Enoch Mgijima Local Municipality
(Registration number EC139)
Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)
Nature of business and principal activities	Enoch Mgijima Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Mayor Luleka Elizabeth Gubula-Mqingwana
Executive Committee	Cllr Bongiwe Van Heerden (Speaker)
	Cllr Nombuyiselo Selka Ndlebe (Chief Whip)
	Cllr Adele Natacia Hendrieks (Public Safety Portfolio Head)
	Cllr Khangelwe Manzana Sovendle (Human Settlement and Land Portfolio Head)
	Cllr Funeka Sybil Sopapaza-Lungisa (SPU Portfolio Head)
	Cllr Thembeka Bunu (Corporate Services Portfolio Head)
	Cllr Sibusiso Eric Mvana (IPED Portfolio Head)
	Cllr Mzoxolo Peter (Finance Portfolio Head)
	Cllr Zukiswa Nosisana Eunice Ralane (Community Services Portfolio Head)
	Cllr Marina Bennet (MPAC Chairperson)
	Cllr N Nqabisa (Technical Services Portfolio Head)
Jurisdiction	Molteno, Hofmeyer, Sterkstroom, Tarkastad, Whittlesea, Queenstown
Accounting Officer	N C Mgijima
Administrator	D Gabhela
Registered office	70 Cathcart Road Queenstown 5320
Postal address	Private Bag X7111 Queenstown 5320
Bankers	ABSA Bank First National Bank
Attorneys	Bashe, Mhlontlo & Company Incorporated Bowes McDougall Incorporated Wheeldon, Rushmere & Cole Incorporated Wesley Pretorius & Associates Incorporated Jacques Du Preez Incorporated Peyper Attorneys Mbabane & Sokutu Incorporated NT Vuba Incorporated Ntsiki Pakade Attorneys Smith Tabata Incorporated

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
INEG	Integrated National Electrification Grant
IPSAS	International Public Sector Accounting Standards
ISDG	Integrated Skills Development Grant
MDTG	Municipal Demarcation Transition Grant
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The annual financial statements set out on pages 4 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2020 and were signed by her:

N C Mgijima
Municipal Manager

Statement of Financial Position as at 30 June 2020

	Notes	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	113 688 041	78 659 234
Receivables from non-exchange transactions	4	110 371 706	79 751 496
VAT receivable	5	-	6 366 029
Cash and cash equivalents	6	45 227 037	12 024 011
		269 286 784	**176 800 770**
Non-Current Assets			
Biological assets	7	4 517 600	4 189 300
Investment property	8	326 352 511	326 352 511
Property, plant and equipment	9	1 346 174 675	1 432 788 877
Heritage assets	10	2 539 920	2 539 920
Other financial assets	11	403 838	375 902
		1 679 988 544	**1 766 246 510**
Total Assets		**1 949 275 328**	**1 943 047 280**
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	497 721 722	313 936 793
VAT payable	5	10 581 074	-
Consumer deposits	13	10 239 855	10 207 500
Employee benefit obligation	14	51 898 030	52 058 918
Unspent conditional grants and receipts	15	56 555 719	8 257 076
		626 996 400	**384 460 287**
Non-Current Liabilities			
Employee benefit obligation	14	40 230 000	42 522 768
Provisions	16	28 275 007	27 034 275
		68 505 007	**69 557 043**
Total Liabilities		**695 501 407**	**454 017 330**
Net Assets		**1 253 773 921**	**1 489 029 950**
Accumulated surplus		1 253 773 921	1 489 320 083

* See Note 42

Statement of Financial Performance

	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	302 366 566	270 804 121
Rental of facilities and equipment	18	3 335 486	3 118 019
Interest received on debtors		57 912 320	39 637 410
Income from agency services	19	3 549 436	4 992 164
Licences and permits	20	3 146 941	4 552 031
Other income	21	5 063 601	4 908 001
Interest received on investments	22	1 693 631	1 501 673
Total revenue from exchange transactions		**377 067 981**	**329 513 419**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	114 234 835	104 898 758
Transfer revenue			
Government grants and subsidies	24	226 881 578	258 348 350
Fines	25	2 446 776	2 119 436
Total revenue from non-exchange transactions		**343 563 189**	**365 366 544**
Total revenue		**720 631 170**	**694 879 963**
Expenditure			
Employee related costs	26	(316 660 084)	(291 874 427)
Remuneration of councillors	27	(24 676 198)	(23 651 057)
Depreciation and amortisation	28	(129 116 595)	(51 237 276)
Finance costs	29	(21 645 033)	(1 947 690)
Debt Impairment	30	(128 594 099)	(33 231 826)
Repairs and maintenance	31	(8 118 281)	(6 453 839)
Bulk purchases	32	(263 546 383)	(245 085 558)
Contracted services	33	(27 196 904)	(36 646 293)
Transfers and Subsidies	34	(4 452 104)	(175 000)
General Expenses	35	(49 792 248)	(52 333 501)
Total expenditure		**(973 797 929)**	**(742 636 467)**
Operating deficit		**(253 166 759)**	**(47 756 504)**
Actuarial gains/losses	14	4 931 821	2 131 737
Deficit for the year		**(248 234 938)**	**(45 624 767)**

* See Note 42

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	1 595 427 103	1 595 427 103
Adjustments		
Correction of errors	(60 482 253)	(60 482 253)
Balance at 01 July 2018 as restated*	**1 534 944 850**	**1 534 944 850**
Changes in net assets		
Deficit for the year	(45 624 767)	(45 624 767)
Total changes	(45 624 767)	(45 624 767)
Restated* Balance at 01 July 2019	**1 502 008 859**	**1 502 008 859**
Changes in net assets		
Surplus for the year	(248 234 938)	(248 234 938)
Total changes	(248 234 938)	(248 234 938)
Balance at 30 June 2020	**1 253 773 921**	**1 253 773 921**
Notes	42	

* See Note 42

Cash Flow Statement

	Notes	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Rates and services		305 810 620	285 820 860
Interest income		1 693 631	1 501 673
Other receipts		2 119 436	789 174
		309 623 687	288 111 707
Payments			
Employee costs		(112 913 224)	(89 022 539)
Suppliers		(111 982 680)	(109 384 635)
Finance costs		(21 645 033)	(1 947 690)
		(246 540 937)	(200 354 864)
Net cash flows from operating activities	37	**63 082 750**	**87 756 843**
Cash flows from investing activities			
Purchase of movable and immovable assets	9	(29 523 488)	(77 897 501)
Increase in investment in fixed deposits		(27 936)	(10 220)
Purchase of biological assets	7	(328 300)	(43 100)
Net cash flows from investing activities		**(29 879 724)**	**(77 950 821)**
Net increase/(decrease) in cash and cash equivalents		**33 203 026**	**9 806 022**
Cash and cash equivalents at the beginning of the year		12 024 011	2 217 989
Cash and cash equivalents at the end of the year	6	**45 227 037**	**12 024 011**

* See Note 42

Enoch Mgijima Local Municipality

(Registration number EC139)
Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

	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	313 363 577	-	**313 363 577**	302 366 566	**(10 997 011)**	
Rental of facilities and equipment	3 071 469	380 246	**3 451 715**	3 335 486	**(116 229)**	
Interest received on debtors	23 306 866	27 584 018	**50 890 884**	57 912 320	**7 021 436**	51.1
Income from agency services	4 980 606	-	**4 980 606**	3 549 436	**(1 431 170)**	51.2
Licences and permits	5 062 284	(261 000)	**4 801 284**	3 146 941	**(1 654 343)**	51.3
Other income	18 572 945	(7 976 338)	**10 596 607**	5 063 601	**(5 533 006)**	51.4
Interest received on investments	2 855 692	(1 800 000)	**1 055 692**	1 693 631	**637 939**	51.5
Total revenue from exchange transactions	**371 213 439**	**17 926 926**	**389 140 365**	**377 067 981**	**(12 072 384)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	101 169 884	14 200 000	**115 369 884**	114 234 835	**(1 135 049)**	
Transfer revenue						
Government grants & subsidies	196 384 600	894 000	**197 278 600**	194 367 791	**(2 910 809)**	
Fines, Penalties and Forfeits	2 985 654	-	**2 985 654**	2 446 776	**(538 878)**	51.6
Total revenue from non-exchange transactions	**300 540 138**	**15 094 000**	**315 634 138**	**311 049 402**	**(4 584 736)**	
Total revenue	**671 753 577**	**33 020 926**	**704 774 503**	**688 117 383**	**(16 657 120)**	
Expenditure						
Employee related costs	(269 409 336)	(19 084 996)	**(288 494 332)**	(316 660 084)	**(28 165 752)**	
Remuneration of councillors	(26 277 225)	2 000 000	**(24 277 225)**	(24 676 198)	**(398 973)**	
Depreciation and amortisation	(53 325 510)	-	**(53 325 510)**	(129 116 595)	**(75 791 085)**	
Finance costs	(1 500 000)	(2 500 000)	**(4 000 000)**	(21 645 033)	**(17 645 033)**	51.7
Debt Impairment	(75 752 871)	-	**(75 752 871)**	(128 594 099)	**(52 841 228)**	
Other materials / Repairs and maintenance	(7 453 468)	1 351 110	**(6 102 358)**	(8 118 281)	**(2 015 923)**	51.8
Bulk purchases	(253 818 400)	72 000 705	**(181 817 695)**	(263 546 383)	**(81 728 688)**	51.9
Contracted Services	(30 195 337)	4 478 536	**(25 716 801)**	(27 196 904)	**(1 480 103)**	
Transfers and Subsidies	(4 910 873)	-	**(4 910 873)**	(4 452 104)	**458 769**	
General Expenses	(46 987 136)	7 810 298	**(39 176 838)**	(49 792 248)	**(10 615 410)**	51.10
Total expenditure	**(769 630 156)**	**66 055 653**	**(703 574 503)**	**(973 797 929)**	**(270 223 426)**	
Operating deficit	**(97 876 579)**	**99 076 579**	**1 200 000**	**(285 680 546)**	**(286 880 546)**	
Actuarial gains/losses	-	-	**-**	4 931 821	**4 931 821**	51.11
Surplus / (Deficit)	**(97 876 579)**	**99 076 579**	**1 200 000**	**(280 748 725)**	**(281 948 725)**	
Surplus / (deficit) for the year from continuing operations	**(97 876 579)**	**99 076 579**	**1 200 000**	**(280 748 725)**	**(281 948 725)**	
Tranfers recognised - capital	58 854 400	15 723 988	**74 578 388**	32 513 817	**(42 064 571)**	51.12

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(39 022 179)**	**114 800 567**	**75 778 388**	**(248 234 908)**	**(324 013 296)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous year.

1.1 Going concern assumption

These annual financial statements have been prepared on a going concern basis as it is expected that the Municipality will continue to operate for at least the next 12 months.

1.2 Materiality

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

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables

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

The impairment for trade receivables is calculated on an individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Employee benefit obligation

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 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 14.

Effective interest rate

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

Useful lives of Property, plant and equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.4 Biological assets

The entity recognises biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

1.4 Biological assets (continued)

Biological assets are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Biological assets are derecognised when disposed off. The gains or losses are then recognised through the Statement of Financial Performance.

1.5 Investment property

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

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.

The cost of self-constructed investment property is the cost at the date of completion.

Cost model

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

Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years
Air-conditioners	3-7 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 following criteria have been applied to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations:
- All properties held to earn market-related rentals or for capital appreciation, or for both, are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment property;

1.5 Investment property (continued)

- Land held for currently undetermined future use. If the municipality has not determined that it will use the land as owner-occupied property, or for a short-term sale in the ordinary course of business, the land is regarded as being held for capital appreciation;
- A building owned by the municipality (or held by the municipality under finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the housing board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held on to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall into the ambit of investment property, and shall be classified as Property, plant and equipment or Non-current assets held for sale (where appropriate):

- Property held for sale in the ordinary course of operations;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property;
- Property that is being constructed or developed for future use as investment property;
- Property that is being leased out under finance lease;
- Property that is held to provide a social service and which also generates cash flows; and
- Property held for strategic purposes and service delivery.

Property interest held under operating leases are classified and accounted for as investment property, if the property interest that is held by the lessee under an operating lease may be classified and accounted for as investment property, provided that the property would otherwise meet the definition of investment property and the lessee uses the fair value model.

When classification is difficult, the criteria used to distinguish investment properties from owner-occupied property held for sale is established by using criteria that it can utilise to exercise judgement consistently in accordance with the definition of investment property and with the related guidance.

Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and impairment. No depreciation is recognised where the residual value of the property exceeds the historical cost of the investment property.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost at acquisition date, or in the case of assets acquired by grant or donation, deemed cost being the fair value of the asset on initial recognition.

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.

1.6 Property, plant and equipment (continued)

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.

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.

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives
of the assets. The depreciation method used reflects the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset or that have different useful lives, are depreciated separately.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or
service potential associated with the expenditure will flow to the municipality and the cost can be measured reliably. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity of future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset that is being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in the surplus or deficit when the compensation becomes receivable.

The Economic Useful Life ("EUL") of an asset has been determined with reference to the Local Government Capital Asset Management Guidelines and the Guidelines for Infrastructure Asset Management in Local Government and tailored to the Municipalities specific requirements where applicable.

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

Item	Depreciation method	Average useful life
Land		Indefinite years
Infrastructure		
• Roads	Straight line	30 - 80 years
• Buildings	Straight line	30 - 50 years
• Electricity	Straight line	15 - 40 years
• Landfill sites	Straight line	20 - 50 years
Other property, plant and equipment		
• Motor vehicles	Straight line	5 - 15 years
• Furniture and fittings	Straight line	5 - 10 years
• Machinery and equipment	Straight line	3 - 7 years
• Computer equipment	Straight line	5 - 10 years
Community	Straight line	30 - 50 years

The residual value, the useful life and depreciation method of each asset is reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

Incomplete construction work
Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

Finance leases
Assets capitalised under finance leases are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the assets management policy.

Infrastructure assets
Infrastructure assets are any assets that are part of a network or similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all assets of the municipality in terms of
the asset management policy.

Derecognition of property, plant and equipment assets
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.

1.7 Heritage assets

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 annual financial statements.

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

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

1.7 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. The gain or loss is the difference between the proceeds and the carrying amount of the intangible asset.

1.8 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.
A concessionary loan is a loan granted to or received by an entity on terms that are not market related.
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.he financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

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

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

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

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

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

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

Accounting Policies

1.8 Financial instruments (continued)

- 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.

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

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality 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.

Subsequent measurement of financial assets and financial liabilities

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

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

Reclassification

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

Gains and losses

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

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

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

Financial liabilities

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

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

Presentation

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

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

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

1.9 Statutory receivables

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.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

1.9 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.9 Statutory receivables (continued)

- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
  - derecognises the receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.10 Leases

The Municipality as a lessee

Leases are classified as finance leases where substantially all the risks and rewards of ownership are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies relating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

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.

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

Operating leases - lessee

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

1.11 Impairment of cash-generating assets

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

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

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (cash-generating units)

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

Identification of a potential impairment

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

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

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

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

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.

Recognition and measurement of non-cash generating units

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.

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

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

Reversal of an impairment loss

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

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

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

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

Accounting Policies

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

Redesignation

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

1.13 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:
- the municipality'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.

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

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises 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 municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. 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.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality 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 municipality during a reporting period, the municipality 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 municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

Post-employment benefits: Defined benefit plans

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

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

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.

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 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;
- plus any liability that may arise as a result of a minimum funding requirement

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

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

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.

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

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

1.14 Provisions and contingencies

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

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

Accounting Policies

1.14 Provisions and contingencies (continued)

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

Future events that may affect the amount required to settle the obligation are reflected in the amount of the provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of an asset are taken into account in
measuring a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in
the outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

Rendering of services

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

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

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

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

1.16 Revenue from exchange transactions (continued)

Interest

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

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

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

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

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each
property that has improvements. The tariffs are determined per category if property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance Income

Interest earned on investment is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant
authorisation tariff. This includes the issue of licenses and permits.

Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used.

1.17 Revenue from non-exchange transactions

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

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

1.17 Revenue from non-exchange transactions (continued)

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.

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.

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.

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.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Taxes

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 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.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Donations are recognised on a cash receipts or where the donation is in the form of; property, plant and equipment, when such items are available for use.

Public contributions

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

Where contributions have been received, but the conditions have not been met, a liability is recognised.

Government Grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

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

Interest earned on investment is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:

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

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive goods and services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

1.18 Interest income

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

1.19 Borrowing costs

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

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

1.20 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.

1.20 Accounting by principals and agents (continued)

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.

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.

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Accounting Policies

1.22 Unauthorised expenditure (continued)

- 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.

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

1.23 Fruitless and wasteful expenditure

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

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

If the expenditure is not subsequently certified as irrecoverable by the council it is treated as an asset until it is recovered or written off as irrecoverable.

1.24 Irregular expenditure

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.

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

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

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

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

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

1.25 Revenue from recovery of unauthorised, Irregular, fruitless and wasteful expenditure

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

1.26 Offsetting

Assets, liabilities, revenue and expenses have not been offset, except when offsetting is required or permitted by a standard of GRAP.

1.27 Budget information

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

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

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

1.28 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.

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

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

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

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

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

1.29 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.

Accounting Policies

1.30 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction if errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the note to the financial statements where applicable.

1.31 Value Added Tax (VAT)

Output VAT is levied on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the municipality would recognise a payable for VAT.

The municipality accounts for VAT on a payment basis.

Notes to the Annual Financial Statements

	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	No effective date	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	No effective date	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date	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
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unable to reliably estimate the impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	Not expected to impact results but will result in additional disclosure

3. Receivables from exchange transactions

	2020	2019
Trade debtors	660 766 534	575 331 961
Employee costs in advance	8 462 978	178 105
Other debtors	650 174	7 828 547
Prepaid expenses	14 914	15 405
Impairment of debtors	(556 206 559)	(504 694 784)
	113 688 041	**78 659 234**

	2020	2019

3. Receivables from exchange transactions (continued)

Ageing of receivables from exchange transactions - 2020	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Deposits	700	-	-	-	700
Electricity	9 692	23 822 341	13 170 722	88 893 785	125 896 540
Interest	-	3 845 585	4 991 201	203 204 618	212 041 404
Refuse	-	4 813 322	4 610 677	252 607 023	262 031 022
Sundries	-	375 030	326 728	59 879 917	60 581 675
Deposits	-	-	-	215 192	215 192
	10 392	**32 856 278**	**23 099 328**	**604 800 535**	**660 766 533**

Ageing of receivables from exchange transactions - 2019	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**90+ days**	**Total**
Deposits	-	8 750	4 900	282 134	295 784
Electricity	85 186	20 066 848	10 129 692	63 920 576	94 202 302
Interest	100 335	4 801 103	4 810 729	166 301 119	176 013 286
Refuse	113 381	4 801 720	4 513 820	231 343 546	240 772 467
Sundries	45 328	495 630	387 807	63 119 357	64 048 122
	344 230	**30 174 051**	**19 846 948**	**524 966 732**	**575 331 961**

Receivables from exchange transactions pledged as security

No receivables from exchange transactions have been pledged as security.

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Ageing of receivables from exchange transactions by type of debtor

Ageing by type of debtor - 2020	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Agriculture	20	62 251	43 765	1 132 712	1 238 748
Business	2 277	7 200 195	5 062 036	131 014 068	143 278 576
Church	7	23 458	16 492	426 846	466 803
Club	2	7 794	5 479	141 815	155 090
Domestic	1 137	3 594 018	2 526 745	72 347 174	78 469 074
Government	6 891	21 787 585	15 317 576	396 444 853	433 556 905
Industrial	37	117 159	82 368	2 131 822	2 331 386
Sundry	20	63 819	44 867	1 161 245	1 269 951
	10 391	**32 856 279**	**23 099 328**	**604 800 535**	**660 766 533**

Ageing by type of debtor - 2019	**0 - 30 days**	**31- 60 days**	**61 - 90 days**	**90+ days**	**Total**
Agriculture	-	432 923	181 775	5 344 337	5 959 035
Business	11 857	14 828 801	3 181 616	30 870 566	48 892 840
Church	-	40 746	39 933	1 377 984	1 458 663
Club	-	4 242	3 803	70 778	78 823
Domestic	16 940	9 175 559	8 641 706	440 088 974	457 923 179
Government	314 467	5 432 643	7 428 140	30 367 795	43 543 045
Industrial	966	176 959	286 809	14 271 474	14 736 208
Sundry	-	82 178	83 166	2 574 824	2 740 168
	344 230	**30 174 051**	**19 846 948**	**524 966 732**	**575 331 961**

Notes to the Annual Financial Statements

	2020	2019

3. Receivables from exchange transactions (continued)

Receivables from exchange transactions past due but not impaired

At 30 June 2020, R 165 909 034 (2019: R 79 830 347) were past due but not impaired.

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

	2020	2019
31-60 days	5 824 823	5 824 823
61-90 days	5 270 206	5 270 206
90+ days	154 814 005	154 814 005
	165 909 034	**165 909 034**

Receivables from exchange transactions impaired

As of 30 June 2020, receivables from exchange transactions of R 556 206 559 (2019: R 504 694 784) were impaired and provided for.

The ageing of these amounts is as follows:

	2020	2019
0-30 days	4 757	283 371
31-60 days	18 568 739	19 332 996
61-90 days	14 897 732	14 047 754
90+ days	522 735 331	471 030 663
	556 206 559	**504 694 784**

Reconciliation of provision for impairment of receivables from exchange transactions

	2020	2019
Opening balance	(504 694 784)	(434 861 179)
Provision for impairment	(76 362 786)	(72 537 320)
Amounts written off as uncollectible	24 851 011	2 703 715
	(556 206 559)	**(504 694 784)**

Debtors are required to settle within 30 days. Interest is charged after this date at prime + 1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Debtors are evaluated for impairment on an individual basis using their payment history and taking into consideration the nature of the debtor.

The fair value of trade and other receivables approximates their carrying value.

4. Receivables from non-exchange transactions

	2020	2019
Assessment rates	295 932 818	247 314 707
Impairment of debtors	(188 229 780)	(168 997 312)
Traffic fines	2 668 668	1 434 101
	110 371 706	**79 751 496**

Ageing of receivables from non-exchange transactions - 2020	0 - 30 days	31 - 60 days	61 - 90 days	90+ days	Total
Assessment rates	8 042 715	4 732	6 632 782	281 252 590	295 932 819

	2020	2019

4. Receivables from non-exchange transactions (continued)

Ageing of receivables from non-exchange transactions - 2019	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**90+ days**	**Total**
Assessment rates	19 069	7 234 267	4 812 612	235 248 759	247 314 707

Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to historical information about debtor default rates.

Receivables from non-exchange transactions

Ageing of receivables from non-exchange transactions by type of debtor

Ageing by type of debtor - 2020	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**90+ days**	**Total**
Agricultural	15 238	9	12 567	447 799	475 613
Business	1 762 497	1 037	1 453 522	51 794 257	55 011 313
Church	5 742	3	4 736	168 746	179 227
Club	1 908	1	1 573	56 064	59 546
Domestic	879 762	518	725 534	70 755 910	72 361 724
Government	5 333 267	3 138	4 398 316	156 727 954	166 462 675
Industrial	28 679	17	23 651	842 781	895 128
Sundry	15 622	9	12 883	459 079	487 593
	8 042 715	**4 732**	**6 632 782**	**281 252 590**	**295 932 819**

Ageing by type of debtor - 2019	**0 - 30 days**	**31 - 60 days**	**61 - 90 days**	**90+ days**	**Total**
Agricultural	-	165 255	120 994	13 233 610	13 519 859
Business	4 459	1 409 400	367 212	10 937 310	12 718 381
Church	-	5 436	4 155	200 629	210 220
Club	-	2 713	2 095	50 146	54 954
Domestic	14 610	4 830 006	3 640 748	162 090 195	170 575 559
Government	-	821 501	677 437	48 734 966	50 233 904
Sundry	-	-	-	1 830	1 830
	19 069	**7 234 311**	**4 812 641**	**235 248 686**	**247 314 707**

Receivables from non-exchange transactions past due but not impaired

At 30 June 2020, R 60 769 109 (2019: R 48 607 778) were past due but not impaired.

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

	2020	2019
31-60 days	1 184	2 232 486
61-90 days	1 658 802	1 471 202
90+ days	104 011 639	44 904 090

	2020	2019

4. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2020, receivables from non-exchange transactions of R (188 249 780) (2019: R (168 997 312)) were impaired and provided for.

The ageing of these amounts is as follows:

0-30 days	6 031 300	76 485
31-60 days	3 549	7 758 294
61-90 days	4 973 980	5 112 693
90+ days	177 240 951	156 049 851

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(168 997 312)	(175 946 945)
Provision for impairment	(38 718 655)	4 631 876
Amounts written off as uncollectible	19 466 187	2 317 757
	(188 249 780)	**(168 997 312)**

Debtors are required to settle within 30 days. Interest is charged after this date at prime + 1%. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Debtors are evaluated for impairment on an individual basis using their payment history and taking into consideration the nature of the debtor.

The fair value of trade and other receivables approximates their carrying value.

5. VAT

VAT payable / (receivable)	10 581 074	(6 366 029)

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	40 082	38 082
Bank balances	(12 374 745)	2 685 074
Short-term deposits	57 561 700	9 300 855
	45 227 037	**12 024 011**

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:

Cash and cash equivalents pledged as collateral

6. Cash and cash equivalents (continued)

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 - Current Account - 624-38159-809	422 692	1 239 735	3 201 594	(12 982 184)	2 305 985	1 189 582
ABSA BANK - Current Account - 216-014-3854	1 247 287	446 846	33 076	607 439	379 089	33 076
FNB BANK - Call Account - 626-56734-392	-	3 566	1 000	-	3 566	1 000
FNB BANK - Call Account - 624-59044-162	2 749 530	280 121	613 215	2 749 530	280 121	613 215
FNB BANK - Call Account - 624-96427-967	1 000	1 000	334 900	1 000	1 000	334 900
FNB BANK - Call Account - 624-96432-635	-	1 000	1 000	-	1 000	1 000
FNB BANK - Call Account - 624-96436-265	1 000	50 762	1 000	1 000	50 762	1 000
FNB BANK - Call Account - FMG - 624-96439-607	1 000	1 000	1 000	1 000	1 000	1 000
FNB BANK - Call Account - 625-99305-763	6 650 431	3 354 033	3 950	6 650 431	3 354 033	3 950
FNB BANK - Call Account - 624-96441-842	35 667 291	5 580 390	1 000	35 696 275	5 609 373	1 184
FNB BANK - Call Account - 628-52253-261	12 254 465	-	-	12 254 465	-	-
FNB BANK - Call Account - 628-52254-300	207 999	-	-	207 999	-	-
Total	**59 202 695**	**10 958 453**	**4 191 735**	**45 186 955**	**11 985 929**	**2 179 907**

7. Biological assets

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game animals	4 517 600	-	4 517 600	4 189 300	-	4 189 300

Reconciliation of biological assets - 2020

	Opening balance	Additions	Total
Game animals	4 189 300	328 300	4 517 600

Reconciliation of biological assets - 2019

	Opening balance	Additions	Total
Game animals	4 146 200	43 100	4 189 300

	2020	2019

7. Biological assets (continued)

Non-financial information

No restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the acquisition of biological assets.

All biological assets are located in the nature reserve and spa. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduces the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial
risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets
- Regular monitoring of game quantities by municipal staff.

Methods and assumptions used in determining fair value

Game type	2020 Quantity	2020 Fair value	2019 Quantity	2019 Fair value
Rhino	7	2 450 000	4	1 400 000
Giraffe	30	360 000	19	228 000
Eland	42	252 000	40	240 000
Kudu	34	153 000	66	297 000
Zebra	64	320 000	57	285 000
Nyala	13	65 000	35	175 000
Lechwe	10	150 000	33	495 000
Blesbok	36	43 200	62	74 400
Impala	108	129 600	138	165 600
Springbok	19	19 000	77	77 000
Fallow Deer	20	50 000	32	80 000
Gemsbok	32	144 000	39	175 500
Duiker	-	-	15	15 000
Steenbok	-	-	2	2 000
Black Wildebeest	57	102 600	79	142 200
Red Hartebeest	73	255 500	46	161 000
Ostrich	11	13 200	13	15 600
Mountain Reed Buck	7	10 500	35	52 500
White blesbok	-	-	31	108 500
	563	**4 517 600**	**823**	**4 189 300**

An active market exists for game therefore the fair value of the game was determined with reference to the price in the relevant market.

8. Investment property

	2020			2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	326 352 511	-	326 352 511	326 352 511	-	326 352 511

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	326 352 511	326 352 511

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	326 352 511	326 352 511

Pledged as security

No investment property has been pledged as security for any liability.

Key judgements and assumptions regarding control over land

Property owned by the Municipality that has RDP houses built on it has not been included in Investment Property as the municipality does not control access to the land.

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

9. 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	197 438 917	-	197 438 917	197 438 917	-	197 438 917
Buildings	124 572 963	(43 981 763)	80 591 200	124 572 963	(39 411 381)	85 161 582
Furniture and fixtures	6 460 967	(2 447 475)	4 013 492	6 296 751	(1 804 699)	4 492 052
Motor vehicles	25 226 207	1 202 579	26 428 786	25 226 208	2 768 537	27 994 745
IT equipment	3 766 658	(1 836 239)	1 930 419	3 562 189	(1 304 419)	2 257 770
Electricity	277 265 092	(107 683 157)	169 581 935	265 922 040	(98 905 715)	167 016 325
Roads and storm water	875 455 796	(284 429 707)	591 026 089	840 451 529	(227 153 110)	613 298 419
Landfill site	24 776 053	(2 719 062)	22 056 991	24 073 858	(2 100 134)	21 973 724
Work in progress	112 509 244	(44 482 025)	68 027 219	100 027 603	-	100 027 603
Community assets	278 186 798	(95 960 736)	182 226 062	294 773 914	(84 449 951)	210 323 963
Other equipment	3 672 624	(819 059)	2 853 565	3 622 836	(819 059)	2 803 777
Total	**1 929 331 319**	**(583 156 644)**	**1 346 174 675**	**1 885 968 808**	**(453 179 931)**	**1 432 788 877**

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	197 438 917	-	-	-	-	197 438 917
Buildings	85 161 582	280 807	-	(4 570 382)	(280 807)	80 591 200
Furniture and fixtures	4 492 052	164 216	-	(642 776)	-	4 013 492
Motor vehicles	27 994 745	-	-	(1 565 959)	-	26 428 786
IT equipment	2 257 770	204 469	-	(531 820)	-	1 930 419
Electricity	167 016 325	154 603	11 188 449	(8 505 227)	(272 215)	169 581 935
Roads and storm water	613 298 419	34 723 461	-	(28 259 338)	(28 736 453)	591 026 089
Landfill sites	21 973 724	702 195	-	(618 928)	-	22 056 991
Work in progress	100 027 603	5 857 376	(11 188 449)	-	(26 669 311)	68 027 219
Community assets	210 323 963	-	-	(28 097 901)	-	182 226 062
Other equipment	2 803 777	415 266	-	(365 478)	-	2 853 565
	1 432 788 877	**42 502 393**	**-**	**(73 157 809)**	**(55 958 786)**	**1 346 174 675**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Transfers	Depreciation	Total
Land	197 438 917	-	-	-	197 438 917
Buildings	85 453 074	-	4 123 243	(4 414 735)	85 161 582
Furniture and fixtures	5 031 873	85 364	-	(625 185)	4 492 052
Motor vehicles	24 226 620	5 329 806	-	(1 561 681)	27 994 745
IT equipment	2 547 381	210 663	-	(500 274)	2 257 770
Electricity	174 667 432	-	456 538	(8 107 645)	167 016 325
Roads and storm water	578 147 164	167 569	58 619 582	(23 635 896)	613 298 419
Landfill sites	22 370 712	181 925	-	(578 913)	21 973 724
Work in progress	57 676 941	105 550 025	(63 199 363)	-	100 027 603
Community assets	221 837 044	-	-	(11 513 081)	210 323 963
Other equipment	2 237 214	866 429	-	(299 866)	2 803 777
	1 371 634 372	**112 391 781**	**-**	**(51 237 276)**	**1 432 788 877**

Notes to the Annual Financial Statements

	2020	2019

9. Property, plant and equipment (continued)

Pledged as security

No property, plant and equipment has been pledged as security.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Infrastructure	62 872 158	63 183 293
Community assets	27 852 622	34 958 327
	90 724 780	**98 141 620**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Roads and Stormwater	40 737 184	33 729 493
Electricity	10 353 188	10 353 188
Community assets	24 305 510	22 758 194
	75 395 882	**66 840 875**

Details of Projects that are taking a significantly longer period of time to complete than expected		
Electrical Refurbishment/Ezibeleni 11K Isolating Points And Open Wire Network	9 783 584	9 783 584
Baccelsfarm Bridge	6 179 476	6 179 476
Surfacing of Taxi routes in Molteno & Sterkstroom Phase 5 15/16	5 479 844	5 479 844
The Renovation of a sport field, grand stand and ablution facilities in Sterkstroom 15/16	4 937 232	4 937 232
Community Hall In Ward 17	18 913 989	17 366 673
Upgrading Of Gravel Road To Paving In Mlungisi (Or Thambo And Thabo Mbeki Streets)	19 345 190	12 337 499
Replacement Of Transmitter For Queendustria Substation For Load Management System	569 604	569 604
Surfacing of Taxi Routes in Molteno and Sterkstroom Phase 3	9 732 674	9 732 674
The construction of a shearing shed in Whittlesea	454 289	454 289
	75 395 882	**66 840 875**

Deemed cost

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

Notes to the Annual Financial Statements

	2020	2019

10. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art, antiquities, exhibits and war memorials	2 539 920	-	2 539 920	2 539 920	-	2 539 920

Reconciliation of heritage assets 2020

	Opening balance	Total
Art, antiquities, exhibits and war memorials	2 539 920	2 539 920

Reconciliation of heritage assets 2019

	Opening balance	Total
Art, antiquities, exhibits and war memorials	2 539 920	2 539 920

Pledged as security

No heritage assets have been pledged as security.

Notes to the Annual Financial Statements

	2020	2019

11. Other financial assets

At amortised cost		
Fixed Deposits	403 838	375 902
Non-current assets		
At amortised cost	403 838	375 902

Financial assets at amortised cost

Fixed deposits consists of the following accounts from ABSA:

Bank statement balances		
ABSA - Fixed Deposit Account - 20-5423-8637	22 610	20 916
ABSA - Fixed Deposit Account - 20-5441-0158	9 622	9 116
ABSA - Fixed Deposit Account - 20-5487-1867	7 940	7 382
ABSA - Fixed Deposit Account - 20-5488-0953	7 940	7 382
ABSA - Fixed Deposit Account - 20-5533-9377	12 824	12 016
ABSA - Fixed Deposit Account - 20-5759-5270	15 642	14 500
ABSA - Fixed Deposit Account - 20-5775-0882	30 583	28 487
ABSA - Fixed Deposit Account - 20-5868-1438	21 226	19 684
ABSA - Fixed Deposit Account - 20-5874-5343	15 262	14 177
ABSA - Fixed Deposit Account - 20-5874-5458	11 772	10 935
ABSA - Fixed Deposit Account - 20-5874-5521	8 899	8 266
ABSA - Fixed Deposit Account - 20-5923-6583	15 384	14 329
ABSA - Fixed Deposit Account - 20-5923-6672	34 410	32 051
ABSA - Fixed Deposit Account - 20-6432-5597	42 701	39 774
ABSA - Fixed Deposit Account - 20-6068-1802	64 069	59 490
ABSA - Fixed Deposit Account - 20-6068-1577	74 048	69 137
ABSA - Fixed Deposit Account - 20-6066-7315	8 906	8 260
	403 838	**375 902**

Financial assets pledged as collateral

Collateral

No financial assets have been pledged as collateral for any borrowings.

12. Payables from exchange transactions

Trade payables	444 555 945	263 974 830
Payments received in advanced	20 793 949	24 421 255
Unallocated deposits	25 411 211	18 580 091
Retention fees	6 960 617	6 960 617
	497 721 722	**313 936 793**

13. Consumer deposits

Electricity	10 239 855	10 207 500

Notes to the Annual Financial Statements

	2020	2019

14. Employee benefit obligations

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

	2020	2019
Carrying value		
Non-current portion of Post Retirement Medical Aid	(24 580 000)	(28 212 149)
Non-current portion of Long Service Awards	(15 650 000)	(14 310 619)
Current portion of Post Retirement Medical Aid	(1 275 000)	(1 521 393)
Current portion of Long Service Awards	(3 368 000)	(1 819 853)
Accrual for bonuses	(8 017 434)	(9 480 075)
Accrual for leave	(39 237 596)	(39 237 597)
	(92 128 030)	**(94 581 686)**

	2020	2019
Non-current liabilities	(40 230 000)	(42 522 768)
Current liabilities	(51 898 030)	(52 058 918)
	(92 128 030)	**(94 581 686)**

Net expense recognised in the statement of financial performance

	2020	2019
Current service cost	3 455 052	2 908 705
Interest cost	3 827 001	3 869 094
Actuarial gains	(4 931 821)	(2 131 737)
Benefits paid	(3 341 247)	(3 126 977)
	(991 015)	**1 519 085**

Key assumptions used

Assumptions used at the reporting date:

	2020	2019
Medical health gross discount rate	10.01 %	8.97 %
Healthcare cost inflation rate	6.18 %	6.50 %
Medical healthcare net discount rate	3.61 %	2.32 %
Long service award gross discount rate	6.96 %	8.05 %
Long service award CPI rate	2.73 %	4.50 %
Long service award salary inflation rate	3.73 %	5.50 %
Long service award net discount rate	3.11 %	2.42 %

14. Employee benefit obligations (continued)

Other assumptions

Assumptions used as follows:

• Pre retirement mortality	SA 85-90 light -1
• Post retirement mortality	PA (90)-1, with 1% p.a. mortality improvement from 2010
• Normal retirement age	62 years
• Spouse age differences (Male older than female)	3 years
• AIDS	No assumptions made
• Proportion with a spouse dependant at retirement	60%
• Continuation of membership at retirement	75%
• Proportion of eligible in-service non-members joining a scheme by retirement and continuing with the subsidy at and after retirement	15%

The assumed general earnings, healthcare inflation rate and discount rate have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed general earnings would have the following effects:

	One percentage point increase	**One percentage point decrease**
General earnings		
Effect on the aggregate of the service cost and interest cost	229 518	(207 182)
Effect on defined benefit obligation	1 067 000	(971 000)
Discount rate		
Effect on the aggregate of the service cost and interest cost	(227 953)	262 047
Effect on defined benefit obligation	(3 442 000)	4 014 000
	(3 669 953)	**4 276 047**
Healthcare inflation rate		
Effect on the aggregate of the service cost and interest cost	31 629	(42 771)
Effect on defined benefit obligation	186 000	(247 000)
	217 629	**(289 771)**

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

	2020	2019	2018	2017	2016
Employee benefit obligation	44 873 000	45 864 015	44 344 930	100 205 000	-

The municipality was formed on 6 August 2016 therefore the amounts can only be disclosed for the current and previous four financial years.

Notes to the Annual Financial Statements

	2020	2019

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Finance Management Grant	-	-
Expanded Public Works Grant	-	-
Municipal Infrastructure Grant	36 277 121	2 690 563
Integrated National Electrification Grant	6 222 515	5 053 440
Chris Hani District Municipality	37 458	513 073
Municipal Disaster Relief Grant	204 557	-
Department of Transport	13 814 068	-
	56 555 719	**8 257 076**

Movement during the year

Balance at the beginning of the year	8 576 148	1 330 591
Additions during the year	103 449 987	100 594 835
Income recognition during the year	(55 470 416)	(93 668 350)
	56 555 719	**8 257 076**

16. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Fair value adjustment	Interest	Total
Landfill site	27 034 275	181 925	1 058 807	28 275 007

Reconciliation of provisions - 2019

	Opening Balance	Additions	Interest	Total
Landfill site	25 829 691	181 925	1 022 659	27 034 275

Environmental rehabilitation provision

The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The expected future cost to rehabilitate the landfill site is the best estimate of the expenditure required to settle the present obligation. This is determined as the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates. These estimates are reviewed periodically and as adjustments become necessary, they are recorded in the financial statements in the period in which they become known

Accounting for landfills requires that significant estimates and assumptions be made regarding (i) the cost to construct and develop each landfill asset; (ii) the estimated fair value of capping, closure and post-closure asset retirement obligations, which must consider both the expected cost and timing of these activities; (iii) the determination of each landfill’s remaining permitted and expansion airspace; and (iv) the airspace associated with each final capping event.

The valuation of the landfill sites was performed by Bosch Munitech.

Notes to the Annual Financial Statements

	2020	2019

17. Service charges

Sale of electricity	250 107 829	221 083 075
Refuse removal	52 258 737	49 721 046
	302 366 566	**270 804 121**

18. Rental of facilities and equipment

Premises		
Rental of municipal properties	3 233 201	2 871 464
Garages and parking		
Rental of carports	2 163	2 166
Facilities and equipment		
Rental of container	20 578	20 578
Rental of street signs	79 544	223 811
	100 122	**244 389**
	3 335 486	**3 118 019**

19. Income from agency services

Vehicle registration	3 549 436	4 992 164

The income from agency fees consists of commission received from the Department of Transport for the issuing of vehicle registrations. The municipality (agent) collects licencing fees for vehicles on behalf of the Department of Transport (principal).

20. Licences and permits

Drivers licences	2 771 161	3 681 191
Trading, transport and special	375 780	870 840
	3 146 941	**4 552 031**

21. Other income

Advert costs	2 174	2 239
Building plan fees	213 409	377 966
Burial fees	880 893	963 306
Commission	43 187	47 147
Electricity reconnection fees	691 957	758 708
Gate Monies	92 088	74 497
Insurance claims	1 994 680	-
Miscellaneous income	388 324	1 209 855
Pound fees	489 863	1 198 077
Roadworthy certificates	91 479	151 025
Sale of tender documents	175 547	125 181
	5 063 601	**4 908 001**

22. Interest received on investments

Interest revenue		
Bank	179 205	430 543
Investments	1 514 426	1 071 130
	1 693 631	**1 501 673**

Notes to the Annual Financial Statements

	2020	2019

23. Property rates

Rates received

Property rates	114 234 835	104 898 758

Valuations

Agricultural	4 931 634 866	3 086 196 412
Business	2 515 174 470	2 409 746 187
Communal and State trust	425 951 560	-
Church	191 201 006	133 435 000
Education	-	497 680 379
Government	407 664 038	1 463 450 298
Industrial	138 866 008	55 062 450
Municipal	1 128 783 138	540 630 111
Other	32 207 004	34 135 680
Public service infrastructure	541 438 224	58 266 963
Residential	8 249 375 145	6 738 748 013
Vacant land	242 947 284	253 356 794
	18 805 242 743	**15 270 708 287**

The last general valuation came into effect on 1 July 2019. The general valuation roll was compiled by Ndlala Mass Valuation Services.

The below rates are applied to property valuations to determine assessment rates:

Category		
Domestic	0.00839055	0.00839055
Commercial	0.01060689	0.01060689
Agriculture	0.00214305	0.00214305
Government	0.00839202	0.00839202
Public service infrastructure	0.00214305	0.00214305
Vacant land	0.03918873	0.03918873

Notes to the Annual Financial Statements

	2020	2019

24. Government grants and subsidies

	2020	2019
Operating grants		
Equitable share	180 006 315	164 680 000
Conditional grant funding released	14 361 446	37 392 436
	194 367 761	**202 072 436**
Capital grants		
Conditional grant funding released	32 513 817	56 275 914
	226 881 578	**258 348 350**

Equitable Share

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

Financial Management Grant

	2020	2019
Current-year receipts	4 000 000	6 015 000
Conditions met - transferred to revenue	(4 000 000)	(6 015 000)
	-	**-**

Expanded Public Works Programme Grant

	2020	2019
Current-year receipts	4 422 000	4 253 000
Conditions met - transferred to revenue	(4 422 000)	(4 253 000)
	-	**-**

Municipal Infrastructure Grant

	2020	2019
Balance unspent at beginning of year	2 690 563	-
Current-year receipts	54 112 000	53 040 000
Conditions met - transferred to revenue	(17 988 155)	(50 349 437)
Amount paid back to National Treasury	(2 537 287)	-
	36 277 121	**2 690 563**

Integrated National Electrification Programme Grant

	2020	2019
Balance unspent at beginning of 9 months	5 053 440	-
Current-year receipts	5 448 000	10 162 000
Allocation-in-kind	15 498 000	(5 108 560)
Conditions met - transferred to revenue	(17 866 897)	-
Amount paid back to National Treasury	(1 910 028)	-
	6 222 515	**5 053 440**

Municipal Systems Improvement Grant

	2020	2019
Current-year receipts	-	1 055 000
Conditions met - transferred to revenue	-	(1 055 000)
	-	**-**

Notes to the Annual Financial Statements

	2020	2019

24. Government grants and subsidies (continued)

Chris Hani District Municipality

Balance unspent at beginning of year	513 073	1 330 591
Conditions met - transferred to revenue	(475 615)	(817 518)
	37 458	**513 073**

Municipal Disaster Relief Grant

Current-year receipts	894 000	-
Conditions met - transferred to revenue	(689 443)	-
	204 557	**-**

Library subsidy

Current-year receipts	5 250 000	5 250 000
Conditions met - transferred to revenue	(5 250 000)	(5 250 000)
	-	**-**

Department of Transport

Current-year receipts	25 495 217	20 819 436
Conditions met - transferred to revenue	(11 681 149)	(20 819 436)
	13 814 068	**-**

25. Fines, Penalties and Forfeits

Electricity	892 127	611 645
Traffic	1 554 649	1 507 791
	2 446 776	**2 119 436**

26. Employee related costs

Basic	204 268 983	171 790 076
Bonus	15 396 426	18 569 846
Bargaining council	70 751	7 619
Casual labour	5 789 476	5 862 949
Contract workers	9 771 895	10 216 728
Group life insurance	958 116	849 426
Leave pay provision charge	2 189 242	11 269 435
Housing benefits and allowances	390 339	405 407
Long-service awards	1 552 628	1 145 785
Medical aid - company contributions	18 733 802	17 119 497
Night shift services	823 930	698 791
Other allowances	-	875
Overtime payments	8 588 374	10 919 955
Pension - company contributions	34 603 800	28 798 198
Skills development levy	2 601 151	2 280 309
Transport allowances	9 441 725	10 485 013
Telephone allowance	-	5 000
UIF	1 479 446	1 449 518
	316 660 084	**291 874 427**

	2020	2019

26. Employee related costs (continued)

Remuneration of Municipal Manager

Basic salary	1 061 704	1 004 710
Backpay	29 060	54 322
Leave payout	-	191 056
Subsistence and travel	-	15 931
Remote Allowance	50 176	47 340
UIF	1 487	1 487
Bargaining council	93	88
Contributions to pension fund	196 338	190 626
Contributions to medical fund	-	8 436
Skills development levy	10 468	12 459
	1 349 326	**1 526 455**

The Municipal Manager was appointed in September 2019. The former CFO acted as Municipal Manager until the appointment.

Remuneration of Chief Finance Officer (Acting)

Basic salary	695 472	-
Bonus	57 956	-
Acting allowance	6 298	-
Travel allowance	150 000	-
Housing allowance	10 893	-
Subsistence and travel	8 127	-
UIF	1 785	-
Bargaining council	112	-
Contributions to pension fund	125 185	-
Contributions to medical fund	41 474	-
Skills development levy	9 214	-
Group life insurance	14 257	-
	1 120 773	**-**

Remuneration of the Chief Financial Officer

Basic salary	412 956	-
Remote allowance	16 544	-
Backpay	5 939	-
UIF	595	-
Bargaining council	37	-
Skills development levy	4 355	-
	440 426	**-**

26. Employee related costs (continued)

Remuneration of the Chief Financial Officer (Acting Municipal Manager)

	2020	2019
Basic salary	710 647	1 178 787
Leave pay	195 843	-
Travel allowance	-	18 000
Telephone allowance	-	2 400
Acting allowance	25 068	29 428
Backpay	-	44 406
Subsistence and travel	4 033	31 401
Remote Allowance	27 089	50 307
UIF	1 041	1 785
Bargaining council	65	105
Skills development levy	9 626	13 322
	973 412	**1 369 941**

The former CFO resigned in January 2020 and the new CFO was appointed in March 2020. In the time between the appointments a Municipal Official acted as CFO.

The Municipal Manager was appointed in September 2019. The former CFO acted as Municipal Manager until the appointment.

Remuneration of the Director: Technical Services

	2020	2019
Basic salary	-	699 532
Backpay	-	4 019
Bonus	-	58 629
Acting Allowance	-	30 727
Travel allowance	-	150 000
Telephone allowance	-	9 600
Leave payout	-	332 450
Skills development levy	-	3 632
Subsistence and travel	-	1 000
	-	**1 289 589**

Remuneration of the Director: Technical Services

	2020	2019
Basic salary	1 002 758	960 337
Backpay	34 686	45 086
Acting allowance	-	65 394
Subsistence and travel	5 071	36 119
Remote Allowance	47 084	50 307
UIF	1 785	1 785
Bargaining council	112	105
Contributions to retirement fund	186 740	180 976
Contribution to medical fund	41 289	45 589
Skills development levy	10 374	11 153
	1 329 899	**1 396 851**

	2020	2019

26. Employee related costs (continued)

Remuneration of the Acting Director: Technical Services

	2020	2019
Basic salary	267 894	-
Acting allowance	68 101	-
Travel allowance	75 000	-
UIF	892	-
Bargaining council	56	-
Contributions to retirement fund	48 221	-
Contribution to medical fund	25 044	-
Skills development levy	3 970	-
	489 178	**-**

A new Director of Technical Services was appointed in 2019 but the Director was placed on suspension in 2020 and an Acting Director of Technical Services has been apointment until the matter of the Director's suspension has been resolved.

Remuneration of the Director: Community and Social Services

	2020	2019
Basic salary	-	671 484
Backpay	-	30 234
Bonuses	-	58 629
Long service award	-	28 142
Travel allowance	-	150 000
Acting Allowance	-	59 527
UIF	-	1 785
Bargaining council	-	105
Contributions to pension fund	-	121 411
Contributions to medical aid	-	50 271
Skills development levy	-	9 322
Group life insurance	-	1 808
	-	**1 182 718**

Remuneration of the Director: Community and Social Services (Acting)

	2020	2019
Basic salary	-	651 484
Backpay	-	3 743
Bonus	-	54 602
Travel allowance	-	150 000
Acting allowance	-	93 501
UIF	-	1 785
Bargaining council	-	105
Contributions to pension fund	-	136 156
Contributions to medical fund	-	45 275
Skills development levy	-	12 313
Group life insurance	-	9 246
	-	**1 158 210**

Notes to the Annual Financial Statements

26. Employee related costs (continued)

Remuneration of the Director: Community and Social Services (Acting)

	2020	2019
Basic salary	819 199	501 896
Backpay	14 847	2 884
Bonus	19 050	42 065
Leave payout	83 151	-
Travel allowance	62 500	150 000
Acting allowance	126 828	36 444
Remote allowance	28 780	-
UIF	1 933	1 785
Bargaining council	112	105
Contributions to pension fund	150 128	83 808
Contributions to medical fund	35 697	32 712
Skills development levy	11 026	6 941
	1 353 251	**858 640**

The municipal official acting as the Director of Community and Social Services was appointed to the position of in 2020. The Director has been placed on suspension and another municipal official was appointed to act in the position.

Remuneration of the Director: Corporate and Support Services

	2020	2019
Basic salary	-	400 416
Backpay	-	72 615
Bonus	-	90 279
Leave payout	-	256 435
Travel allowance	-	25 000
Subsistence and travel	-	13 490
Remote Al	-	22 260
UIF	-	744
Bargaining council	-	43
Contributions to retirement fund	-	72 075
Contributions to medical fund	-	20 606
Skills development levy	-	8 589
	-	**982 552**

Remuneration of the Director: Corporate and Support Services (Acting)

	2020	2019
Basic salary	887 163	651 484
Bonus	33 808	54 602
Backpay	14 847	3 743
Leave payout	243 534	-
Acting allowance	63 399	103 973
Travel allowance	62 500	150 000
Housing allowance	4 539	10 173
Remote allowance	28 780	-
Travel and subsistence	17 619	19 229
UIF	1 933	1 785
Bargaining council	112	35
Contributions to pension fund	162 362	117 941
Contributions to medical fund	35 939	50 271
Skills development levy	13 155	9 660
Group life insurance	18 187	13 432
	1 587 877	**1 186 328**

The municipal official acting in the position of Director of Corporate and Support Services was appointed to the position in December 2019.

	2020	2019

26. Employee related costs (continued)

Remuneration of the Director: Strategic Executive

Basic salary	641 501	687 909
Backpay	14 847	53 386
Bonuses	100 000	125 000
Leave payout	-	600 790
Travel allowance	-	57 393
Housing allowance	-	5 094
Remote allowance	28 779	-
Low interest loan	-	3 362
UIF	1 041	1 338
Bargaining council	-	79
Contributions to pension fund	-	154 041
Contributions to medical fund	26 954	37 616
Skills development levy	7 121	15 238
	820 243	**1 741 246**

The contract for the Strategic Executive Officer expired in June 2019. A new contract was negotiated and the Director was reappointed from December 2019.

27. Remuneration of councillors

Honourable Mayor	-	686 566
Chief Whip	678 188	419 362
Speaker	678 188	312 322
Councillors salaries	19 115 933	15 784 269
M-PAC	-	658 662
Executive Committee Members	4 203 889	5 789 876
	24 676 198	**23 651 057**

28. Depreciation and amortisation

Property, plant and equipment	129 116 595	51 237 276

29. Finance costs

Other interest paid	21 645 033	1 947 690

30. Debt impairment

Contributions to debt impairment provision	128 594 099	33 231 826

31. Repairs and maintenance

Plant and machinery	1 975 911	2 342 369
Buildings and grounds	816 900	71 967
Roads and stormwater	1 247 338	1 612 746
Electrical infrastructure	4 078 133	2 410 115
ICT and other	-	16 642
	8 118 282	**6 453 839**

Notes to the Annual Financial Statements

	2020	2019

32. Bulk purchases

Electricity - Eskom	263 546 383	245 085 558

33. Contracted services

Legal fees	5 136 946	6 302 176
Maintenance	12 260 235	14 196 691
General Valuation	(85 949)	3 826 080
Accounting and MSCOA	9 885 672	11 805 663
Other Contractors	-	515 683
	27 196 904	**36 646 293**

34. Transfers and subsidies

Other subsidies		
SPCA	-	175 000
Free basic services	4 452 104	-
	4 452 104	**175 000**

35. General expenses

Accommodation	714 462	2 519 703
Advertising	769 695	1 057 725
Alternative energy	1 331 897	387 474
Assets expensed	-	246 212
Auditors remuneration	5 197 772	5 717 794
Bank charges	1 218 193	1 229 133
Cleaning	457 810	-
Consumables	747 765	738 073
Entertainment	157 348	268 694
Fuel and oil	6 476 945	6 179 548
Insurance	2 871 540	2 486 723
Medical expenses	134 930	8 686
Other expenses	6 135	10 163
Postage and courier	7 824	317 091
Printing and stationery	581 918	771 393
Project expenditure	5 740 815	5 956 031
Promotions	360 078	352 782
Protective clothing	615 640	1 721 660
Rentals	3 044 259	1 977 028
Subscriptions and membership fees	2 895 655	2 771 071
Telephone and fax	7 437 600	6 375 059
Training	1 633 199	1 785 293
Travel - local	99 353	152 186
Title deed search fees	35 901	55 056
Utilities	(104 546)	1 140 443
Vehicle licenses	495 715	1 488 797
Ward committees	4 035 000	4 462 000
Workmen's compensation	2 829 345	2 157 683
	49 792 248	**52 333 501**

36. Auditors' remuneration

Fees	5 197 772	5 717 794

Notes to the Annual Financial Statements

	2020	2019

37. Cash generated from operations

	2020	2019
Deficit	(248 234 938)	(45 624 767)
Adjustments for:		
Depreciation and amortisation	129 116 595	51 237 276
Debt impairment	128 594 099	33 231 826
Movements in Employee benefit obligations	(2 453 656)	14 769 278
Movements in Provisions	1 240 732	1 204 584
Actuarial gains or losses	-	(2 131 737)
Changes in working capital:		
Decrease/(Increase) in Inventory	(35 028 807)	(34 059 797)
Decrease/(Increase) in Receivables from exchange transactions	(128 594 099)	(33 231 826)
Decrease/(Increase) in Receivables from non-exchange transactions	(30 620 210)	(56 401 278)
Increase/(Decrease) in Payables from exchange transactions	183 784 933	134 304 650
Increase/(Decrease) in VAT	16 947 103	17 368 264
Increase/(Decrease) in Unspent conditional grants and receipts	48 298 643	6 926 485
Increase/(Decrease) in Consumer deposits	32 355	163 885
	63 082 750	**87 756 843**

38. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	113 688 041	113 688 041
Cash and cash equivalents	45 227 037	45 227 037
Other financial assets	403 838	403 838
	159 318 916	**159 318 916**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	497 721 722	497 721 722
Consumer deposits	10 239 855	10 239 855
	507 961 577	**507 961 577**

2019

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	78 659 234	78 659 234
Cash and cash equivalents	12 024 011	12 024 011
Other financial assets	375 902	375 902
	91 059 147	**91 059 147**

Notes to the Annual Financial Statements

	2020	2019

38. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	282 338 308	282 338 308
Consumer deposits	10 207 500	10 207 500
	292 545 808	**292 545 808**

39. Commitments

Authorised capital expenditure

	2020	2019
Already contracted for but not provided for		
• Property, plant and equipment	75 471 422	78 443 616
Total capital commitments		
Already contracted for but not provided for	75 471 422	78 443 616

Total commitments

	2020	2019
Total commitments		
Authorised capital expenditure	75 471 422	78 443 616

This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, existing cash resources, and grant funding.

40. Contingencies

Pending litigations and claims:

	2020	2019
Matter 6823 - TS Skweyiya vs Lukhanji Municipality	-	100 000
Plaintiff suing Mxolisi Blekiwe for R 100 000. The case is a defamation claim in the exercise of M Blekiwe's duties as a councillor in 2010.		
Matter 8092 Qtn Mag Crt - A Motile v Lukhanji Municipality	25 000	25 000
2005 Applicant seek damages for repairs and maintenance to property he leased from the municipality for an amount of R94 814. Will raise a defence of prescription and satisfied that this will succeed.		
Mat 5464 - SAMWU obo Cata & 45 Others v Lukhanji Municipality	200 000	200 000
Sued for payment of ito a unilateral decision to upgrade Whittlesea municipality before amalgamation in 2009. Reasonable prospects of success in opposing the application.		
Mat ECD 5511/09 GHT H/C - Siyahlutha Developers v Lukhanji Municipality	1 924 288	2 024 288
In 2009 plaintiff sued mun for R1 724 288 for damages iro certain contracts with the municipality. Prospects of successfully defending the matter not known as yet will depend on successful prosecution of review of arbitration.		

Notes to the Annual Financial Statements

	2020	2019
40. Contingencies (continued)		
Mat 17611 Qtn Mag Crt - Luyolo Siyongwana v Lukhanji Municipality	150 000	100 000
Plaintiff sues the municipality for R100 000.00 damages arising from a wrongful arrest. Reasonable prospects of success in defending the matter exist		
Matter 849/2017 GHT/HC - Phumla Madlavu v Enoch Mgijima Municipality	1 500 000	1 500 000
Plaintiff sues the municipality for injuries caused to her child due to an unattended electricity substation wherein her child was electrocuted.		
ECQTNRC29/2018 - Nomabhaca Lourna Mgulwa	400 000	400 000
The plaintiff sues the municipality together with Cllr Mbengo for R400 000 for damages arising out of alleged comments by the councilor in a local newspaper about plaintiff.		
Case No. 04/2018 - Tian Schoeman v Enoch Mgijima and Nozibele Makanda	156 450	116 450
Plaintiff sues the municipality for loss and damage of his vehicle to the value of R86 450.00 due to an accident allegedly caused by former mayor Makanda		
Case No. 2297/2016 - Nosibulelo Dalasile v Enoch Mgijima	60 000	100 000
Plaintiff sues the municipality for R100 000.00 for injuries caused when she fell onto an open and unattended drain.		
Case No. 648/2018 - Axolile Qononda v Enoch Mgijima LM/ Elliot Tromp	28 400	28 400
Plaintiff sues municipality for R28 400.47 for damages to his car due to negligent driving by the municipal employee		
Case No. 5035/2017 - John Adrian Heath obo Lihlumise Nzuzo v Enoch Mgijima Municipality	610 000	610 000
Plaintiff sues for R610 000.00 for damages caused to a minor child that was electrocuted due to an unattended electrical cable.		
Matter 27671 - NL Mgulwa v Enoch Mgijima Municipality / Mbengo	50 000	50 000
Plaintiff is suing for R 400 000. Judgement will be granted against the second defendant.		
Lukhanji Municipality vs. Botha A	30 000	30 000
Mat7061 - Lukhanji Municipality vs. Kali MH	30 000	30 000
Illegal building operations		
Mat 9476 Qtn Mag Crt - Lukhanji Municipality vs. Malongwe KS	40 000	30 000
2004 Instructed to launch an application for demolition of an irregular building.		
Mat 16664 GHT H/C - Lukhanji Municipality vs. Das P&K	-	30 000
2015 application to H/C to order the municipality to take steps to have certain buildings encroaching on their property demolished.		
Lukhanji Municipality vs. Tyatyeka AN	30 000	30 000

Notes to the Annual Financial Statements

	2020	2019
40. Contingencies (continued)		
Mat 23154 - Zepe & Company vs Lukhanji Municipality	20 000	206 348
Action for the recovery of legal costs in a matter in which the Plaintiff acted for the municipality.		
Case No. ECD 3413/18 - Border Kei Chamber of Business and Others vs Eskom Holdings and Others	400 000	-
Application for an Interdict against electricity interruption by Eskom under Part 1 and Part 2 seeks to impose a structural interdict against the municipality		
Case No. ECQTWRC 421/18 - Umhlaba Consulting (Pty) Ltd vs EMLM	289 800	289 800
Claim for payment of R289 800 for professional services rendered in respect of development of SDF		
Case No. ECD 3633/18 - Ikamva Architects and Another vs EMLM	200 000	200 000
Application to compel the municipality to supply electricity on uninterrupted basis, among other relief sought.		
Case No. 247/19 - Willem Jacobus van Jaarsveld vs EMLM	52 000	52 000
Claim for services rendered for professional services.		
Case No. 643/2019 - EMLM vs M Siqhaza	60 000	60 000
Declaratory relief and / or review and cancellation of employment contracts.		
Case No. 686/2019 - EMLM vs S Dayi	60 000	60 000
Declaratory relief and / or review and cancellation of employment contracts.		
Case No. 406/2019 - Berf Furniture vs EMLM	9 404	9 404
Claim for goods sold and delivered.		
Mat 23033 - M Yelani vs EMLM	40 000	86 500
Motor vehicle collision claim July 2016.		
Mat PR 248/16 - G Judeel & L Nomeva vs EMLM	-	100 000
Application for retrospective reinstatement.		
Mat PR 302/17 - T Matyalana vs EMLM	50 000	-
Application for reinstatement		
ECD 121721 - P Parker & Others vs EMLM	4 300 000	8 000 000
Application for reinstatement.		
MAT17787 - A Nuku vs Lukhanji Municipality & Others	-	120 000
Set aside of arbitration award		

Notes to the Annual Financial Statements

	2020	2019
40. Contingencies (continued)		
MAT8082 - Lukhanji Municipality vs Tyaliti Family Trust Application to demolish	100 000	100 000
MAT27789 - Tynetix Trading (Pty) Ltd & Another	50 000	50 000
Claim for services rendered		
Penalty for non-compliance with National Environmental Management Act	500 000	500 000
Penalty is being contested		
ECD 041503 - L Labuschagne vs EMLM	200 000	200 000
Application for re-instatement and payment of all outstanding salaries and balance of the contract.		
EMLM // Mandilakhe Kheva & Six Others (Sterkstroom Land Invasion) - Case No. 451/2020	170 000	-
High Court interdict by the municipality to prevent illegal land invasions at Sterkstroom.		
Duda v Enoch Mgijima Local Municipality	120 000	-
Interdict for the release of the impounded vehicle.		
Batalala Construction	5 446 487	-
Contractual dispute based on project costs incurred out of mandate		
Case No: 2989/19 - Lifetime Connections Man and Supply	11 708 066	-
Payment of alleged outstanding payment certificates and claims in the amount of R1 736 637.80 (Part A) and R9 969 427.92 (Part B).		
Sigenu/Mngese	100 000	-
Review of Presiding Officer’s ruling in the Labour Court for an inappropriate sanction, among others.		
Case No. 3687/19 - Lets Talk Komani	500 000	-
Application for dissolution of council		
MTH 2050/19 - T. Bukani & Another	50 000	-
Eviction with claim against Municipality		
	29 659 895	**15 438 190**

	2020	2019

41. Related parties

Related party transactions

Remuneration of management

Councillors and Mayoral committee members

Refer to note 27 "Remuneration of councillors".

Executive management

*Refer to note 26 "Employee related costs"

42. Prior period errors

The correction of the errors results in adjustments as follows:

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from Exchange Transactions	59 239 612	19 419 622	78 659 234	1
Receivables from Non-exchange Transactions	76 842 252	2 909 244	79 751 496	2
VAT Receivable	44 605 640	(38 239 614)	6 366 026	7
Cash and Cash Equivalents	11 567 911	456 100	12 024 011	3
Investment property	325 409 988	942 523	326 352 511	4
Property, plant and Equipment	1 393 540 386	39 248 491	1 432 788 877	5
Payables from exchange transactions	(259 276 335)	(54 660 458)	(313 936 793)	6
Employee Benefit obligation - current	(36 925 066)	(15 133 852)	(52 058 918)	8
Unspent conditional grants and receipts	(7 758 630)	(498 446)	(8 257 076)	9
Provisions	(19 585 895)	(7 448 380)	(27 034 275)	10
Accumulated surplus	(1 542 033 862)	53 004 770	(1 489 029 092)	11
	45 626 001	**-**	**45 626 001**	

1 - Receivables from Exchange transactions - Statement of Financial Position

Previously reported balance	59 239 612
Reclassification of VAT on debtors from Vat receivable to Receivables on exchange transactions	42 684 807
Reversing WSSA contributions - 2019	(173 071)
Reversing WSSA contributions - 2018	(173 071)
Recalculation and adjustment of debt impairment - 2019	(27 874 761)
Reclassification of Other payables with debit balances	620 734
Reclassification of payroll control votes with debit balances	4 781 817
Clearing of stale cheque suspense	217 018
Billing corrections	(679 256)
Reclassification of prepaid expenses from Payables from exchange transactions	15 405
Restated 2019 Closing balance	**78 659 234**

2 - Receivables from Non-exchange transactions - Statement of Financial Position

Previously reported 2019 balance	76 842 252
Billing corrections	(1 430 927)
Recalculation and adjustment of debt impairment - 2019	4 340 171
Restated 2019 Closing balance	**79 751 496**

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

3 - Cash and Cash Equivalents - Statement of Financial Position

Previously reported 2019 balance		11 567 911
Bank accounts closed in prior years		456 100
Restated 2019 Closing balance		**12 024 011**

4- Investment property - Statement of Financial Position

Previously reported 2018 balance		325 409 988
Correction of value of rhinoceroses		942 523
Restated 2019 Closing Balance		**326 352 511**

5- Property, plant and Equipment - Statement of Financial Position

Previously reported 2019 balance		1 393 540 386
Reclassifying capital expenditure from repairs and maintenance		2 910 646
Additional accruals identified		191 618
Correction accumulated depreciation - 2019		2 796 928
Correcting accumulated depreciation - 2018		(6 171 945)
Reinstating asset disposal - 2018		(13 164 854)
Deeming of assets		52 686 098
Restated 2019 Closing Balance		**1 432 788 877**

6 - Payables from exchange transactions - Statement of Financial Position

Previously reported 2019 balance		(259 276 335)
Additional accruals identified - 2018		(13 048 679)
Reallocation of interest from Unallocated deposits to interest received		25 515
Additional accruals identified - 2019		(162 978 808)
Reclassification of Other payables with debit balances		(620 734)
Reclassification of payroll votes with debit balances to Receivables from exchange transactions		(4 781 817)
Transactions incorrectly raised in 2019 instead of 2020		126 696 802
Transactions recorded post submission		62 668
Reclassification of Prepaid expenses to Receivables from exchange transactions		(15 405)
Restated 2019 Closing Balance		**(313 936 793)**

7 - VAT receivable - Statement of Financial Position

Previously reported 2019 balance		44 605 640
Reclassification of VAT on debtors from Vat receivable to Receivables on exchange transactions		(42 684 806)
Raising of additional accruals in 2019		3 876 606
Raising of additional accruals in 2018		575 013
Sundry accrual reversals		(6 427)
Restated 2019 Closing Balance		**6 366 026**

8 - Employee Benefit obligations - Statement of Financial Position

Previously reported 2019 balance		(36 925 066)
Recalculation and adjustment of leave accrual		(12 007 654)
Recalculation and adjustment of bonus accrual		(3 126 198)
Restated 2019 Closing Balance		**(52 058 918)**

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

9 - Unspent conditional grants and receipts - Statement of Financial Position

Previously reported 2019 balance	(7 758 630)
Correction of balance on Chris Hani grant - 2018	(1 330 591)
Correction of balance on Chris Hani grant - 2019	513 073
Correction of MIG and INEP income recognised - 2019	319 072
Restated 2019 Closing Balance	**(8 257 076)**

10 - Provisions - Statement of Financial Position

Previously reported 2019 balance	(19 585 895)
Adjusting landfill site provision to agree to supporting schedule - 2018	(6 425 720)
Adjusting landfill site provision to agree to supporting schedule - 2019	(1 022 660)
Restated 2019 Closing balance	**(27 034 275)**

11 - Accumulated Surplus - Statement of Financial Position

Previously reported 2019 Opening balance	(1 595 427 103)
Effect of opening balance corrections relating to -	60 482 253
Net effect of adjustments	60 481 398
Reallocation of accumulated surplus adjustments	855
	(1 534 944 850)
	-
RESTATED 2018/19 (Surplus)/Deficit	45 624 767
Reported 2018/19 (Surplus)/Deficit	53 392 386
Net changes to Statement of Financial performance	(7 767 619)
	-
RESTATED 2018/19 CLOSING BALANCE	**(1 489 320 083)**

Draft

2019 Comparative restatements

Statement of Financial Performance	Previously reported	Adjustment	As restated	Reference
REVENUE				
Interest received on debtors	40 316 666	(679 256)	39 637 410	0
Other Income	4 187 501	720 500	4 908 001	i
Interest on debtors	40 316 666	(679 256)	39 637 410	ii
Property Rates	106 329 684	(1 430 926)	104 898 758	iii
Government Grants and Subsidies	257 689 277	659 073	258 348 350	iv
Interest received on investments	1 476 158	25 515	1 501 673	v

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

EXPENDITURE				
Employee related costs	(283 281 045)	(8 593 382)	(291 874 427)	vi
Remuneration of councillors	(28 097 766)	4 446 709	(23 651 057)	vii
Depreciation and amortisation	(55 937 731)	4 700 455	(51 237 276)	viii
Finance costs	(925 030)	(1 022 660)	(1 947 690)	ix
Debt impairment	(73 035 540)	39 803 714	(33 231 826)	x
Repairs and maintenance	(8 982 805)	2 528 966	(6 453 839)	xi
Bulk purchases	(224 872 262)	(20 213 296)	(245 085 558)	xii
Contracted services	(32 462 938)	(4 183 355)	(36 646 293)	xiii
General expenses	(43 339 063)	(8 994 438)	(52 333 501)	xiv
	(300 618 228)	**7 088 363**	**(293 529 865)**	

i) Other income

As previously reported	4 187 501
Correction of fair value of Biological assets	720 500
	4 908 001

ii) Interest on debtors - Statement of Financial Performance

As previously reported	40 316 666
Billing corrections	(679 256)
	39 637 410

iii) Property Rates - Statement of Financial Performance

As previously reported	106 329 684
Billing corrections	(1 430 926)
	104 898 758

iv) Government grants and subsidies - Statement of Financial Performance

As previously reported	257 689 277
Correction of revenue recognised for Chris Hani grant	340 002
Correction of revenue recognised for MIG and INEP	319 071
	258 348 350

v) Interest received on investments - Statement of Financial Performance

As previously reported	1 476 158
Reallocation of interest from Unallocated deposits	25 515
	1 501 673

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

vi) Employee Costs - Statement of Financial Performance

As previously stated		(283 281 045)
Recalculation and adjustment of bonus accrual - 2019		(2 877 886)
Recalculation and adjustment of leave accrual - 2019		(12 007 655)
Recalculation and adjustment of leave accrual - 2018		3 104 424
Reclassification of SALGA contributions to General expenses (MSCOA)		1 700 000
Reclassification of workmen's compensation to General expenses (MSCOA)		2 157 683
Reclassification of Nightshift vote to Remuneration of councillors (MSCOA)		15 290
Additional accruals identified		(29 640)
Correction of allocation salaries		(655 598)
		(291 874 427)

vii) Remuneration of councillors - Statement of Financial Performance

As previously reported		(28 097 766)
Remuneration of ward committees reclassified to general expenses (MSCOA)		4 462 000
Reclassification of Nightshift allowance from Employee costs (MSCOA)		(15 290)
		(23 651 056)

viii) Depreciation and amortisation - Statement of Financial Performance

As previously reported		(55 937 731)
Correction of 2019 depreciation charge		4 700 455
		(51 237 276)

ix) Finance costs - Statement of Financial Performance

As previously reported		(925 030)
Raising interest on landfill site provision		(1 022 660)
Transactions incorrectly recorded in 2019 instead of 2020		18 780
Additional accruals identified and raised - 2019		(18 780)
		(1 947 690)

x) Debt impairment - Statement of Financial Performance

As previously reported		(73 035 540)
Recalculation of debt impairment - 2019		(19 664 542)
Recalculation of debt impairment calculation - 2018		59 468 256
		(33 231 826)

xi) Repairs and maintenance - Statement of Financial Performance

As previously reported		(8 982 805)
Reclassification of capital expenditure from Repairs and maintenance to Property, plant and equipment		2 910 646
Additional accruals identified		(382 068)
Sundry accrual reversal		388
		(6 453 839)

	2020	2019

42. Prior period errors (continued)

xii) Contracted services - Statement of Financial Performance

	2020	2019
As previously reported		(32 462 938)
Additional accruals identified		(4 183 355)
		(36 646 293)

xiii) Bulk purchases - Statement of Financial Performance

	2020	2019
As previously reported		(224 872 262)
Expenditure incorrectly recorded in 2020 instead of 2019		104 514 441
Additional accruals identified		(14 454)
		(120 372 275)

xiv) General expenses - Statement of Financial Performance

	2020	2019
As previously reported		(43 339 063)
Reclassification of SALGA contributions to General expenses		(1 700 000)
Reclassification of workmen's compensation to General expenses		(2 157 683)
Additional accruals identified		(674 755)
Remuneration of ward committees reclassified to general expenses		(4 462 000)
		(52 333 501)

The following disclosures have been restated:

Irregular expenditure - Note 44

	2020	2019
Previous Disclosure		
Opening balance		433 502 138
Add: Irregular Expenditure - current year		35 300 441
		468 802 579
Adjustment		
Additional irregular expenditure - Opening balance	-	18 642 543
Additional irregular expenditure identified - Current year	-	12 683 131
New disclosure		
Opening balance		452 144 681
Add: Irregular Expenditure - current year		47 983 572
		500 128 253

The irregular expenditure was adjusted to take into account the additional irregular expenditure identified by the auditors.

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

Commitments - Note 36

Previous disclosure		-
Authorised capital expenditure		
Already contracted for but not provided for		
Property, plant and equipment		75 344 376

Adjustments		
Variation orders and additional costs approved by Council		10 825 624
Additional expenditure identified		(7 535 750)
Retention fee excluded from commitment		(190 634)
		3 099 240

Restated disclosure		
Authorised capital expenditure		
Already contracted for but not provided for		
Property, plant and equipment		78 443 616

The Commitments balance was adjusted to include variation orders and approved additional costs that were approved by Council on 30 August 2019 and additional expenditure identified during the audit.

Contingencies - Note 37

Previous disclosure		-
Contingent liabilities		14 418 190

New disclosure		-
Contingent liabilities		15 438 190

Additional contingent liabilties identified during the audit were added.

Unauthorised expenditure - Note 42

Previous disclosure		-
Opening balance		154 096 591
Add: Unauthorised expenditure - current year		13 996 500
		168 093 091

New disclosure		-
Opening balance		252 720 101
Add: Unauthorised expenditure - current year		195 587 545
		448 307 646

Notes to the Annual Financial Statements

	2020	2019

42. Prior period errors (continued)

The Unauthorised expenditure for 2017/18 was recalculated and during an investigation into the balance taken on at merger date, the 2015/16 Unauthorised expenditure for Lukhanji was recalculated.

Fruitless and wasteful expenditure - Note 43

	2020	2019
		-
Previous disclosure		
Opening balance		8 900 553
Add: Fruitless and wasteful expenditure - current year		925 889
		9 826 442

	2020	2019
New disclosure		-
Opening balance		9 758 527
Add: Fruitless and wasteful expenditure - current year		925 889
Less: Amount written off by Council		(9 758 527)
		925 889

Additional fruitless and wasteful expenditure from an investigation into the take on balances. A

Material losses

	2020	2019
		-
Previous disclosure		
Electricity losses		-

	2020	2019
New disclosure		-
		-
Electricity losses		71 588 946

The electricity losses calculation was performed and disclosed.

42. Prior period errors (continued)

Cash flow statement

	As previously reported	Adjustment	Corrected Figures
Cash flow from operating activities			
Receipts			
Rates and Services	250 899 909	34 920 951	285 820 860
Interest Income	52 551 756	(51 050 083)	1 501 673
Other receipts	789 174	-	789 174
Payments			
Employee costs	(270 788 761)	181 766 222	(89 022 539)
Suppliers	(273 439 763)	164 055 128	(109 384 635)
Finance costs	(4 051 816)	2 104 126	(1 947 690)
	(244 039 501)	**331 796 344**	**87 756 843**
Cash flow from investing activities			
Purchase of property, plant and equipment	(47 574 776)	(57 429 513)	(105 004 289)
Non-cash donation	-	-	-
Proceeds on sale of biological assets	-	(43 100)	(43 100)
Increase in investment in fixed deposits	-	(10 220)	(10 220)
	(47 574 776)	**(57 482 833)**	**(105 057 609)**
Cash flow from financing activities			
Movement in Long term Liabilities	-	-	-
	-	-	-

The cash flow restatement above details the movements between the previously reported Cash Flow Statement and the restated 2018/19 comparative figures. The reason for the adjustments are due to the individual errors as detailed in note 42 .

43. Risk management

Financial risk management

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

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

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

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. There has not been any reviews conducted during the year which exposed the municipality to high financial risks. Further quantitative disclosures are included throughout these Annual Financial Statements.

43. 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.

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

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. the municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank.

Trade and other receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to tem. 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.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial assets in Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

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

43. Risk management (continued)

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest charges. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances. The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas.Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handing over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

44. Going concern

The Enoch Mgijima Local Municipality’s Annual Financial Statements are prepared on a going concern basis despite the presence of some material uncertainties in the short term. Management’s assumption is that the municipality will continue to exist as a going concern and to exist in the foreseeable future unless de – established or merged into a new entity by the Municipal Demarcation Board.

The municipality is aware of the following financial challenges which threaten its financial viability and as a going concern:

- Operating at a deficit as reported in the Financial Performance at year end

- The municipality’s inability to pay its major creditors over the past 12 months

- Longer debtors payment period

- Increase in Eskom debt, and

- The growing debtors figures and increase in debt impairment that has to be written off at year end

The municipality received confirmation from National Treasury that the equitable share will be paid to the municipality. Portion of the equitable share will be used to pay for the Eskom debt. Going forward the municipality’s smart meter project will kick off early next year and significant revenue from electricity sales is anticipated. This will enable the municipality to pay its creditors as they fall due and also report surplus at year end from 2021.

As part of the turnaround strategy of the municipality, the municipality is currently implementing financial recovery programme that entails implementing set of activities that will improve the financial viability of the municipality. Cost containment measures as contained in MFMA circular 68 are currently being implemented with the aim of curbing expenditure on non – essential procurement

The municipality envisages returning to full financial viability in 2020/21.

Notes to the Annual Financial Statements

	2020	2019

45. Unauthorised expenditure

Unauthorised expenditure	590 186 120	448 307 646
Add: Unauthorised expenditure - current year	277 459 273	141 878 474
Less: Amounts written off by Council	(590 186 120)	-
	277 459 273	**590 186 120**

The unauthorised expenditure balances taken on on 6 August 2016 were investigated by MPAC and written off by Council.

The unauthorised expenditure for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 were investigated and written off by Council. The unauthorised expenditure for the year ended 30 June 2020 is still under investigation. The need for disciplinary action or criminal proceedings is still to be determined.

46. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	10 672 853	9 747 824
Add: Fruitless and wasteful expenditure - current year	4 110 474	925 029
Less: Amount written off by Council	(10 672 853)	-
	4 110 474	**10 672 853**

The fruitless and wasteful expenditure balances taken on on 6 August 2016 were investigated by MPAC and written off by Council.

The fruitless and wasteful expenditure for the years ended 30 June 2017, 30 June 2018, 30 June 2019 and 30 June 2020 have been investigated and written off by Council.

47. Irregular expenditure

Opening balance	500 128 253	452 144 681
Add: Irregular Expenditure - current year	21 838 393	47 983 572
Less: Amounts written off by Council	(495 798 359)	-
	26 168 287	**500 128 253**

The irregular expenditure balances taken on on 6 August 2016 were investigated by MPAC and then written off by Council.

The irregular expenditure for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 have been investigated and written off by Council. The remaining balance was referred to MPAC for further investigation.

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Supply Chain Management Regulation and / or Policy deviations	Items have been referred to MPAC for investigation and the need for criminal procedings to be determined	21 838 393

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	6 915 768	5 883 888
Current year subscription / fee	2 892 308	2 903 694
Amount paid - current year	(1 000 000)	(1 871 814)
	8 808 076	**6 915 768**

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

Material losses

Elecricity losses:	2020 Units	2020 R	2019 Units	2019 R
Units purchased	227 666 988	284 648 240	238 010 622	224 872 262
Units sold	(161 297 222)	(227 369 124)	(122 397 889)	(115 641 436)
	66 369 766	**57 279 116**	**115 612 733**	**109 230 826**
Comprising of:				
Non-technical losses	66 369 766	57 279 116	115 612 733	109 230 826

Percentage loss:	2020	2019
Non-technical losses	29.15%	48.57%

Audit fees

Opening balance	3 569 696	-
Current year subscription / fee	6 367 445	6 607 696
Amount paid - current year	(7 164 650)	(3 038 000)
	2 772 491	**3 569 696**

PAYE

Current year subscription / fee	42 373 664	35 032 444
Amount paid - current year	(33 096 001)	(35 032 444)
	9 277 663	**-**

UIF

Current year subscription / fee	3 301 188	3 105 742
Amount paid - current year	(2 757 223)	(3 105 742)
	543 965	**-**

Pension fund contributions

Current year subscription / fee	53 472 590	44 461 038
Amount paid - current year	(48 920 908)	(44 461 038)
	4 551 682	**-**

Medical aid contributions

Current year subscription / fee	28 678 880	25 680 966
Amount paid - current year	(28 678 880)	(22 680 966)
	-	**3 000 000**

Notes to the Annual Financial Statements

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

VAT

	2020	2019
VAT receivable	-	6 366 029
VAT payable	10 581 074	-
	10 581 074	**6 366 029**

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

48. 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 (2019: Rnil):

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
L. Nondyola	1 033	3 688	4 721
M. S. Hoko	581	4 698	5 279
B. G. Rani	782	421	1 203
E. N. Tsotetsi	990	2 747	3 737
X. P. Mbasana	415	137	552
M. Mbengo	780	8 152	8 932
A. Seyisi	308	301	609
B. M. Mgoqi	268	262	530
A. V. Bokuva	485	3 545	4 030
L. Rasimosi	53	2 648	2 701
Z. N. E. Ralane	552	167	719
M. Ngesi	545	309	854
	6 792	**27 075**	**33 867**

49. Deviation from supply chain management regulations

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

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

Goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer. The reasons for the deviations were as follows:

Reason for deviation	
Emergency	1 890 490
Sole supplier	204 454
Impractical / impossible to obtain three quotes	1 252 841
	3 347 785

Awards to family of persons in service of state

Name of person	Position	Name of family member	Relationship	Supplier name	Value of Award
Sisanda Ntozake	Benefits Clerk	Nomalizo Ntozake	Mother	Gci Gci trading	5 810
Vuyani Matanda	Supervisor	Nomazizi Matanda	Spouse	Peace Bible Shop	4 077
Nosipho Manjiya	Debtors and Free Basic Clerk	Sandise Manjiya	Brother	M265 Trading	6 850
					16 737

50. Budget differences

Material differences between budget and actual amounts

The actual expenditure for the following expenses exceeded the final budget by 10%:

50.1 Interest received on debtors

The 31.80% positive variance is due to increase in the gross debtors in our books. As debtors increase, the interest raised on such debtors increase resulting in a positive variance.

50.2 Income from Agency services

The -28.73% negative variance represents shortfall in the collection of this revenue source as a result of the no collection from vehicle registrations when the traffic section has been closed due to the COVID - 19 pandemic in April to June 2020.

50.3 Licences and Permits

The -34.60% negative variance was due to the closure of the traffic offices during the COVID - pandemic at which time there was no revenue from Licences and permits. Between April to June 2020 the offices were closed.

50.4 Other Income

Some of the revenue sources such as pound fees and pound sales were stopped as a result of no impounding of animals on the national roads. The truck broke down leading to no activity. The swimming pool is not functioning and is still under repairs. Also the COVID has affected the attendance to most of our public places where gate fees are collected.

50.5 Interest received on investments

The 60.43% positive variance is due to interest earned on more than expected funds kept in the municipality's call account for the greater part of the second half of the financial year.

50.6 Fines, Penalties and Forfeits

The 59.40% negative variance was largely due to the traffic fines which are not been paid by the traffic offenders both in the municipality's traffic offices and at the magistrate court.

50.7 Finance costs

The 414.66% positive variance was due to more than expected interest paid on overdue Eskom accounts during the year. As the municipality pays its Eskom arrear accounts so is the interest payments on these overdue accounts. The municipality also paid interest on SARS overdue accounts more than expected.

50.8 Other materials / Repairs & Maintenance

The 33.04% over expenditure is due more than expected repairs carried out on the municipality's service delivery trucks such as refuse trucks and bakkies.

50.9 Bulk purchases

The 47.40% over expenditure was due to higher invoices billed by Eskom monthly than expected during the year. The winter months' bills were almost twice the summer invoices in some instances. These were not anticipated.

50.10 General Expenses

The 27.10% over expenditure was due to settlement of some old debts for which payment arrangement has been entered into with these long standing creditors.

	2020	2019

50. Budget differences (continued)

50.11 Actuarial Gains

These actuarial gains were not anticipated and hence they were not budgeted.

50.12 Transfers recognised

Capital: The -56.40% negative variance on capital expenditure was due to under spending on the capital grants as a result of the COVID -19 lock down between March to June 2020. During the COVID - 19 lockdown, contractors could not work on these capital projects. The bulk of the MIG funds was only released to the municipality in March 2020 just before the lock down.

51. Statutory receivables

	2020	2019
Assessment rates	107 703 038	78 317 395
Traffic fines	2 668 668	1 434 101
	110 371 706	**79 751 496**

Section 229 of the Constitution entitles municipalities to impose rates on property in their areas, subject to regulation in terms of national legislation.

Property rates are levied in accordance with the Municipal Property Rates Act (act 6 of 2004) and the municipality's bylaws and rates policy.

Fines are imposed in accordance with the the National Road Traffic Act (act 93 of 1996) and the municipal bylaws.