.

Senekal Motors instituted a civil claim against the municipality, which they lost with costs. The sheriff has been instructed to attach the claimant's property. This process has been delayed due to the nationwide lockdowns. A contingent asset is disclosed as feedback is still awaited from the sheriff. The municipality is of the opinion that recognition as an asset is not appropriate as a reasonable uncertainty exists over the matter, and deemed it prudent to rather disclose a contingent asset. The amount of R40 908 is also considered to be trivial.

2019:

There is a civil claim against Sharp Connect, a service provider whose contract was terminated in July 2015. They continued deducting money from the municipality's bank account until December 2015. Civil proceedings have commenced against the service provider concerned to recover an amount of R208 280.

Municipal Service Account owed by A34 Funeral Services for an amount of R 37 585.89

53. Prior period errors (Comparative figures)

Commission paid to prepaid electricty ventors amounting to R1 506 702 was incorrectly classified as collection charges. The correction resulted in the decrease in Collection costs of R1 506 702 and the increase in General expenses by the same amount.

Property, plant and equipment was incorrectly derecognised due to incorrect interpretations of asset descriptions by the consultants. The correction resulted in the increase in Property, plant and equipment by R415 623 256 and the decrease in Loss on disposal of assets by the same amount.

The water inventory balance of R275 364 was incorrectly derecognised. The correction resulted in the increase of Water Inventory by R275 364 and the decrease in General Expenses by the same amount.

Sundry debtors of R6 812 522 were incorrectly recognised in prior years. These balances did not meet the definition of an asset and have therefore been derecognised. The correction results in the decrease in Receivables from Non-exchange transactions by R6 812 522 and the decrease in Opening Accumulated Surplus by the same amount.

Various credit notes were processed to clear the creditors age analysis. The correction results in the increase in VAT payable by R1 162, the decrease in Bulk purchases by R1, decrease in Repairs and Maintenance by R 3 989, decrease in Finance Cost by R475, decrease in General Expenses by R20 372, increase in Opening Accumulated Surplus by R46 670 and the decrease in Payables from Exchange Transactions by R72 668.

The municipality incorrectly billed municipal properties for property rates in previous years. The error occurred due to the properties being in the name of the occupant on the billing system, rather than the owner. The correction results in the decrease in Receivables from Non-exchange transactions (Property Rates) by R4 359 510, the decrease in Property Rates by R1 906 607 and the decrease in Opening Accumulated Surplus by R2 452 903.

The municipality identified various assets during the current year which were not on the fixed asset register in previous years. The recognition of the assets resulted in the increase in Property, plant and equipment by R896 331, the increase in Opening Accumulated surplus by R948 554 and the increase in Depreciation expense by R52 223.

Properties were transferred to government departments and were not derecognised from the fixed asset register. The derecognition resuls in the decrease in Property, Plant and Equipment by R35 263 537 and the increase in Loss on Disposal of assets by the same amount.

Figures in Rand	2020	2019

53. Prior period errors (Comparative figures) (continued)

The correction of the error(s) results in adjustments as follows:

	2020	2019
Statement of financial position		
Property, plant and equipment	-	381 256 049
Inventory	-	275 364
VAT Payable	-	(1 162)
Payables from Exchange Transactions	-	72 668
Opening Accumulated Surplus or Deficit	-	8 270 201
Other Receivables from Non-exchange transactions	-	(6 812 522)
Receivables from Non-exchange transactions (Property Rates)	-	(4 359 509)
Statement of financial performance		
Collection Cost	-	(1 506 702)
General expenses	-	1 210 966
Loss on disposal of assets	-	(380 359 718)
Bulk Purchases	-	(1)
Repairs and Maintenance	-	(3 989)
Finance Cost	-	(475)
Property Rates	-	1 906 607
Depreciation and amortisation	-	52 223

Statement of financial position - extract	Comparative figures previously reported	Restatement	After restatement
Inventories	5 575 372	275 364	5 850 736
Receivables from non-exchange transactions	51 054 431	(11 172 032)	39 882 399
Property, plant and equipment	2 483 731 590	381 256 049	2 864 987 638
Payables from exchange transactions	(143 721 689)	72 668	(143 649 015)
VAT payable	(3 629 936)	(1 162)	(3 631 098)
Accumulated surplus - Opening Balance	(3 247 829 542)	8 270 201	(3 239 559 342)
Accumulated surplus - Deficit for the year	644 326 366	(378 701 088)	265 625 277
	(210 493 408)	**-**	**(210 493 405)**

Statement of financial performance - extract	Comparative figures previously reported	Restatement	After restatement
Property rates	(66 372 198)	1 906 607	(64 465 591)
Repairs and maintenance	3 545 327	(3 989)	3 541 338
Finance costs	9 265 993	(475)	9 265 518
Collection costs	1 506 702	(1 506 702)	-
Bulk purchases	74 869 013	(1)	74 869 012
Loss on disposal of assets	548 613 472	(380 359 718)	168 253 753
General Expenses	40 294 793	1 210 966	41 505 759
Depreciation and amortisation	226 647 232	52 223	226 699 455
	838 370 334	**(378 701 089)**	**459 669 244**

54. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

Details of the arrangment(s) is|are as follows:

The municipality has appointed a service provider to sell prepaid electricy on its behalf. A binding written agreement is in place with the service provider.

Notes to the Financial Statements

Figures in Rand	2020	2019

54. Accounting by principals and agents (continued)

Setsoto Municipality is the principal. The assumptions made in this regard are as follows:
- Setsoto Municipality is is responsible for the provision of electricity municipal services within its legislated area of jurisdiction.
- Electricity tariffs are determined by the municipality.
- The municipality is liable to pay the usage to the electricity provider (Eskom).
- Ownership in and to the vending of electricity is and shall at all times remain vested in the municipality and shall under no circumstances vest in the agent.

The service provider is responsible for the implementation of a prepaid electricity vending system and accepts customer payments on the municipality's behalf. The vending system is also used as a form of credit control, integrating the system with the municipality's debt collection systems, in order to balance out the payment of arrears for post-paid services with customer payments for prepaid electricity.

The municipality shall pay over a commission of 5% (5,7% inclusive of VAT) in respect of services vended.

There were no changes to the terms of the agreement from the previous year.

Risks are managed through the supplier being required to pay over receipts collected on a daily basis to the municipality.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

There are no resources of the municipality under the custodianship of the agent.

Fee paid

Fee paid as compensation to the agent	2 216 005	1 506 702

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

Should the arrangement be terminated, in order to provide a similar experience to consumers, the municipality will need to incur the following costs:
- Purchase of vending machines
- Set up of networks
- Arrangements with banks
- Security costs to protect the network and machines
- Additional insurance

Setsoto Local Municipality
Appendix A
June 2020

Schedule of external loans as at 30 June 2020

	Loan Number	Redeemable	Balance at Sunday, 30 June 2019 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at Tuesday, 30 June 2020 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA Loan @16.75%	13457	30/06/2020	387 917	49 722	437 639	-	-	-
DBSA Loan @11.36%	101389	31/12/2024	3 772 442	415 443	941 720	3 246 165	-	-
			4 160 359	**465 165**	**1 379 359**	**3 246 165**	**-**	**-**
Instalment sales agreements - ABSA Bank Limited								
ABSA Bank Limited at 10%	89515381	01/06/2022	592 924	51 416	229 649	414 691	-	-
ABSA Bank Limited at 10%	89514989	01/06/2022	428 174	37 129	165 838	299 465	-	-
ABSA Bank Limited at 10%	89516256	01/06/2022	891 100	28 697	128 176	791 621	-	-
ABSA Bank Limited at 10%	89515861	01/06/2022	330 935	77 273	345 137	63 071	-	-
ABSA Bank Limited at 10%	89516272	01/06/2022	891 100	77 273	345 137	623 236	-	-
ABSA Bank Limited at 10%	89515110	01/07/2022	1 612 738	140 535	610 155	1 143 118	-	-
ABSA Bank Limited at 10%	89514009	01/07/2022	731 594	63 751	276 787	518 558	-	-
ABSA Bank Limited at 10%	89514076	01/07/2022	731 594	63 751	276 787	518 558	-	-
ABSA Bank Limited at 10%	89516795	01/06/2022	40 676	3 527	15 753	28 450	-	-
ABSA Bank Limited at 10%	89516779	01/06/2022	40 675	3 527	15 753	28 449	-	-
ABSA Bank Limited at 10%	89517519	01/09/2022	1 069 410	94 026	386 878	776 558	-	-
ABSA Bank Limited at 10%	89512457	01/09/2022	2 388 811	210 032	864 196	1 734 647	-	-
ABSA Bank Limited at 10%	89512260	01/09/2022	1 069 990	94 077	387 088	776 979	-	-
ABSA Bank Limited at 10%	89512260	08/08./202	1 643 756	143 898	607 912	1 179 742	-	-
			12 463 477	**1 088 912**	**4 655 246**	**8 897 143**	**-**	**-**
Instalment sales agreement - Wesbank								
Wesbank, a division of First Rand Limited	85265501996	01/08/2022	584 937	64 806	236 449	413 294	-	-
Wesbank, a division of First Rand Limited	85265447849 0	01/09/2022	944 266	105 770	357 410	692 626	-	-

Schedule of external loans as at 30 June 2020

	Loan Number	Redeemable	Balance at Sunday, 30 June 2019 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at Tuesday, 30 June 2020 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Wesbank, a division of First Rand Limited	85264693609	01/09/2022	3 170 744	343 101	1 188 119	2 325 726	-	-
Wesbank, a division of First Rand Limited	85264694308	01/09/2022	3 170 743	343 101	1 188 119	2 325 725	-	-
Wesbank, a division of First Rand Limited	852663344384	01/09/2022	1 186 622	132 918	449 142	870 398	-	-
Wesbank, a division of First Rand Limited	85266283448	01/09/2022	1 186 622	132 918	449 142	870 398	-	-
Wesbank, a division of First Rand Limited	8526662844159	01/09/2022	597 469	66 925	226 145	438 249	-	-
Wesbank, a division of First Rand Limited	8526537408	01/09/2022	944 266	105 770	357 410	692 626	-	-
			11 785 669	**1 295 309**	**4 451 936**	**8 629 042**	**-**	**-**
Total external loans								
Development Bank of South Africa			4 160 359	465 165	1 379 359	3 246 165	-	-
Instalment sales agreements - ABSA Bank Limited			12 463 477	1 088 912	4 655 246	8 897 143	-	-
Instalment sales agreement - Wesbank			11 785 669	1 295 309	4 451 936	8 629 042	-	-
			28 409 505	**2 849 386**	**10 486 541**	**20 772 350**	**-**	**-**