Okhahlamba Local Municipality
(Registration number KZN 235)
Annual Financial Statements
for the year ended 30 June, 2019

General Information

Legal form of entity	Local Municipality
Municipal demarcation code	KZN 235
Capacity	Low
Nature of business and principal activities	Service Delivery: Rates,Waste Management and General services. Main business operations: Local government activities, planning and promotion of the integrated development plan, land, economic and environmental development. The mandate of the municipality is in terms of section 152 of the Constitution of South Africa.
Accounting Officer	Mr SN Malinga Pr. Techni Eng (Civil)
Councillors	Mayor - Cllr. MG Ndlangisa
	Deputy Mayor - Cllr. TG Ngozo
	Speaker - Cllr. SA Zulu
	Member of the Executive Committee - Cllr. TA Sigubudu
	Member of the Executive Committee - Cllr. KI Hadebe
	Member of the Executive Committee - Cllr. BM Dlamini
	Cllr. ENN Bhengu
	Cllr. MP Vilakazi
	Cllr. MJ Hadebe
	Cllr. MH Msimango
	Cllr. MH Hlatshwayo
	Cllr. SR Mlambo
	Cllr. KS Dladla
	Cllr. PP Sigubudu
	Cllr. MMS Vilakazi
	Cllr. K Simelane
	Cllr. PAM Mfuphi
	Cllr. RK Hlongwane
	Cllr. MI Dlamini
	Cllr. S Ndimande
	Cllr. TDJ Van Rensburg
	Cllr. IM Buthelezi
	Cllr. K Langa
	Cllr. SM Hlongwane
	Cllr. SM Buthelezi
	Cllr. JE Nqubuka
	Cllr. NA Mdakane
	Cllr. FE Buthelezi
	Cllr. SC Hadebe

General Information

Registered office	259 Kingsway Road Bergville Tel: 036 448 8000 communications@okhahlamba.gov.za
Postal address	P. O. Box 71 Bergville 3350
Bankers	First National Bank, ABSA Bank and Investec Bank
Auditors	Auditor General of South Africa
Preparer	The annual financial statements were internally compiled by: Senior Accountant and reviewed by acting Chief Financial Officer, Internal Audit and Risk Management and Communication.

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The reports and statements set out below comprise the annual financial statements presented to the Provincial Legislature:

SARS	South African Revenue Services
GRAP	Generally Recognised Accounting Practice
IGRAP	Interpretation of Generally Recognised Accounting Practice
LGSETA	Local Government Sectorial Education and Training Authority
INEP	Integrated National Electrification Programme
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers
WCF	Workman's Compensation Fund
COGTA	Co-operative Governance and Traditional Affairs
SETA WIL	Sectorial Education and Training Authority Work Intergrated Learning
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

Approval of Annual Financial Statements

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 are 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 judgments and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places 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, 2020 and in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 69, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 August 2019

Mr SN Malinga Pr. Techni Eng (Civil)
National Diploma in Civil Engineering, B Tech in Management, B Tech in Civil Engineering, Diploma in Project Management.

Date of Signature

30 August, 2019

Statement of Financial Position as at 30 June, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	6	435,722	357,276
Receivables from non-exchange transactions	7	3,084,238	625,415
VAT receivable	8	5,829,818	6,937,455
Consumer debtors	9	21,099,940	19,129,904
Cash and cash equivalents	11	26,657,949	29,591,731
		57,107,667	**56,641,781**
Non-Current Assets			
Property, plant and equipment	3	386,527,229	356,534,196
Intangible assets	4	734,600	948,539
Receivables from exchange transactions	6	1,666,667	694,444
		388,928,496	**358,177,179**
Non-Current Assets		388,928,496	358,177,179
Current Assets		57,107,667	56,641,781
Total Assets		**446,036,163**	**414,818,960**
Liabilities			
Current Liabilities			
Finance lease obligation	12	4,470,591	5,914,899
Payables from exchange transactions	15	33,203,508	24,722,670
Employee benefit obligation	5	160,000	214,000
Unspent conditional grants and receipts	13	11,132,548	10,490,755
Provisions	14	1,220,957	810,065
		50,187,604	**42,152,389**
Non-Current Liabilities			
Finance lease obligation	12	13,694,867	16,666,973
Employee benefit obligation	5	3,537,128	2,287,889
Provisions	14	6,363,000	4,286,106
		23,594,995	**23,240,968**
Non-Current Liabilities		23,594,995	23,240,968
Current Liabilities		50,187,604	42,152,389
Total Liabilities		**73,782,599**	**65,393,357**
Assets		446,036,163	414,818,960
Liabilities		(73,782,599)	(65,393,357)
Net Assets		**372,253,564**	**349,425,603**
Accumulated surplus		372,253,564	349,425,603

* See Note 34

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	2,612,356	2,438,098
Rendering of services		384,478	458,769
Rental of facilities and equipment		186,068	176,512
Agency services	21	3,646,893	3,161,995
Other income	20	208,959	550,493
Interest received	26	3,147,669	3,859,240
Total revenue from exchange transactions		**10,186,423**	**10,645,107**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	16	29,440,767	28,479,901
Property rates - penalties imposed	16	4,708,822	4,360,587
Transfer revenue			
Government grants	18	162,365,073	184,728,810
Public contributions and donations	19	3,970,690	-
Fines, penalties and forfeits		664,420	740,529
Subsidies		2,844,179	1,285,523
Total revenue from non-exchange transactions		**203,993,951**	**219,595,350**
		10,186,423	10,645,107
		203,993,951	219,595,350
Total revenue		**214,180,374**	**230,240,457**
Expenditure			
Employee related costs	23	(76,922,889)	(67,005,019)
Remuneration of councillors	24	(10,603,604)	(10,282,060)
Retirements benefits		(203,000)	(184,751)
Depreciation and amortisation	27	(20,330,736)	(19,015,224)
Finance costs	28	(2,018,488)	(1,272,882)
Lease rentals on operating lease		(1,566,089)	(1,566,089)
Debt Impairment	25	(8,562,109)	(7,027,794)
Landfill rehabilitation		(161,446)	(129,340)
General Expenses	22	(65,443,620)	(69,722,850)
Total expenditure		**(185,811,981)**	**(176,206,009)**
		-	-
Total revenue		214,180,374	230,240,457
Total expenditure		(185,811,981)	(176,206,009)
Operating surplus		**28,368,393**	**54,034,448**
Loss on disposal of assets and liabilities		(1,830,597)	(817,954)
Fair value adjustments		-	2,149,000
Actuarial gains/losses	5	(1,277,000)	383
Impairment loss/Reversal of impairments		(2,432,835)	(489,998)
		(5,540,432)	**841,431**
Operating surplus/deficit		(5,540,432)	841,431
Surplus before taxation		22,827,961	54,875,879
Taxation		-	-
Surplus for the year		**22,827,961**	**54,875,879**

* See Note 34

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	292,803,805	292,803,805
Adjustments		
Correction of errors (note 34)	1,745,919	1,745,919
Balance at 1 July, 2017 as restated*	**294,549,724**	**294,549,724**
Changes in net assets		
Surplus for the period	54,875,879	54,875,879
Total changes	54,875,879	54,875,879
Balance at 1 July, 2018	**349,425,603**	**349,425,603**
Changes in net assets		
Surplus for the year	22,827,961	22,827,961
Total changes	22,827,961	22,827,961
Balance at 30 June, 2019	**372,253,564**	**372,253,564**

* See Note 34

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, and other		30,655,305	28,970,457
Grants		163,006,866	175,494,506
Interest income		3,147,669	3,859,240
		196,809,840	208,324,203
Payments			
Employee costs		(87,526,493)	(77,287,079)
Suppliers		(53,317,641)	(67,662,241)
Finance costs		(2,018,488)	(1,272,883)
		(142,862,622)	(146,222,203)
Total receipts		196,809,840	208,324,203
Total payments		(142,862,622)	(146,222,203)
Net cash flows from operating activities	30	**53,947,218**	**62,102,000**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(50,659,238)	(79,767,435)
Proceeds from disposal of assets	3	334,686	843,441
Purchase of other intangible assets	4	(123,953)	(97,200)
Proceeds from sale of other intangible assets	4	2,407	11,558
Net cash flows from investing activities		**(50,446,098)**	**(79,009,636)**
Cash flows from financing activities			
Finance lease payments		(6,434,902)	15,123,282
Net cash flows from financing activities		**(6,434,902)**	**15,123,282**
Net increase/(decrease) in cash and cash equivalents		**(2,933,782)**	**(1,784,354)**
Cash and cash equivalents at the beginning of the year		29,591,731	31,376,087
Cash and cash equivalents at the end of the year	11	**26,657,949**	**29,591,733**

* See Note 34

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2,254,249	333,713	**2,587,962**	2,612,356	**24,394**	a
Rendering of services	701,816	(293,037)	**408,779**	384,478	**(24,301)**	b
Rental of facilities and equipment	115,398	48,602	**164,000**	186,068	**22,068**	c
Agency Services	3,700,000	(455,559)	**3,244,441**	3,646,893	**402,452**	d
Other income	460,603	(244,000)	**216,603**	208,959	**(7,644)**	e
Interest received - investment	3,312,000	-	**3,312,000**	3,147,669	**(164,331)**	f
Total revenue from exchange transactions	**10,544,066**	**(610,281)**	**9,933,785**	**10,186,423**	**252,638**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	32,119,561	(1,880,419)	**30,239,142**	29,440,767	**(798,375)**	g
Property rates - penalties imposed	5,637,322	(430,467)	**5,206,855**	4,708,822	**(498,033)**	h
Transfer revenue						
Government grants & subsidies	150,985,000	12,245,500	**163,230,500**	162,365,073	**(865,427)**	i
Public contributions and donations	-	-	**-**	3,970,690	**3,970,690**	j
Fines	600,000	-	**600,000**	664,420	**64,420**	k
Subsidies	2,647,000	136,597	**2,783,597**	2,844,179	**60,582**	l
Total revenue from non-exchange transactions	**191,988,883**	**10,071,211**	**202,060,094**	**203,993,951**	**1,933,857**	
'Total revenue from exchange transactions'	10,544,066	(610,281)	**9,933,785**	10,186,423	**252,638**	
'Total revenue from non-exchange transactions'	191,988,883	10,071,211	**202,060,094**	203,993,951	**1,933,857**	
Total revenue	**202,532,949**	**9,460,930**	**211,993,879**	**214,180,374**	**2,186,495**	
Expenditure						
Employee related costs	(81,785,249)	4,835,234	**(76,950,015)**	(76,922,889)	**27,126**	m
Remuneration of councillors	(10,220,565)	(460,467)	**(10,681,032)**	(10,603,604)	**77,428**	
Retirement benefits	-	(203,000)	**(203,000)**	(203,000)	**-**	
Depreciation and amortisation	(19,334,949)	(995,787)	**(20,330,736)**	(20,330,736)	**-**	
Impairment loss/ Reversal of impairments	-	(2,432,835)	**(2,432,835)**	(2,432,835)	**-**	
Finance costs	(1,900,000)	(118,488)	**(2,018,488)**	(2,018,488)	**-**	
Lease rentals on operating lease	(1,250,000)	(559,839)	**(1,809,839)**	(1,566,089)	**243,750**	n
Debt Impairment	(3,872,709)	(4,689,400)	**(8,562,109)**	(8,562,109)	**-**	
Landfill Rehabilitation	-	(161,446)	**(161,446)**	(161,446)	**-**	
General Expenses	(64,654,065)	(878,125)	**(65,532,190)**	(65,443,620)	**88,570**	o
Total expenditure	**(183,017,537)**	**(5,664,153)**	**(188,681,690)**	**(188,244,816)**	**436,874**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	202,532,949	9,460,930	**211,993,879**	214,180,374	**2,186,495**	
	(183,017,537)	(5,664,153)	**(188,681,690)**	(188,244,816)	**436,874**	
Operating surplus	**19,515,412**	**3,796,777**	**23,312,189**	**25,935,558**	**2,623,369**	
Loss on disposal of assets and liabilities	-	(1,830,597)	**(1,830,597)**	(1,830,597)	**-**	
Actuarial gains/losses	-	(1,277,000)	**(1,277,000)**	(1,277,000)	**-**	
	-	**(3,107,597)**	**(3,107,597)**	**(3,107,597)**	**-**	
	19,515,412	3,796,777	**23,312,189**	25,935,558	**2,623,369**	
	-	(3,107,597)	**(3,107,597)**	(3,107,597)	**-**	
Surplus after gains/losses	**19,515,412**	**689,180**	**20,204,592**	**22,827,961**	**2,623,369**	
Surplus for the period	19,515,412	689,180	**20,204,592**	22,827,961	**2,623,369**	
	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**19,515,412**	**689,180**	**20,204,592**	**22,827,961**	**2,623,369**	

Significant increase/decrease is explained below;
a) Service Charges: The municipal billing on refuse removal is more than what was anticipated at the time of preparing the adjustment budget, even though the budget was increased.

b) Rendering of Services: The municipality budget on staff parking is R 26 570, however the actual performance is R 7 319, this contributed to the under performance of this line item..

c) Rental of facilities: The municipality had anticipated less revenue, however there has been increase in the number of people using community halls.

d) Agency services: The municipality received more income from the licensing and testing centre than what was initially anticipated, because of the increase in the number learner's and driver's license applications.

e) Other income: The Municipality has over performance on tender fees R 85 913 (budget R 56 000), rates clearance certificates R 41 552 (budget R 29 567) and under performance on business licenses R 6 996 (budget R 37 374), photocopying fees R 50 182 (budget R 73 283).

f) Interest received - investments: The municipality has anticipated more interest on investments than what the municipality actually received, due to decrease in cash and cash equivalents.

g) Property rates: Additional rebates were offered to old age pensioners (i.e. 50% discount), however the budget did not provide /cater for such rebates, because the discounts depend on the number of applications. The Municipality gave additional rebates to Nondela as per the existing agreement, the municipality did not take this into account at the time of preparing the adjustments budget.

h) Property rates penalties: The Municipality reversed interest charged against Nondela account, that was incorrectly charged and at the time of preparing the adjustments budget this was not considered.

i) Government grants and subsidies : The municipality during the budget preparation expected to fully spend the allocations, however the following allocations remain unspent at year end:

Community Service Grant R 279 548, a rollover application has been made to use the funds in 2019/2020 financial year,
Small town rehabilitation grant amounting to R 64 441, savings have been declared on this grant,
Market stalls grant amounting to R 486 364 the project is underway,
Fresh produce grant amounting to R 81 474 , savings have been declared..

j) Public contributions and donations: The Municipality received donation from Health Systems Trust and Department of Arts and Culture that was not budgeted for.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

k) Fines: The law enforcement unit issued more traffic fines that what was initially anticipated due to increase in the number of traffic offenders.

l) Subsidies: The Municipality received additional subsidy from LGSeta that was not budgeted for.

m) Employee related cost : The municipality budgeted for vacant posts as per the approved organogram, some posts have not been filled including Director Technical Services.
n&o) As part of cost containment measures the Municipality has savings on these line items.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Capital Budget	35,475,000	12,967,022	**48,442,022**	50,884,218	**2,442,196**	

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.

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bringing 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 the date of acquisition.

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

Item	Depreciation method	Average useful life (Years)
Buildings	Straight line	30
Plant and machinery	Straight line	3 - 15
Motor vehicles	Straight line	7-10
Office equipment	Straight line	3 - 10
IT equipment	Straight line	3 - 10
Infrastructure	Straight line	
• Roads - Gravel	Straight line	3 - 10
• Roads - Tar	Straight line	10 - 15
• Paving	Straight line	5 - 30
Community	Straight line	
• Solid waste disposal	Straight line	5 - 25
• Community Assets	Straight line	5 - 30
leased Assets	Straight line	3 - 5

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

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

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

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

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

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

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

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

1.3 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.4 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

1.4 Intangible assets (continued)

Item	Useful life
Computer software, other	3 - 5 years

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

1.5 Financial instruments

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument or based on any available observable market data.

The fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Accounting Policies

1.5 Financial instruments (continued)

Reclassification

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

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

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

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

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

Financial liabilities

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

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

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

1.5 Financial instruments (continued)

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is 10 to 12%

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

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

Operating leases - lessee

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

1.7 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also 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.

Discount rate

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

1.7 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.8 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.

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.9 Employee benefits

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans

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

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

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Accounting Policies

1.9 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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.

Long service awards

The municipality offers long service award/bonus to an employee that has completed the following periods:

5 years service = 5 days
10 years service = 10 days
15 years service = 20 days
20-45 years service = 30 days

The employees may elect to either take or encash the days, the encashment or taking of the leave must take place in the same year that employee qualifies for the recognition/long service leave.

Based on previous experience, employees elect encashment of the days over taking leave days.

An employee that has 5 or more years service with the municipality and leaves the the service of the municipality for any reason whatsoever, excluding reasons relating to misconduct, shall receive a pro rata long service bonus for any uncompleted period stipulated above.

Accounting Policies

1.10 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

1.10 Provisions and contingencies (continued)

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

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

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

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

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

Landfil Rehabilitation Provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the provision is based on the expected future cost to rehabilitate of the various site discounted back to the statement of position at the cost of capital, which is currently 3.23% (2018: 3.63%).

The municipality has an obligation to rehabilitate these landfill sites. The cost of such property includes the initial estimate of the cost of rehabilitating the land and restoring the site on which it is located, the obligation which the municipality incurs as a consequence of having used the property during a particular year for landfill purposes. The municipality estimates the useful lives and makes assumption to the useful lives of these assets, which influences the provision for future costs.

The asset is measured using the cost model :
a) subject to (b), changes in the liability are added to, deducted from, the cost of the related assets in the current period;
b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. if it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.11 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and

Accounting Policies

1.11 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded. Commitments are disclosed inclusive of VAT.

1.12 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.

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 timeframe 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 surveys of work performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, 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.

1.13 Revenue from non-exchange transactions

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

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.

Accounting Policies

1.13 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.

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

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

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

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.

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.

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

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

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

Gifts and donations, including goods in-kind

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

Accounting Policies

1.14 Investment income

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

1.15 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

The assessment of whether an 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.

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.

1.16 Comparative figures

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

1.17 Unauthorised expenditure

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

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 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.

1.20 Budget information

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

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

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

The approved budget covers the fiscal period from 2018-07-01 to 2019-06-30.

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

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

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

Comparative information is not required.

1.21 Related parties

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

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

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

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

1.22 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

1.23 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:

Impairment testing

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.

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 14 - Provisions.

Allowance for doubtful debts

The Municipality's management in exercising reasonable judgement in determining the provision for doubtful debt has considered GRAP 104, the assessment of the debtors and taking into account the risk factors presented by the debtors (type of debtor, amounts owing, payments history, economic indicators).
Changes to the assumptions used are accounted for as a change in accounting estimates in terms of GRAP 3.

1.24 Statutory receivables

Identification

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

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

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

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

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

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.

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);

Accounting Policies

1.24 Statutory receivables (continued)

- impairment losses; and
- amounts derecognised.

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
- 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:
  - derecognise 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.

1.25 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.

1.26 Service concession arrangements: Municipality as grantor

Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

A grantor is the municipality that grants the right to use the service concession asset to the operator.

A mandated function involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor’s mandate.

An operator is the entity that uses the service concession asset to provide a mandated function subject to the grantor’s control of the asset.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator; or
- is provided by the grantor which:
  - is an existing asset of the grantor; or
  - is an upgrade to an existing asset of the grantor.

Recognition of asset and liability

The municipality recognises an asset provided by the operator and an upgrade to an existing asset of the entity, as a service concession asset if the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the municipality controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a “whole-of-life” asset).

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Accounting Policies

1.26 Service concession arrangements: Municipality as grantor (continued)

Where the municipality recognises a service concession asset, and the asset is not an existing asset of the municipality (grantor), the municipality (grantor) also recognises a liability.

The municipality does not recognise a liability when an existing asset of the entity is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

Measurement of asset and liability

The municipality initially measures the service concession asset as follows:
- Where the asset is not an existing asset of the entity, the asset is measured at its fair value.
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

The municipality initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the municipality to the operator, or from the operator to the municipality.

Dividing the arrangement

If the municipality pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

Other liabilities, contingent liabilities and contingent assets

The municipality accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.

Other revenues

The municipality accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

1.27 Off setting

Assets and liabilities, revenue and expenses should not be offset; these items should be reported separately. Offsetting is permitted only if it is required or permitted by other standards of GRAP (GRAP 25) , Legislation or where offsetting reflects the substance of the transaction or the event.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

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 1 July, 2019 or later periods:

GRAP 32 Service Concession Arrangement : Grantor

The Municipality has used this standard in developing an accounting policy as per directive 5. The transitional provision for this standard in terms of directive 4 is as follows:

When the municipality initially adopts a standard of GRAP, GRAP 3 requires a municipality to apply the requirements of the standard being adopted retrospectively.

GRAP 108 Statutory Receivables

The Municipality has used this standard in developing an accounting policy as per directive 5. The transitional provision for this standard in terms of directive 4 is as follows:

When the municipality initially adopts a standard of GRAP, GRAP 3 requires a municipality to apply the requirements of the standard being adopted retrospectively, except for those changes specified in paragraphs .136 and 137.

GRAP 109 Accounting by principalsand Agents

The Municipality has used this standard in developing an accounting policy as per directive 5. The transitional provision for this standard in terms of directive 4 is as follows:

When the municipality initially adopts a standard of GRAP, GRAP 3 requires a municipality to apply the requirements of the standard being adopted retrospectively.

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 32: Service Concession Arrangements: Grantor	1 April, 2019	Impact is currently being assessed
• GRAP 108: Statutory Receivables	1 April, 2019	Impact is currently being assessed
• GRAP 109: Accounting by Principals and Agents	1 April, 2019	Impact is currently being assessed

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	8,995,934	-	8,995,934	9,020,868	-	9,020,868
Buildings	210,261,788	(28,957,182)	181,304,606	186,434,535	(23,891,860)	162,542,675
Plant and machinery	7,853,577	(2,907,476)	4,946,101	6,794,761	(1,871,326)	4,923,435
Motor vehicles	46,001,519	(25,834,474)	20,167,045	45,770,976	(21,728,668)	24,042,308
Office equipment	5,308,946	(2,913,606)	2,395,340	4,074,180	(2,519,009)	1,555,171
IT equipment	4,157,127	(2,199,504)	1,957,623	3,495,498	(1,682,625)	1,812,873
Infrastructure	215,805,944	(49,920,081)	165,885,863	194,044,655	(42,374,430)	151,670,225
Community	6,850,915	(5,976,198)	874,717	4,461,804	(3,495,163)	966,641
Total	**505,235,750**	**(118,708,521)**	**386,527,229**	**454,097,277**	**(97,563,081)**	**356,534,196**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Work in progress	Disposals	Other movement	Donated assets	Depreciation	Impairment loss	Total
Land	9,020,868	-	-	(20,779)	(4,155)	-	-	-	8,995,934
Buildings	162,542,675	66,520	21,475,040	(719,346)	-	3,074,554	(5,134,837)	-	181,304,606
Plant and machinery	4,923,435	1,079,711	-	(17,026)	-	26,443	(1,066,462)	-	4,946,101
Motor vehicles	24,042,308	566,562	-	(123,810)	-	-	(4,318,015)	-	20,167,045
Office equipment	1,555,171	823,860	-	(27,972)	-	589,296	(545,015)	-	2,395,340
IT equipment	1,812,873	599,423	-	(29,050)	-	236,873	(662,496)	-	1,957,623
Infrastructure	151,670,225	105,120	23,510,167	(1,199,214)	4,155	-	(8,204,590)	-	165,885,863
Community	966,641	2,432,835	-	(28,086)	-	-	(63,838)	(2,432,835)	874,717
	356,534,196	**5,674,031**	**44,985,207**	**(2,165,283)**	**-**	**3,927,166**	**(19,995,253)**	**(2,432,835)**	**386,527,229**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Work in progress	Disposals	Other Movement	Fair value additions	Depreciation	Impairment loss	Total
Land	6,872,868	-	-	(1,000)	-	2,149,000	-	-	9,020,868
Buildings	125,582,540	-	40,813,153	-	-	-	(3,853,018)	-	162,542,675
Plant and machinery	3,677,876	2,141,133	-	(59,502)	-	-	(836,072)	-	4,923,435
Motor vehicles	4,340,926	17,967,054	-	-	6,049,324	-	(4,314,996)	-	24,042,308
Office equipment	2,193,300	8,500	-	(64,774)	-	-	(581,855)	-	1,555,171
IT equipment	1,774,742	631,081	-	(71,804)	-	-	(521,146)	-	1,812,873
Infrastructure	143,634,168	767,204	17,279,942	(1,399,768)	-	-	(8,342,021)	(269,300)	151,670,225
Community	1,221,684	159,368	-	(64,547)	-	-	(129,167)	(220,697)	966,641
Leased Assets	6,049,324	-	-	-	(6,049,324)	-	-	-	-
	295,347,428	**21,674,340**	**58,093,095**	**(1,661,395)**	**-**	**2,149,000**	**(18,578,275)**	**(489,997)**	**356,534,196**

Pledged as security assets

Included in Motor Vehicles is an amount of R R 18 634 641 and included in IT equipment is an amount of R 183 328 leased assets pledged as security to Vodacom for laptops and ABSA for plant and machinery bought finance lease.

Donations

The municipality received a donation in a form of IT equipment amounting to R 80 616 and Plant and machinery amounting to R 26 443 from Health Systems Trust to assist in Sukuma Sakhe war rooms at ward levels.

The municipality received a donation in a form of IT equipment amounting to R 156 257, buildlings amounting to R 3 074 554 and office equipment amounting to R 589 296, from the Department of Arts and Culture for the new library at eMamfemfetheni.

Total donated assets R 3 927 165 (2018: R 0)

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Buildings	Included within Infrastructure	Total
Opening balance	60,586,641	7,927,231	68,513,872
Additions/capital expenditure	21,475,040	23,510,167	44,985,207
Disposals	(623,958)	-	(623,958)
Transferred to completed projects	(46,112,156)	(7,923,086)	(54,035,242)
	35,325,567	**23,514,312**	**58,839,879**

Reconciliation of Work-in-Progress 2018

	Included within Building	Included within Infrastructure	Total
Opening balance	30,707,193	9,060,239	39,767,432
Additions/capital expenditure	40,813,153	17,279,942	58,093,095
Transferred to completed projects	(10,933,705)	(18,412,950)	(29,346,655)
	60,586,641	**7,927,231**	**68,513,872**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Amount paid to employees	4,269,995	3,737,301
Amount paid to suppliers	2,869,857	4,633,098
Materials	3,678,410	1,400,259
Fuel and oil	3,764,206	888,914
	14,582,468	**10,659,572**

Repairs and maintenance on Property, Plant and Equipment is detailed as follows:

Amount paid to suppliers R 2 869 857 (2018:R 4 633 098), is included in general expenses (note 22) as sub-contracting services in the Statement of Financial Performance.

Employee related cost is the amount incurred on employees R 4 269 995 (2018: R 3 737 301), included in employee related cost in the Statement of Financial Performance.

Materials amounting to R 3 678 410 (2018: R 1 400 259) are included in general expenses (note 22) as consumables in the Statement of Financial Performance. Included in materials is concrete joint pipes, culverts and precast wall wings used in the maintenance of roads and infrastructure.

Fuel and oil amounting to R 3 764 206 (2018: R 888 914) is included in general expenses (note 22) in the Statement of Financial Position.

Property Plant and Equipment that is being constructed/developed

Early Childhood Development Centres (ward 5,8,9and 13)	-	6,542,819

Included in the Property, Plant and Equipment (under construction) is a project that has been identified as taking a significant longer period of time to complete than expected. The reason was poor performance from the contractor, was terminated and a new contractor was appointed (2018), the projects have been completed.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

3. Property, plant and equipment (continued)

There is no capital project that has been identified as taking a significant amount of time to complete in 2019, in relation to the estimated project timeline.

Notes to the Annual Financial Statements

Figures in Rand

4. Intangible assets

	2019			2018		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	2,266,273	(1,531,673)	734,600	2,153,969	(1,205,430)	948,539

Reconciliation of intangible assets - 2019

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software, other	948,539	123,953	(2,407)	(335,485)	734,600

Reconciliation of intangible assets - 2018

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software, other	1,299,846	97,200	(11,558)	(436,949)	948,539

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality operates an accredited medical aid scheme. The post retirement medial aid plan , to which 2018: 1 member belongs, consists of the Key Health Medical Scheme. Pensioners continue on the option they belong to on the day of their retirement.

The single member of the medical aid plan passed on in October 2018, the Municipality has derecognised the continuation pensioners liability.

The principal actuarial assumptions used were as follows:

Discount rate per annum	- %	8.28 %
Health care cost inflation rate	- %	7.08 %
Benchmark inflation (equal to salary inflation)	- %	5.58 %

The amounts recognised in the statement of financial position were		
Post retirement medical obligation	-	212,899

Reconciliation of the movement in the liability		
Opening balance	212,899	202,703
Interest cost	-	15,751
Expected employee benefit payments	(10,838)	(31,172)
Actuarial (gain)/loss	-	25,617
Derecognition of the liability	(202,061)	-
	-	**212,899**

Net expense recognised in the statement of financial performance		
Interest cost	-	15,751
Expected employee benefit payments	-	(31,172)
Actuarial (gain)/loss	-	25,617
	-	**10,196**

Post retirement pension plan

The Municipality's personnel are members of one of the Natal Joint Municipal Pension (NJMPF) retirement funds, namely the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi- employer funds, the allocation of any surplus/ deficit to individual municipalities cannot be determined.

Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to the users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans.

An independent valuer carries out statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2019 interim valuations have not been released.

Superannuation funds

The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2017 concluded that:

The Fund's liabilities for service to the valuation date was 100% (2017: 100 %) funded on the discounted cash flow method

At the valuation date:

Figures in Rand	2019	2018

5. Employee benefit obligations (continued)

The fund is 100% funded on the "best estimate" funding basis as at the valuation date, and is also not fully funded on the "financial soundness" basis incorporating the full solvency reserve.

There was no deficit in respect of active members. A surcharge of 9.5% of pensionable salaries is payable.

Retirement fund

The latest statutory valuation of the Retirement Fund (defined benefit) as at 31 March 2017 reflected:
The memorandum account in respect of pensioners was 95.3% funded
Based on the valuation assumptions applied in 2016, the Fund was fully funded, however based on revised assumptions the Funds liabilities for the contributory members exceeded the value of the assets and an extension of the surcharge for another 5 years would be necessary to return the funding level to 100%.

The statutory actuarial valuation carried out on the retirement fund as at 31 March 2017 reflected:
The Fund is 100% (2016: 93.8%) funded as at the valuation date at the overall level. A number of members is steadily reducing, due to members electing to transfer to one of other Natal Joint Funds or external fund. A recommendation is the current surcharge of 21.65% of pensionable salaries continues to be paid in order to build up the Solvency Reserve to the full theoretical level.

Provident fund

The latest statutory valuation of the Provident Fund was performed as at 31 March 2017.

Long service awards

The independent valuers, carried out a statutory valuation on the long service leave benefit as at 30 June 2019.

The principal actuarial assumptions used were as follows:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Employee benefit obligations (continued)

Discount rate per annum	7.80 %	9.32 %
Inflation rate per annum	4.68 %	6.38 %
Salary increase rate per annum	5.68 %	7.38 %
Active members	181	129

The amounts recognised in the statement of financial position

Post retirement gratuity obligation	3,697,128	2,288,990

Reconciliation in the movement of liability

Opening balance	2,288,990	2,114,990
Past service cost	-	-
Interest cost	203,000	169,000
Expected employee benefit payments/current service cost	259,000	234,000
Actuarial gain/ (loss)	1,277,000	(26,000)
Less municipality paid benefits	(330,862)	(203,000)
	3,697,128	**2,288,990**

Net expense recognised in the statement of financial performance

Past service cost	-	-
Interest cost	203,000	169,000
Expected employee benefit payments/current service cost	259,000	234,000
Actuarial gain/ (loss)	1,277,000	(26,000)
	1,739,000	**377,000**

In conclusion
Statement of financial position obligation for
Current liability

Long service awards	160,000	214,000

Statement of financial position obligation for
Non-current liability

Post - employment medical benefits	-	212,899
Long service awards	3,537,128	2,074,990
	3,537,128	**2,287,889**

Statement of financial performance obligation for

Post - employment medical benefits	-	10,196
Long service awards	462,000	377,000
	462,000	**387,196**

Employee benefits (gains) and losses

Post - employement medical benefit (gain)/loss	-	25,617
Long service awards (gain)/loss	1,277,000	(26,000)
	1,277,000	**(383)**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from exchange transactions

Current asset		
Operating lease receivables (Fresh Produce)	14,240	12,800
Operating lease prepayment (Landfill site)	277,778	277,778
Accrued interest	143,704	46,488
Debtor:Pitney Bowes	-	20,210
	435,722	**357,276**

Non current asset		
Operating lease prepayment (Landfill site)	1,666,667	694,444
	-	-
	1,666,667	**694,444**

7. Receivables from non-exchange transactions

Fines	714,730	605,098
Government grants - Market stalls	2,216,301	-
Sundry Debtors	153,207	17,994
Other receivables - Staff Debtors	-	2,323
	3,084,238	**625,415**

Government grants and subsidies - Market stalls relates to the amount owed by the Department of Small Business Development, there is an agreement between the municipality and the department, where the municipality pays for the construction of market stall from its coffers and the department will later pay the municipality after submitting claims and proof of payment to the department.

Included in Sundry debtors is an amount of R 108 899 that relates to alleged monies that have not been banked, the responsible employee has been suspended pending an investigation.

Reconciliation of Receivable from non exchange - Traffic fines

Gross balance	1,812,947	1,351,577
Debt impairment	(1,098,217)	(746,479)
	714,730	**605,098**

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

Opening balance	(746,478)	(562,540)
Provision for impairment	(351,738)	(183,938)
	(1,098,216)	**(746,478)**

8. VAT receivable

VAT	5,829,818	6,937,455

2018/19 Vat 201's were submitted to SARS up until 30 June 2019. Accounting treatment for VAT is on cash basis.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

9. Consumer debtors

Gross balances		
Rates	32,203,158	27,743,779
Refuse	4,460,521	2,158,137
Other debtors	16,828,911	13,655,681
	53,492,590	**43,557,597**
Less: Allowance for impairment		
Rates	(19,500,391)	(15,558,773)
Refuse	(2,701,036)	(1,210,288)
Other	(10,191,223)	(7,658,632)
	(32,392,650)	**(24,427,693)**
Net balance		
Rates	12,702,767	12,185,006
Refuse	1,759,485	947,849
Other	6,637,688	5,997,049
	21,099,940	**19,129,904**
Rates		
Current (0 -30 days)	2,109,052	2,547,540
31 - 60 days	1,140,101	1,188,340
61 - 90 days	887,459	1,143,160
91 - 120 days	784,859	901,927
121 - 150 days	742,270	774,132
> 150 days	26,539,415	21,188,679
	32,203,156	**27,743,778**
Refuse		
Current (0 -30 days)	236,568	218,575
31 - 60 days	214,557	188,324
61 - 90 days	200,785	187,076
91 - 120 days	198,093	184,885
121 - 150 days	197,199	182,347
> 150 days	3,413,319	1,196,931
	4,460,521	**2,158,138**
Other debtors		
Current (0 -30 days)	509,945	615,147
31 - 60 days	511,263	472,837
61 - 90 days	481,468	464,876
91 - 120 days	499,829	404,755
121 - 150 days	467,237	379,685
> 150 days	14,360,154	11,319,265
	16,829,896	**13,656,565**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(24,427,693)	(17,771,875)
Contributions to allowance	(8,210,370)	(6,804,915)
Debtors written off against allowance	245,413	149,097
	(32,392,650)	**(24,427,693)**

Other debtors per service type consists of interest charged on arrear accounts.

9. Consumer debtors (continued)

Consumer debtors impairment analysis

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June, 2019, R3 087 131 (2018: R 3 644 824) were past due but not impaired.

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

	2019	2018
Amount not past due or impaired	2,673,856	3,382,397
Amount past due but not impaired	3,087,131	3,644,824
Amount past due and impaired	47,732,615	36,531,213
	53,493,602	**43,558,434**

Consumer debtors impaired

As of 30 June, 2019, consumer debtors of R47 732 615 (2018: R 36,531,213) were impaired and provided for.

The amount of the provision was R 32 392 650 as at 30 June, 2019 (2018: R 24,427,693).

10. Consumer debtors disclosure

	2019	2018
Gross balances		
Organ of the State	12,302,944	10,734,661
Commercial	4,940,309	4,980,132
Households	12,451,084	9,077,911
Other	23,799,264	18,765,728
	53,493,601	**43,558,432**
Less: Allowance for impairment		
Organ of the State	(2,887,072)	(2,732,422)
Commercial	(1,015,224)	(474,756)
Households	(9,391,126)	(6,026,957)
Other	(19,099,229)	(15,193,558)
	(32,392,651)	**(24,427,693)**
Net balance		
Organ of the State	9,415,872	8,002,239
Commercial	3,925,085	4,505,376
Households	3,059,958	3,050,954
Other	4,700,035	3,572,170
	21,100,950	**19,130,739**
Organ of State		
Current (0 -30 days)	348,993	530,538
31 - 60 days	343,128	306,279
61 - 90 days	318,166	299,807
91 - 120 days	323,648	300,020
121 - 150 days	294,825	293,177
> 150 days	10,674,185	9,004,840
	12,302,945	**10,734,661**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Consumer debtors disclosure (continued)

Commercial		
Current (0 -30 days)	698,671	782,740
31 - 60 days	341,161	422,904
61 - 90 days	(114,140)	436,661
91 - 120 days	211,683	246,622
121 - 150 days	187,754	144,372
> 150 days	3,615,180	2,946,834
	4,940,309	**4,980,133**

Household		
Current (0 -30 days)	724,095	834,472
31 - 60 days	468,682	532,926
61 - 90 days	427,665	481,919
91 - 120 days	409,670	461,392
121 - 150 days	387,195	436,628
> 150 days	10,033,776	6,330,575
	12,451,083	**9,077,912**

Other		
Current (0 -30 days)	953,119	1,068,847
31 - 60 days	574,579	522,511
61 - 90 days	562,874	485,816
91 - 120 days	526,829	455,683
121 - 150 days	452,636	435,237
> 150 days	19,283,743	14,922,819
Credit balances	1,445,484	874,816
	23,799,264	**18,765,729**

Included in Other is Agricultural, Industrial,Tourism, Privately Developed Estates properties, unregistered land.

Credit balances R 1 445 484 (2018: R 874 816) have been added to the gross debtors and have been included in payables from exchange transactions note 15.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,195	6,195
Bank balances	2,590,344	3,486,751
Short-term deposits	24,061,410	26,098,785
	26,657,949	**29,591,731**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June, 2019	**30 June, 2018**	**30 June, 2019**	**30 June, 2018**
First National Bank: 51660362710 Cheque Account	2,590,344	3,486,751	2,590,344	3,486,751
First National Bank: 62752942063:Cheque Account	1,482,710	292,636	1,482,710	292,636
First National Bank: 74484485427 Fixed Deposit	4,256,129	8,647,150	4,256,129	8,647,150
Absa Bank: 2074514859: Fixed Deposit	14,148,723	13,247,162	14,148,723	13,247,162
Investec : 1100463208500	4,173,848	3,911,837	4,173,848	3,911,837
Total	**26,651,754**	**29,585,536**	**26,651,754**	**29,585,536**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

12. Finance lease obligation

Minimum lease payments due		
- within one year	5,399,603	7,095,566
- in second to fifth year inclusive	16,279,997	20,737,026
	21,679,600	27,832,592
less: future finance charges	(3,514,142)	(5,250,674)
Present value of minimum lease payments	**18,165,458**	**22,581,918**

Present value of minimum lease payments due		
- within one year	4,470,591	5,914,899
- in second to fifth year inclusive	13,694,867	16,667,019
	18,165,458	**22,581,918**

Non-current liabilities	13,694,867	16,666,973
Current liabilities	4,470,591	5,914,899
	18,165,458	**22,581,872**

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.The assets leased include vehicles and laptops.

ABSA Lease Agreements

The municipality has entered into a finance lease agreement with ABSA during 2017/2018 financial year to finance plant and machinery.

The average lease term is 3-5 years and the fixed borrowing rate for vehicles is 10.25%.

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

Included in motor vehicles is an amount of R 18 634 641 and included in IT equipment is an amount of R 183 328. See note 3.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Human Settlements Housing Grant	798,717	290,487
Fresh Produce Market Grant	81,474	245,500
Housing Projects Grant	9,900,153	9,900,153
Local Government Sectorial Education and Training Authority Grant	8,215	54,615
Small Town Rehabilitation Grant	64,441	-
Community Service Centre Grant	279,548	-
	11,132,548	**10,490,755**

The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance received by the municipality. Unfulfilled conditions remains a liability at year end and are disclosed in the statement of financial position.

See note 18 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Interest Cost	Payments	Increase in the future value	Total
Environmental rehabilitation	4,447,552	-	161,446	-	2,432,835	7,041,833
Performance Bonuses	648,619	577,873	-	(684,368)	-	542,124
	5,096,171	**577,873**	**161,446**	**(684,368)**	**2,432,835**	**7,583,957**

Reconciliation of provisions - 2018

	Opening Balance	Additions	Interest costs	Increase in future value	Total
Environmental rehabilitation	4,158,844	-	129,340	159,368	4,447,552
Performance bonuses	637,120	11,499	-	-	648,619
	4,795,964	**11,499**	**129,340**	**159,368**	**5,096,171**

	2019	2018
Non-current liabilities	6,363,000	4,286,106
Current liabilities	1,220,957	810,065
	7,583,957	**5,096,171**

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate the landfill site used for waste disposal. It is calculated as the present value of the future obligation discounted at 3.23% over a nil remaining useful life.

Balance of the provision for landfill site rehabilitation R 7 041 833 (2018: R 4 447 552)
Increase in the cost of property, plant and equipment R2 432 835 (2018: R159 368).

The provisions includes the Section 57 employees performance bonuses, the position for Director Technical Services was vacant, this led to the decrease in provision.

15. Payables from exchange transactions

	2019	2018
Trade payables	8,758,998	6,320,718
Payments received in advanced	1,445,484	874,815
Retention	15,586,647	11,512,136
Leave pay accrual	5,223,049	4,307,858
Unallocated Receipts	224,384	155,865
Sundry Payables	10,200	93,436
13th Cheque Accrual	1,954,746	1,457,842
	33,203,508	**24,722,670**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

16. Property rates

Rates received

Residential	8,678,605	13,145,549
Commercial	3,104,151	3,856,158
State	6,533,749	6,138,350
Municipal	746,139	813,118
Small holdings and farms	7,518,847	7,077,109
Communal Land	5,591,291	3,027,017
Other properties	14,751,765	7,733,983
Less: Income forgone	(17,483,780)	(13,311,383)
	29,440,767	28,479,901
Property rates - penalties imposed	4,708,822	4,360,587
	34,149,589	**32,840,488**

Valuations

Residential	996,060,000	1,237,916,000
Commercial	353,370,000	355,370,000
State	747,570,000	747,570,000
Municipal	81,610,000	96,650,000
Small holdings and farms	3,448,078,000	3,447,378,000
Communal Land	639,736,000	381,550,000
Other	1,711,463,401	1,502,030,401
	7,977,887,401	**7,768,464,401**

Valuations on properties are performed every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.Interim valuations have been received for the 2018/19 financial year.

Assessments rates are determined by applying the following cents in the Rand on the market valuation:

Agriculture properties used for agriculture purposes	0.00218	0.00207
Business and commercial properties	0.00874	0.00831
Industrial properties	0.00874	0.00831
Municipal properties, land reform, informal settlements, public worship	0.00874	0.00831
Public service infrastructure and Public benefit organisations	0.00218	0.00207
Residential Properties and State	0.00874	0.00831
Communal Land, Privately Developed, Tourism and Hospitality	0.00874	0.00831
Municipal properties binded by lease agreement	0.00874	0.00831
Rebates granted to:		
Agricultural and Agricultural small holdings	20 %	20 %
Place of Worship, Communal Land and Municipal Property	100 %	100 %
Privately Developed Estates	20 %	20 %
Public Service Infrastructure	100 %	100 %
Residential small holding and rural residential	20 %	20 %
Tourism and hospitality	20 %	20 %

A rebate is granted in terms of the Municipal Property Rates Act on the first R15 000 of the market value of all residential properties . Public Service Infrastructure are permitted a 100% impermissible exemption.

An additional rebate is allowed on the next R85 000 of all properties within a residential category. A 20% rebate is allowed for other properties based on the category of the property.

Pensioners receive a 50% rebate on application. 100% indigent rebates are offered to qualifying applicants with total household income not exceeding R 3 560 per month. A 5% discount is applicable to rates settled on calculation,application and paid in advance for a specific financial year.

Figures in Rand	2019	2018

16. Property rates (continued)

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 31 July 2019.

Interest at a fixed rate of 18% per annum (2018: 18 %) is levied on the rates outstanding one month after due date.

17. Service charges

Refuse removal	2,612,356	2,438,098

18. Government grants

Operating grants		
Equitable Share	110,874,000	102,863,000
Financial Management Grant (FMG)	1,900,000	1,900,000
Integrated National Electrification Programme Grant (INEP)	7,984,000	13,000,000
Expanded Public Works Programme (EPWP)	2,432,000	3,911,000
Local Government Sectorial Education and Training Authority (LG SETA)	46,400	792,985
Massification Grant	-	2,211,150
	123,236,400	124,678,135
Capital grants		
Municipal Infrastructure Grant (MIG)	32,295,000	33,742,045
Small town rehabilitation grant	1,935,559	-
Market stalls grant	4,513,636	-
Fresh Produce Market	164,026	1,254,500
Bergville Community Service Centre Grant	220,452	12,329,472
Department of Rural Development Grant	-	12,724,658
	39,128,673	60,050,675
	162,365,073	**184,728,810**

Equitable Share

Current-year receipts	110,874,000	102,863,000

In terms of the Constitution of South Africa, this grant is used to subsidise provision for basic services and for the municipality's operations.

Finance Management Grant (FMG)

Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,900,000)	(1,900,000)
	-	**-**

This grant was used for implementation of MSCOA, physical verification of assets and payments of finance interns. No funds were withheld.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

18. Government grants (continued)

Gijima KZN - Baseline Study Grant

Balance unspent at beginning of year	-	46,438
Other- transferred to revenue as per the Council resolution	-	(46,438)
	-	**-**

This grant is used for the local economic development study. No funds were withheld.

Spatial Planning Grant

Balance unspent at beginning of year	-	7,088
Other- transferred to revenue as per the Council resolution	-	(7,088)
Balance unspent	**-**	**-**

This grant was used for the development and improvement of the Municipality's spatial planning. No funds were withheld.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	-
Current-year receipts	32,295,000	33,742,000
Conditions met - transferred to revenue	(32,295,000)	(33,742,000)
	-	**-**

The grant is for the implementation of projects approved by MIG. No funds were withheld.

Massification Grant (Cogta)

Balance unspent at beginning of year	-	2,211,150
Conditions met - transferred to revenue	-	(2,211,150)
	-	**-**

This grant is for Electrification of households for Dukuza,Ebusingatha and Sandlwana Electrification project. No funds were withheld.

Cogta- Fresh Produce Market

Balance unspent at beginning of year	245,500	-
Current-year receipts	-	1,500,000
Conditions met - transferred to revenue	(164,026)	(1,254,500)
	81,474	**245,500**

Conditions still to be met - remain liabilities (see note 13).

This grant is for operations of the Fresh Produce Market. No funds were withheld.

Figures in Rand	2019	2018

18. Government grants (continued)

Small Town Rehabilitation Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(1,935,559)	-
	64,441	**-**

Conditions still to be met - remain liabilities (see note 13)

This grant is for the rehabilitation of Caravan park. No funds were withheld.

Market Stalls Grant

Current-year receipts	2,297,335	-
Conditions met - transferred to revenue	(4,513,636)	-
	(2,216,301)	**-**

The Municipality pays for the project from its coffers, then submit claims and proof of payments to the Department of Small Business Development, the department then makes a transfer to the Municipality see note 7. The total funding is R 5 000 000.

This grant is for the construction on market stalls. No funds were withheld.

Department of Human Settlements grant

Balance unspent at beginning of year	290,487	-
Current-year receipts	24,469,685	290,487
Other (Conditions met - no revenue recognised)	(23,961,454)	-
	798,718	**290,487**

Conditions still to be met - remain liabilities (see note 13).

This grant is for housing projects, the value of the invoice for the work done by the contractor is transferred to the municipality by the Department of Human Settlement, after the contractor has submitted the claims or invoices to the department. No funds were withheld.

Integrated National Eletrification Programme (INEP)

Current-year receipts	7,984,000	13,000,000
Conditions met - transferred to revenue	(7,984,000)	(13,000,000)
	-	**-**

This grant is for the electrification of households. No funds were withheld.

Housing Projects

Balance unspent at beginning of year	9,900,153	9,900,153

Conditions still to be met - remain liabilities (see note 13).

There are ongoing engagements between the municipality and the Department of Human Settlement in relation to the existence of this liability.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

18. Government grants (continued)

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	-	-
Current-year receipts	2,432,000	3,911,000
Conditions met - transferred to revenue	(2,432,000)	(3,911,000)
	-	**-**

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme.No funds were withheld.

Local Government Sectorial Education and Training Authority Grant (LG SETA)

Balance unspent at beginning of year	54,615	6,100
Current-year receipts	-	841,500
Conditions met - transferred to revenue	(46,400)	(792,985)
	8,215	**54,615**

Conditions still to be met - remain liabilities (see note 13).

This grant is provided for the Work Integrated Learning Programme in implementing the National Skills Development Strategy for the provision of experiential training to further education and training of graduates. No funds were withheld.

Community Service Centre Grant

Balance unspent at beginning of year	-	4,829,472
Current-year receipts	500,000	7,500,000
Conditions met - transferred to revenue	(220,452)	(12,329,472)
	279,548	**-**

Conditions still to be met - remain liabilities (see note 13)

The grant is for the construction of the Community Service Centre .No funds were withheld.

Rural Development Grant

Balance unspent at beginning of year	-	2,724,658
Current-year receipts	-	10,000,000
Conditions met - transferred to revenue	-	(12,724,658)
	-	**-**

This grant is for the Construction of the Sports Complex. No funds were withheld.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Public contributions and donations

Public contributions and donations	3,970,690	-

The municipality received donation in a form of laptops, projectors and PA system from Health Systems trust, to assist in Sukuma Sakhe War rooms at ward levels.

The municipality received donation in a form of computers, office furniture, guard house and a modular library from the Department of Arts and Culture for the new library in eMamfemfetheni.

Total assets donated R 3 927 166, an amount of R 43 525 is donation not capital in nature.

20. Other income

Business Licenses	6,996	16,419
Fees for photocopies and subscriptions	50,182	60,629
Rates Clearance	41,522	29,591
Tenders	86,218	237,612
Valuation Roll	957	1,579
Taxi Rank Fees	22,933	19,241
Sundry Revenue	151	185,422
	208,959	**550,493**

Included in Sundry revenue (2018) are the unclaimed monies recognised as Revenue e.g. Water Affairs fees, hall deposits, unknown deposits.

21. Agency services

Driver's Licenses	2,761,800	2,159,802
Vehicle Registration	885,093	1,002,193
	3,646,893	**3,161,995**

The municipality receives 8.55% on amounts collected for vehicle registrations since this is the function of Deaprtment of Transport.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

22. General expenses

Advertising	300,390	530,104
Audit committee fees	221,735	241,536
Auditors remuneration	1,929,054	1,899,987
Bank charges	40,688	58,124
Communications and public relations	128,655	133,000
Conferences and seminars	177,725	5,000
Consulting and professional Services	3,854,776	6,207,855
Consumables	4,951,739	2,735,522
Disaster and emergencies	32,300	16,758
Education support	1,350,852	1,093,562
Electricity	1,569,355	1,883,904
Electrification projects	7,796,632	14,634,552
Free basic electricity	946,780	910,657
Fuel and oil	5,858,544	5,933,689
IT expenses	1,847,383	1,665,260
Insurance	733,615	864,924
Learnership programme	-	714,518
License fees	694,970	968,411
Marketing	186,835	39,866
Medical expenses	131,202	16,770
Pauper burials	176,900	206,800
Postage and courier	53,896	137,007
Printing and stationery	1,106,492	950,483
Public participation	2,439,431	2,331,528
Refreshments	462,324	432,017
Rental of offices and office machines	647,342	429,360
SMME fund	6,651,963	7,015,570
Scholar patrol	90,360	62,260
Security (guarding of municipal properties)	3,211,216	3,288,655
Sport promotions	1,693,949	2,054,373
Strategic planning	381,674	524,433
Sub-contracting services	3,008,352	2,620,388
Subscriptions and membership fees	1,007,559	703,368
Subsistence and travelling reimbursement	1,387,728	1,983,745
Telephone and fax	6,275,961	2,426,951
Tourism Development	528,733	187,200
Traffic signs and roadmarkings	27,800	89,763
Training	799,722	1,481,157
Uniform	720,232	570,372
Valuation expense	65,426	702,895
Ward committee	1,649,000	795,000
Water	304,330	175,526
	65,443,620	**69,722,850**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

23. Employee related costs

Basic	54,042,589	45,690,604
Bonus	4,343,022	3,450,544
Medical aid - company contributions	1,297,871	1,361,060
UIF	447,237	400,162
WCF	558,356	785,467
SDL	620,905	664,623
Leave pay provision charge	2,018,670	1,974,949
Overtime payments	2,058,775	2,212,858
Long-service awards	259,000	214,580
Car allowance	2,629,307	2,719,669
Housing benefits and allowances	308,952	429,407
SALGA	21,831	11,971
Post employee benefits- Pension	8,316,374	7,089,125
	76,922,889	**67,005,019**

Remuneration of Municipal Manager

Annual Remuneration	634,306	970,608
Car Allowance	126,000	180,000
Performance Bonuses	153,392	153,392
	913,698	**1,304,000**

Remuneration of Chief Finance Officer

Annual Remuneration	797,180	527,210
Car Allowance	216,000	162,000
Housing Allowance	-	37,500
Performance Bonus	132,744	-
	1,145,924	**726,710**

Remuneration of Director Social Services

Annual Remuneration	672,535	654,408
Car Allowance	168,000	168,000
Performance Bonuses	132,744	123,807
Housing Allowances	120,000	120,000
	1,093,279	**1,066,215**

Remuneration of Director Technical Services

Annual Remuneration	329,235	606,885
Car Allowance	96,000	192,000
Housing Allowances	71,428	142,857
Performance Bonuses	132,744	123,807
	629,407	**1,065,549**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

23. Employee related costs (continued)

Remuneration of Director Corporate Services

Annual Remuneration	770,420	941,188
Car Allowance	189,400	184,400
Performance Bonuses	132,744	151,085
	1,092,564	**1,276,673**

24. Remuneration of councillors

Councillors	10,500,452	10,181,754
SDL and UIF	103,152	100,306
	10,603,604	**10,282,060**

Mayor		
Annual Remuneration	827,749	799,513
Subsistence and travel reimbursements	7,719	-
Cellphone Allowance	44,400	40,800
SDL	8,771	8,403
	888,639	**848,716**

Deputy Mayor		
Annual Remuneration	662,200	640,331
Cellphone Allowance	44,400	40,800
SDL	7,066	6,811
	713,666	**687,942**

Speaker		
Annual Remuneration	662,200	640,331
Cellphone Allowance	44,400	40,800
SDL	7,066	6,811
	713,666	**687,942**

Exco		
Annual Remuneration	940,514	1,009,854
Travel Allowance	98,503	-
Cellphone Allowance	133,200	122,400
Subsistence and travel reimbursements	15,614	23,734
SDL	11,560	11,339
	1,199,391	**1,167,327**

Councillors		
Annual Remuneration	5,888,696	5,879,797
Travel Allowance	143,360	35,841
Cellphone Allowance	1,010,830	931,287
Subsistence and travel reimbursements	20,156	58,930
SDL	68,688	66,941
	7,131,730	**6,972,796**

24. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has four full-time bodyguards/drivers and the use of a Council owned vehicle.

The Deputy Mayor has three full-time bodyguards/drivers and the use of a Council owned vehicle.

The Speaker has three full-time bodyguards/drivers and the use of a Council owned vehicle .

Accounting Officer's certification of Councillors remuneration

The Accounting Officer certifies that the salaries, allowances and benefits of Councillors as disclosed above are within the upper limits of the framework envisaged in Section 219 of the Constitution read with the Remuneration of Public Office Bearer's Act.

Subsistence and travelling reimbursement

The councillors' subsistence and travelling reimbursement R 43 489 is included under general expenses in the statement of Financial Performance.

25. Debt impairment

	2019	2018
Debt impairment - Consumer debtors	8,210,371	6,843,856
Debt impairment-Traffic fines	351,738	183,938
	8,562,109	**7,027,794**

Debt impairment for consumer debtors is R 8 210 371. Increase in provision from R 24 182 280 (2018:R 24 427 693 - R 245 413) to 2019: R32 392 650. An amount of R 245 413 was written off against the debt impairment.

Debt impairment for traffic fines is R 351 738, the provision increased from 2018: R 746 478 to 2019: 1 098 216.

26. Interest received

	2019	2018
Interest revenue		
Interest received - Current Account	1,218,608	1,684,033
Interest received - Investments	1,929,061	2,175,207
	3,147,669	**3,859,240**

27. Depreciation and amortisation

	2019	2018
Property, plant and equipment	19,995,253	18,578,276
Intangible assets	335,485	436,949
	20,330,738	**19,015,225**

Refer to reconciliation in note 3 and 4 for further details. Depreciation and amortisation is calculated over the useful life of the asset and reflects the realisation of that asset through continued use.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

28. Finance costs

Finance leases	2,018,488	1,272,882

29. Operating lease

The Municipality entered into an operating lease agreement as from 01 July 2017 for a period of 3 years with RICOH, leasing photocopier machines and a monthly rental expense is accounted for in the Statement of Financial Performance . The average lease term is 3 years with 0% escalation. The rental is fixed for the duration of the contract.

The Municipality further entered into an operating lease agreement as from 01 July 2017 for a period of 9 years with MZ Hlatshwayo. Leasing a land for the pound and landfill site. The payment is to made in two equal payments within 2 financial years starting from the 2017/2018 and 2018/2019 financial years. Operating lease payment is accounted for in the Statement of Financial Performance and prepaid expense is accounted for in the Statement of Financial Position. The lease term is 9 years with 0% escalation.

Minimum Lease Due - Photocopier		
1 year	1,288,311	1,288,311
2 - 3 years	-	1,288,311
	1,288,311	**2,576,622**

Minimum Lease Due - Landfill site and Pound		
1 year	-	1,250,000

30. Cash generated from operations

Surplus	22,827,961	54,875,879
Adjustments for:		
Depreciation and amortisation	20,330,736	19,015,224
Profit / Loss on sale of assets and liabilities	1,830,597	817,954
Fair value adjustments	-	(2,149,000)
Finance costs - Finance leases	2,018,488	1,272,882
Impairment deficit	2,432,835	489,998
Debt impairment	8,562,109	7,027,794
Movements in retirement benefit assets and liabilities	1,195,239	184,196
Movements in provisions	2,487,786	300,207
Donation received	(3,970,690)	-
Donations not capital in nature	43,525	-
Changes in working capital:		
Receivables from exchange transactions	(1,050,669)	(516,919)
Consumer debtors	(10,532,145)	(12,148,067)
Other receivables from non-exchange transactions	(2,458,823)	(16,965)
Payables from exchange transactions	8,480,839	4,760,360
VAT	1,107,637	(2,577,241)
Unspent conditional grants and receipts	641,793	(9,234,302)
	53,947,218	**62,102,000**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

31. Commitments

Authorised capital expenditure

Approved & contracted for		
• Capital Projects already contracted for	32,796,138	59,069,144
Approved but not yet contracted for		
• Capital Projects not yet contracted for	28,004,312	6,798,227

Authorised operational expenditure

Approved & contracted for		
• Operational projects already contracted for	6,561,349	13,785,243
Approved but not yet contracted for		
• Operational projects not yet contracted for	428,353	14,797,168

32. Contingent liabilities

Microvulintuthuko Business Enterprise CC is attempting to claim payments against the municipality in relation to retention funds deducted in the course of the project (Bergville licensing and testing centre) as well as payment for alleged outstanding invoices, since the contract was terminated by the municipality. The municipality disputes this claim. The claim amount is:
R 3 120 080(claim for work done)
R 690 176 (retention)

At this stage it is not probable that the municipality will pay , because the odds of success appear to be even.

The arbitration is currently pending before the bargaining council. An ex employee has claimed that his/her dismal for abscondment/desertion was both substantively and procedurally unfair. At this stage the monetary value of the claim cannot be determined because the determination of the amount is entirely dependent on the Commissioner.

Contingent assets

No contingent assets exist for the period ended 30 June 2019 (2018: Nil)

33. Change in Estimate

In 2018/2019 the municipality provided 100% debt impairment on unregistered land, this resulted in change in estimate because in 2017/2018 the municipality only provided 100% on unregistered land that was due more than 90 days.

The effect of this revision has increased the debt impairment provision on unregistered land by R 546 377 in 2018/2019.

The effect on the increase of debt impairment provision is as as follows:

	Debt impairment provision before	Debt impairment provision after	Difference (Change in debt impairment provision)
Unregistered land	8,377,739	8,924,116	546,377

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Prior period errors

There was an agreement entered into between the Municipality and Mastertrade 288 (Pty) Ltd in 2005, that was later amended in 2007, where it was concluded that the Municipality will not charge property rates and essential services on the developments, until the date such specific erf is registered into the name of the third party (i.e. the purchaser).

The Municipality reversed the interest charges to the Nondela account (5003263) and account for additional rebates that should have been offered over the years.

Adjustments in 2016/2017 and prior years

Reversal of Interest charged up to 30 June 2017 R 6 632 817, accounting for additional rebates as per the agreement R 2 274 385 and reversal of debt impairment on the account R 7 343 120. The accumulated surplus decreased by R 1 564 082 and consumer debtors decreased by R 1 564 082.

Adjustments in 2017/2018

Property rates billing on account number 5003263 was R 142 300, rebates offered were R 28 460 and R 113 840 was the net rates reported. The amount of R 113 840 should have been additional rebates as per the agreement, the property rates figure previously reported has been reduced by this amount.

Interest charges to account number 5003263 amounting to R 1 193 627 have been reversed, the property rates - penalties imposed figure previously reported has been reduced by this amount.

Debt impairment figure previously reported has been reduced by R 1 549 913 which was the debt impairment movement in 2017/2018 for account number 5003263.

Overall effects in the Statement of Financial Position as at 30 June 2018

Consumer debtors (-R 2 274 385 - R 6 632 817 + R 7 343 120 - R 113 840 - R 1 193 627 + R 1 549 913)= - R 1 321 636.

Accumulated surplus (-R 2 274 385 - R 6 632 817 + R 7 343 120 - R 113 840 - R 1 193 627 + R 1 549 913)= -R 1 321 636.

Reclassification of 5% discount on property rates

In 2017/2018 the municipality reported 5% discounts offered on property rates amounting to R 117 665 as an expense included in general expenses (Indigent support) instead of property rates rebates.

Property Plant and Equipment

During the process of reconciling the Valuation Roll and the Fixed Assets Register the municipality identified land that belongs to the municipality, however this land was not in the Fixed Assets Register. The land is initially recognised at fair value.

Adjustments in 2016/2017 and prior years

Land with the total fair value of R 3 310 000 was in the Valuation Roll that was implemented on the 1st of July 2013 however not in the Fixed Asset Register. Land was increased by this amount and the accumulated surplus was increased by this amount.

Adjustments in 2017/2018

Land with the total fair value of R 2 149 000 was in the Valuation Roll that was implemented in on the 1st of July 2017, but this land was not in the Fixed Assets Register. Land was increased by this amount and fair value gain was increased by this amount.

The correction of the error(s) results to the following adjustments:

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Prior period errors (continued)

Statement of Financial Position		Previously stated	Reclassification	Correction of error	Restated
Consumer debtors	9	20,451,540	-	(1,321,636)	19,129,904
Property Plant and equipment (land)	3	351,075,196	-	5,459,000	356,534,196
		351,075,196	-	-	351,075,196
Accumulated surplus		345,288,240	-	4,137,364	349,425,604
		345,288,240	-	4,137,364	349,425,604
Property Rates		28,711,407	(117,665)	(113,840)	28,479,902
Property rates - penalties imposed	16	5,554,215	-	(1,193,627)	4,360,588
Fair value adjustments		-	-	2,149,000	2,149,000
General Expenses		(69,840,515)	117,665	-	(69,722,850)
Debt impairment		(8,577,707)	-	1,549,913	(7,027,794)

35. Related parties

Key Management Personnel and Councillors Remuneration.

Remuneration of Key Management Personnel and Councillors is set out in Note 23 and 24 respectively to the Annual Financial Statement.

36. Risk management

Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality’s finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.

Liquidity risk

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

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

	2019	2018
Other: Lease obligation	4,470,591	5,914,899
Trade and Other Payables	33,203,508	24,722,669
Maximum liquidity exposure	**37,674,099**	**30,637,568**

36. Risk management (continued)

Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

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

Financial instrument	2019	2018
Cash and cash equivalents	26,657,949	29,591,731
Trade and other receivables	21,535,662	19,487,180

Market risk

Interest rate risk

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

Cash and Cash Equivalents	26,657,949	29,591,731

Price risk

Due to legislative restrictions, the municipality does not trade these investments.

37. Events after the reporting date

There are no material events that occurred after the reporting date 30 June 2019.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure	**-**	**-**
Opening balance	787,409	776,395
Interest and penalties	51,260	35,366
Amount written off by Council	-	(24,352)
Closing balance	**838,669**	**787,409**

An amount of R 776 395 is as a result of misconduct by a former employee during 2014/2015 financial year, a case was opened against the employee for payments made to ghost employees and the case is currently under investigation by the South African Police Services. The matter is currently in criminal court.

An amount of R 62 274 for interest and penalties incurred on late payments has been referred to MPAC for investigation in terms of section 32 of the MFMA.

39. Irregular expenditure

Reconciliation of Irregular expenditure	**-**	**-**
Opening balance	13,821,849	14,124,849
Written off by Council	(13,821,849)	(303,000)
Expenditure incurred during the year	31,407,081	-
Closing balance	**31,407,081**	**13,821,849**

Opening balance

This relates to forensic investigations related to prior years 2007/2008, 2008/2009 and 2009/2010. The reports that have been concluded have been reported to South African Police Services and included in irregular expenditure. The amount has been written off as irrecoverable by council after the recommendation of the MPAC since the docket has been closed by the South African Police Service.

Incident 2018/2019

An amount of R 93 130 has been incurred on medical expenses and examinations, the service provider was identified as a supplier who is the service of the state by the Auditor General during the 2017/2018 audit, the Council referred the matter to the MPAC for investigation as per section 32 of the MFMA.

The Municipality extended the contract with the service provider using section 116 of the MFMA, an amount of R 28 839 240 has been incurred as at 30 June 2019. The extension was approved by Council, the public was informed of the extension and the comments of the public were solicited, the matter will be submitted to relevant committees for consideration.

An amount of R 300 000 was incurred by the Municipality, the procurement was split into two (R150 000 each) due to projects being different and in different locations, the matter will be submitted to the relevant committees for consideration.

An amount of R 2 174 711 was incurred by the Municipality on electrification projects, the adjudication committee was not constituted in accordance with the SCM policy due to the position of Director Technical Service being vacant, the matter will be submitted to relevant committees for consideration.

40. Unauthorised expenditure

Expenditure incurred during the year	2,442,196	-

In 2018/2019 the provision for rehabilitating the landfill site increased and the municipality did not budget for this. The increase in the provision was due to factors outside the municipality's control.. This has been reported to Council, the Council referred the matter to the MPAC for investigations in terms of section 32 of the MFMA.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2019	2018
Current year subscription / fee	1,929,054	1,899,987
Amount paid - current year	(1,929,054)	(1,899,987)
	-	-

PAYE, SDL and UIF

	2019	2018
Opening balance	-	-
Current year subscription / fee	12,296,706	10,819,809
Amount paid - current year	(12,296,706)	(10,819,809)
	-	-

Pension and Medical Aid Deductions

	2019	2018
Opening balance	-	-
Current year subscription / fee	14,278,427	12,202,485
Amount paid - current year	(14,278,427)	(12,202,485)
	-	-

VAT

	2019	2018
VAT receivable	5,829,818	6,937,455

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

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

Councillors' arrear consumer accounts

For the financial year ended 30 June 2019, there were no rates or services arrears owed by any councillor. Further, during the financial year there are no councillors which were outstanding for more than 90 days.

Supply chain management regulations

Quotations: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. These deviations refer to the instances as stipulated in the regulations and relates mainly to emergencies and instances where it was impractical to follow SCM processes.

Incident	2019	2018
Quotations	1,328,680	1,760,254