ABAQULUSI

UMASIPALA
MUNICIPALITY
MUNISIPALITEIT

AbaQulusi Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

General Information

Mayoral Committee

Mayor	MJ Sibiya (Resigned - 17/07/2019)
Deputy Mayor	MC Maphisa
Speaker	MB Khumalo
Executive Committee Member	BL Zwane
Executive Committee Member	T Nkosi
Executive Committee Member	PN Mazibuko (Resigned - 27/05/2019)
Executive Committee Member	PP Selepe
Executive Committee Member	IA De Kock
Executive Committee Member	NN Mdlalose
Councillor	MM Ntuli SN Ndlela B Ntombela AM Masondo DP Mazibuko LR Mhlongo NS Mgidi TA Khumalo LC Zwane (Resigned - 30/01/2019) L Dube CN Mbatha VC Mtshali MB Mabaso PM Mtshali DJ Mahlase MT Lushaba NY Mdlalose M Viktor MM Mhlungu TD Ndlovu XJ Zungu MM Kunene AP Mbatha NB Manana NA Kunene MA Mazibuko ZH Nxumalo KM Nthuli JJ Jones SS Siyaya MP Williams R Ally TZ Mavundla CJQ Radebe ZK Thwala (Resigned - 31/12/2018) HB Khumalo (Appointed - 05/06/2019) TI Zungu (Appointed - 27/03/2019) MA Hlatshwayo (Appointed - 22/07/2019)
Grading of Local authority	Grade 04 Medium Capacity
Bankers	ABSA Bank of South Africa Limited Nedbank of South Africa Limited Standard Bank

General Information

Physical Address	Cnr. of Mark and High Street Vryheid Kwa-Zulu Natal 3100
Postal address	P. O. Box 57 Vryheid Kwa-Zulu Natal 3100
Telephone/Fax	034 - 982 2133 034 - 980 9637
Chief Financial Officer	H. A. Mahommed
Municipal Manager (Acting)	S. P. Dlamini
Auditors	Auditor General of South Africa

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledge that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Municipality 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 ended 30 June 2020 and, in light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. My assumption is made based on the municipality receiving continuous grant funding from both National and Provincial Government. The municipality is dependent on revenue received from billing of property rates and services to the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that Abaqulusi Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality. (Refer to Note 44 for detailed analysis of going concern.)

The municipality is currently under discretionary administration in accordance with section 139 of the constitution and section 137 of the MFMA. The discretionary intervention was implemented to assist the municipality deal with it's long term financial sustainability.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the note titled Remuneration of Councillors of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Offive Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 4 to 77, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019:

S. P. Dlamini
Acting Municipal Manager

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Inventories	8	15,550,883	14,244,179
Receivables from non-exchange transactions	10	66,942,429	56,004,207
VAT receivable	11	6,059,116	-
Receivables from exchange transactions	12	60,572,322	67,139,196
Cash and cash equivalents	13	17,870,625	11,938,775
		166,995,375	**149,326,357**
Non-Current Assets			
Investment property	3	51,551,000	33,809,579
Property, plant and equipment	4	1,438,392,679	1,480,203,813
Intangible assets	5	665,908	967,061
Heritage assets	6	3,854,571	3,854,571
Receivables from exchange transactions	9&12	5,502,319	5,502,319
		1,499,966,477	**1,524,337,343**
Total Assets		**1,666,961,852**	**1,673,663,700**
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	143,737,339	116,560,986
VAT payable	17	-	2,441,289
Consumer deposits	18	11,858,370	13,199,806
Unspent conditional grants and receipts	14	18,219,552	30,212,992
		173,815,261	**162,415,073**
Non-Current Liabilities			
Employee benefit obligation	7	69,464,000	70,735,000
Provisions	15	30,444,602	27,141,705
		99,908,602	**97,876,705**
Total Liabilities		**273,723,863**	**260,291,778**
Net Assets		**1,393,237,989**	**1,413,371,922**
Accumulated surplus		1,393,237,989	1,413,371,922

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions			
Provision for impairment	19	-	9,161,441
Post employment benefits	7	1,071,000	3,695,000
Interest received - investment	23	365,096	2,869,791
Licences and permits	19	4,492,555	4,624,914
Other income	22	1,958,577	791,774
Rental of facilities and equipment	19	1,636,395	1,463,324
Service charges	20	260,261,941	253,245,640
Total revenue from exchange transactions		**269,785,564**	**275,851,884**
Revenue from non-exchange transactions			
Taxation revenue			
Fair value gain	3	17,776,431	37,051,935
Property rates	24	70,969,129	70,448,181
Property rates - penalties imposed	24	15,287,631	3,286,106
Transfer revenue			
Government grants & subsidies	25	182,810,610	158,985,601
Fines, Penalties and Forfeits	21	16,943,750	12,327,021
Total revenue from non-exchange transactions		**303,787,551**	**282,098,844**
Total revenue	19	**573,573,115**	**557,950,728**
Expenditure			
Employee related costs	26	(142,525,952)	(154,334,052)
Remuneration of councillors	27	(16,143,145)	(16,328,174)
Finance Costs - general	30	(2,097,551)	(19,434,186)
Depreciation, amortisation and impairment	29	(74,857,116)	(74,237,353)
Hire of Vehicle and Equipment	33	-	(17,403,114)
Provision for impairment	34	(44,770,806)	(10,402,222)
Fair value loss	3	(35,010)	(18,500)
Repairs and maintenance	31	(9,069,054)	(5,620,987)
Bulk purchases	35	(165,871,402)	(114,329,479)
Contracted services	32	(74,612,194)	(47,632,210)
General Expenses	36	(63,724,820)	(55,456,290)
Total expenditure		**(593,707,050)**	**(515,196,567)**
Loss on disposal of assets and liabilities	37	-	(25,180,912)
(Deficit) surplus for the year		**(20,133,935)**	**17,573,249**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	**1,395,798,673**	**1,395,798,673**
Changes in net assets		
Surplus for the year restated - refer note 44	17,573,249	17,573,249
Total changes	17,573,249	17,573,249
Balance at 01 July 2017 restated*	**1,413,371,924**	**1,413,371,924**
Changes in net assets		
Deficit for the year	(20,133,935)	(20,133,935)
Total changes	(20,133,935)	(20,133,935)
Balance at 30 June 2019	**1,393,237,989**	**1,393,237,989**

Cash Flow Statement

Figures in Rand	Notes	2019	2018
Cash flows from operating activities			
Receipts			
Receipts from customers		343,760,005	331,691,310
Grants and subsidies		170,814,000	174,953,881
Interest income		365,096	2,869,791
		514,939,101	509,514,982
Payments			
Employee costs		(158,669,092)	(173,519,058)
Suppliers		(297,678,269)	(255,514,252)
Finance costs		(2,097,552)	(19,434,186)
VAT paid		-	(1,915,368)
		(458,444,913)	(450,382,864)
Net cash flows from operating activities	39	**56,494,188**	**59,132,118**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(50,562,339)	(59,270,178)
Net increase/(decrease) in cash and cash equivalents		**5,931,849**	**(138,060)**
Cash and cash equivalents at the beginning of the year		11,938,775	12,076,835
Cash and cash equivalents at the end of the year	13	**17,870,624**	**11,938,775**

AbaQulusi Local Municipality
Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash 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	(102,536,000)	350,412,000	**247,876,000**	260,261,941	**12,385,941**	53.1
Rental from fixed assets	(2,033,000)	5,021,000	**2,988,000**	1,636,395	**(1,351,605)**	53.2
Licences and permits	(2,110,000)	6,954,000	**4,844,000**	4,492,555	**(351,445)**	53.3
Other income	(514,000)	1,410,000	**896,000**	3,029,577	**2,133,577**	53.4
Interest dividend and rent on land	(1,846,000)	3,692,000	**1,846,000**	365,096	**(1,480,904)**	53.5
Total revenue from exchange transactions	**(109,039,000)**	**367,489,000**	**258,450,000**	**269,785,564**	**11,335,564**	
Revenue from non-exchange transactions						
Revenue						
Fair value gain	-	-	**-**	17,776,431	**17,776,431**	
Property rates	(65,809,000)	134,617,000	**68,808,000**	70,969,129	**2,161,129**	53.6
Property rates - penalties imposed	(3,165,000)	6,330,000	**3,165,000**	15,287,631	**12,122,631**	53.7
Fines and penalties	(971,000)	3,157,000	**2,186,000**	16,943,750	**14,757,750**	53.8
Transfer revenue						
Government grants & subsidies	(200,564,000)	364,160,000	**163,596,000**	182,810,610	**19,214,610**	53.9
Total revenue from non-exchange transactions	**(270,509,000)**	**508,264,000**	**237,755,000**	**303,787,551**	**66,032,551**	
Total revenue	**(379,548,000)**	**875,753,000**	**496,205,000**	**573,573,115**	**77,368,115**	
Expenditure						
Employee related costs	(66,851,000)	(91,917,000)	**(158,768,000)**	(142,525,952)	**16,242,048**	53.10
Remuneration of councillors	-	(16,450,000)	**(16,450,000)**	(16,143,145)	**306,855**	53.11
Finance costs	-	-	**-**	(2,097,551)	**(2,097,551)**	53.12
Depreciation and amortisation	-	(72,595,000)	**(72,595,000)**	(74,857,116)	**(2,262,116)**	53.13
Fair value loss	-	-	**-**	(35,010)	**(35,010)**	
Contribution to provision for doubtful debts	7,283,000	(7,283,000)	**-**	(44,770,806)	**(44,770,806)**	53.14
Other materials	(14,394,000)	(2,709,000)	**(17,103,000)**	-	**17,103,000**	53.15
Repairs and maintenance	-	-	**-**	(9,068,054)	**(9,068,054)**	
Bulk purchases	(147,500,000)	(11,602,500)	**(159,102,500)**	(165,871,402)	**(6,768,902)**	53.16
Contracted Services	(55,604,000)	(31,289,000)	**(86,893,000)**	(74,612,194)	**12,280,806**	53.17
Transfers and subsidies	(8,852,000)	7,852,000	**(1,000,000)**	-	**1,000,000**	53.18
General expenses	(56,951,000)	7,155,000	**(49,796,000)**	(63,724,820)	**(13,928,820)**	53.19
Total expenditure	**(342,869,000)**	**(218,838,500)**	**(561,707,500)**	**(593,706,050)**	**(31,998,550)**	
Deficit	**(722,417,000)**	**656,914,500**	**(65,502,500)**	**(20,132,935)**	**45,369,565**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(722,417,000)**	**656,914,500**	**(65,502,500)**	**(20,132,935)**	**45,369,565**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
CAPEX		**Approved Budget**	**Adjustment**	**Final Budget**	**Actual amounts on comparable basis**	**Difference between final budget and actual**
Total Capital Expenditure		(2,000,000)	(37,012,000)	(39,012,000)	30,046,721	(8,965,279)

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 .

Accounting Policies

1.2 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:

Revenue Recognition

Accounting policy 1.15 & 1.16 on Revenue from Exchange Transactions and Revenue from Non-ExchangeTransactions describes the conditions under which revenue will be recorded by the management of the municipality. In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Impairment of Financial Assets

Accounting policy 1.7 Financial Instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the mangement of the municipality considered the detailed criteria of imapirment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property Plant and Equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality..

Impairment

Write down of property plant and equipment, intangible assets and inventories.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.

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

Defined Benefit Plan Liabilities

As described in accounting policy 1.14 Employee Benefits, the municipality obtains acturial valuations of its defined benefit plan laibilities. The defined benefit obligations of the municipality that were identified are Post-Retirement Health Benefit Obligations and Long Service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Note 7 to the financial statements.

Going Concern Assumption

The financial statements have been prepared on a going concern basis.

Offsetting

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

Provisions

Provisions have been raised by the municpality. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Accounting Policies

1.3 Investment property

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

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

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

This entails determining the fair vale of investment properties on a regular basis. To the extent that the fair value is applied investment property is not depreciated. Fair value gains/losses that result from the revaluation are recognised in the Statement of Financial Performance.

Derecognition

An Investment Property is derecognised when there is a disposal or no future economic benefits or service potential are to be derived from the property. All gains or losses, which result from the derecognition, are recognised in the Statement of Financial Performance.

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

Subsequent Measurement

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

Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation of assets other than land is calculated,using the straight line method, to depreciate their cost to their residual values over the estimated useful lives of the assets.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.Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives. Depreciation only commences when the asset is available for use, unless stated otherwise.

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

Infrastructure	Useful Life
• Roads and stormwater	05 - 80 years
• Electricity	03 - 50 years
• Sanitation	15 - 100 years
• Water	05 - 80 years
• Housing	03 - 50 years
• Landfill sites	15 - 50 years
Community	
• Sport and recreational facilities	05 - 50 years
• Cemeteries	05 - 50 years
• Halls	05 - 50 years
• Libraries	05 - 50 years
• Parks	05 - 50 years
• Fire/Ambulance Station	05 - 50 years
• Clinics	05 - 50 years
• Sports fields	15 - 30 years
• Stadium	05 - 50 years
Other	
• Transport Assets	05 - 15 years
• Machinery and Equipment	02 - 15 years
• Computer Equipment	03 - 07 years
• Office Equipment	03 - 10 years

1.4 Property, plant and equipment (continued)

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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.

Capital Work in Progress

Capital work in progress is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality.

Derecognition of Property, Plant and Equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment is included in surplus or deficit for the year when the item is derecognised. Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds.

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.
The municipality has identified all its capital assets, excluding Investment Property, as non-cash generating assets as it’s the municipality's view that the primary objective of these assets are to provide a service and not to generate a commercial return.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.5 Intangible assets

An asset is identifiable if it either:

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

Accounting Policies

1.5 Intangible assets (continued)

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.

Cost
An intangible asset shall be measured initially as cost. Where an intangible asset is acquired through a non-exchnage transaction, its initial cost at the date of acquisition shall be measured at its fair value as at that date. 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.

De-recognition
An intangible asset shall be de-recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognistion of an intangible asset shall be determined as the difference between the net disposal proceeds, if any and the carrying amount of the asset. It shall be recongised in surplus or deficit when the asset is derecognised.

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

Subsequent measurement
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.

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	05 - 10 years
Computer software, other	Straight line	05 - 10 years

1.5 Intangible assets (continued)

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

1.6 Heritage assets

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

Recognition

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

Where the municipality holds a heritage asset, but on initial recognition it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset is disclosed in note 6 Heritage assets.

Heritage assets are not depreciated but the municipality will assess at each reporting date based on external and internal sources of information whether there is an indication that it may be impaired. Transfers from heritage assets shall be made when and only when the particular asset no longer meets the definition of a heritage asset. Likewise transfer to heritage assets shall be made when and only when the asset meets the definiton of a heritage asset.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives, as reflected below:

Memorials & Statues	- indefinite life
Heritage Sites	- indefinite life
Museums	- indefinite life
Art Works	- indefinite life

Although a heritage asset is not depreciated, the asset is assessed for impairment at each reporting date to disclose whether there is an indication that it may be impaired.

Initial measurement

Heritage assets are measured at cost.

Subsequent measurement

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

Impairment

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

Transfers

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

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

1.6 Heritage assets (continued)

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such a difference is recognised in surplus or deficit when the heritage asset is derecognised..

1.7 Financial instruments

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

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:
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Class Category
- Receivables from exchange transactions - Financial asset measured at amortised cost
- Receivables from Non-exchange transactions - Financial asset measured at amortised cost
- Cash or cash equivalents - Financial asset measured at amortised cost

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

- Payables from exchange transactions - Financial liability measured at amortised cost
- Bank overdraft - Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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 in the case of a financial asset.

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, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

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 assess 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:

1.7 Financial instruments (continued)

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;
- 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.

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

Financial liabilities

The 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 (Taxes and Transfers).

1.8 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.

Operating leases - lessor

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

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

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

1.8 Leases (continued)

Operating leases - lessee

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

1.9 Inventories

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

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

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

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

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

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

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1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. when the asset is deployed in a manner consistent with that adopted by a profit-oriented entity, it generates a commercial return.

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

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

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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

Value in use

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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.

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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

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

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

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:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

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 test 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:

Restoration cost approach

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

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.

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.

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41 to the annual financial statements.

1.14 Compound instruments

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

1.15 Employee benefits

GRAP 25 on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits.

1.15 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 municipality recognises 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.

1.15 Employee benefits (continued)

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 the municipality 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.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.
When an employee has rendered service to the municipality during a reporting period, the municipality recognises 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, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.
Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.
Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.
Interest cost is the increase during a period in the present value of a defined benefit obligation which arises, because the benefits are one period closer to settlement.
Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.
Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.
The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.
The amount recognised as a defined benefit liability is the net total of the following amounts:

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

1.15 Employee benefits (continued)

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.
The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.
The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

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

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.
In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.
The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).
When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.
The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

1.15 Employee benefits (continued)

and estimated term of the post-employment benefit obligations.
Post-employment benefit obligations are measured on a basis that reflects

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

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

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

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

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

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

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

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

Accounting Policies

1.16 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 deficits.

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

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.

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.

Accounting Policies

1.16 Provisions and contingencies (continued)

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, an 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.

1.17 Capital Commitments

In terms of GRAP 17, contractual commitments are disclosed for all assets. The commitment is measured at the value of the contract less amounts paid until year end. Where contracts or letters of awards have been issued, this is classified as an approved and contracted commitment.

1.18 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 and value added taxes (VAT)..

Sale of goods

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

1.18 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date.

Service charges for electricity are based on consumption by consumers as is recorded on each consumer's meter.

Meters are read each month and the revenue is recognised in the period in which the invoice is raised.

Provisional estimates of consumption are made in periods where meter readings have not been able to be carried out. The revenue from these provisional readings is also recognised as revenue when invoiced.

Adjustments to provisional estimates and recognition of the amended revenue arising as a result, are made in the invoicing period in which meters are read.

Revenue from the sale of electricity prepaid meter cards is recognised on a monthly basis in arrears.

Refuse charges are based on the application of the approved tariff to each property that has improvements, the category of property usage and the number of refuse containers on each property regardless of whether or not containers are emptied during the month.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant services has been rendered and the fee has been charged or licences and permits have been issued.

Interest revenue is recognised using the effective interest rate method. Revenue from the rental of facilities and equipment is recognised on a straightline basis over the term of the lease agreement.

Interest, Service Fees

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

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

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

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

1.19 Revenue from non-exchange transactions

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

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, 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.

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

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

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

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

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

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.

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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.

Rates and taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

Value Added Tax (VAT):

The municipality accounts for VAT on the payment basis.

Fines

As per GRAP1 assessing and recognising impairment is an event that takes place subsequent to initial recognition of revenue charged. A provision is raised accordingly when the entity assess the probability of revenue collection. The provision for traffic fines has been calculated based on the historical collection rate.

Government Grants

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

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

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

1.20 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.21 Comparative figures

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of Grap does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the curent year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.22 Unauthorised expenditure

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

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

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

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

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

1.24 Irregular expenditure (continued)

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

1.25 Budget information

Municipalities 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 municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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.

1.26 Related parties

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

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.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The 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

1.28 Cash and Cash Equivalents

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

1.29 Changes in accounting policies, estimates and errors

Changes in accounting policies due to adoption of newly effective Standards of GRAP have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy or where allowed transitional provisions had been adopted. In such cases the municipality would restate the opening. The provisions of IGRAP 1 have been applied prospectively in line with IGRAP1.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
- GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
- GRAP 32: Service Concession Arrangements	01 April 2019	Unlikely there will be a material impact
- GRAP 34: Separate Financial Statements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 35: Consolidated Financial Statements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 36: Investments in Associates and Joint Ventures	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 37: Joint Arrangements	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 38: Disclosure of Interests in Other Entities	No effective dates have been determined by the Minister of Finance	Unlikely there will be a material impact
- GRAP 108: Grap on Statutory Receivables	01 April 2019	Unlikely there will be a material impact.
- GRAP 110: Living and Non-living resources	01 April 2020	Unlikely there will be a material impact

3. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	51,551,000	-	51,551,000	33,809,579	-	33,809,579

Reconciliation of investment property - 2019

	Opening balance	**Additions**	**Disposals**	**Total**
Investment property	33,809,579	17,776,431	(35,010)	51,551,000

Reconciliation of investment property - 2018

	Opening balance	**Disposals**	**Fair value adjustments**	**Total**
Investment property	38,901,490	(5,073,411)	(18,500)	33,809,579

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

The effective date of the revaluation was 30 June 2019. Revaluations were performed by an independent valuer who are independent to the municipality and have experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

4. 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	143,664,100	-	143,664,100	143,664,100	-	143,664,100
Buildings	205,314,773	(84,800,529)	120,514,244	205,314,771	(77,466,428)	127,848,343
Other Property Solid Waste - Landfill site	60,337,845	(52,224,146)	8,113,699	57,034,948	(48,719,148)	8,315,800
AUC - Buidlings	4,040,721	-	4,040,721	20,874,076	-	20,874,076
Infrastructure	2,752,974,256	(1,747,958,413)	1,005,015,843	2,623,239,304	(1,592,088,952)	1,031,150,352
Community	252,053,557	(120,022,185)	132,031,372	234,958,001	(122,645,045)	112,312,956
Other property, plant and equipment	17,228,716	(13,965,071)	3,263,645	17,125,666	(12,238,776)	4,886,890
AUC - Roads and stormwater	15,324,270	-	15,324,270	24,726,511	-	24,726,511
AUC - Electricity	6,424,785	-	6,424,785	6,424,785	-	6,424,785
Total	**3,457,363,023**	**(2,018,970,344)**	**1,438,392,679**	**3,333,362,162**	**(1,853,158,349)**	**1,480,203,813**

Reconciliation of property, plant and equipment - 2019

	Opening balance	**Additions**	**Transfers**	**Other changes, movements**	**Depreciation**	**Total**
Land	143,664,100	-	-	-	-	143,664,100
Buildings	127,848,343	-	-	-	(7,334,099)	120,514,244
Infrastructure	1,031,150,352	21,454,699	9,402,241	(56,991,449)	-	1,005,015,843
Community	112,312,956	7,884,181	16,833,355	-	(4,999,120)	132,031,372
Other property, plant and equipment	4,886,890	103,050	-	-	(1,726,295)	3,263,645
Other property Solid Waste - Landfill site	8,315,800	3,302,897	-	-	(3,504,998)	8,113,699
AUC - Roads and Stormwater	24,726,511	-	(9,402,241)	-	-	15,324,270
AUC - Buildings	20,874,076	-	(16,833,355)	-	-	4,040,721
AUC - Electricity	6,424,785	-	-	-	-	6,424,785
	1,480,203,813	**32,744,827**	**-**	**(56,991,449)**	**(17,564,512)**	**1,438,392,679**

Figures in Rand	2019	2018

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Depreciation	Impairment loss	Total
Land	146,920,100	2,179,000	-	(5,435,000)	-	-	143,664,100
Buildings	76,326,541	96,485,090	-	-	(44,963,288)	-	127,848,343
Infrastructure	1,056,039,867	15,012,154	46,600,559	(14,667,556)	(65,021,747)	(6,812,925)	1,031,150,352
Community	110,658,777	-	6,669,485	(4,945)	(4,735,642)	(274,719)	112,312,956
Other property, plant and equipment	6,491,184	217,001	15,563	-	(1,693,005)	(143,853)	4,886,890
Other Property Solid Waste (Landfill Site)	2,552,154	3,315,995	4,432,293	-	(1,984,642)	-	8,315,800
AUC - Roads and stromwater	55,440,905	17,822,635	(48,537,029)	-	-	-	24,726,511
AUC - Buildings	10,433,901	15,188,753	(4,748,578)	-	-	-	20,874,076
AUC - Electricity	6,009,727	415,058	-	-	-	-	6,424,785
AUC - Solid waste	3,741,280	691,012	(4,432,293)	-	1	-	-
	1,474,614,436	**151,326,698**	**-**	**(20,107,501)**	**(118,398,323)**	**(7,231,497)**	**1,480,203,813**

5. 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	2,484,741	(1,818,833)	665,908	2,484,740	(1,517,679)	967,061

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	967,061	(301,153)	665,908

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	1,222,105	41,081	(296,125)	967,061

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical Buildings	2,858,229	-	2,858,229	2,858,229	-	2,858,229
Works of Art	83,810	-	83,810	83,810	-	83,810
Antiques	528,518	-	528,518	528,518	-	528,518
Stamps	1,350	-	1,350	1,350	-	1,350
Rare Books	14,364	-	14,364	14,364	-	14,364
Monuments and Memorials	368,300	-	368,300	368,300	-	368,300
Total	**3,854,571**	**-**	**3,854,571**	**3,854,571**	**-**	**3,854,571**

Reconciliation of heritage assets 2019

	Opening balance	**Total**
Historical Buildings	2,858,229	2,858,229
Works of Art	83,810	83,810
Antiques	528,518	528,518
Stamps	1,350	1,350
Historical monuments	14,364	14,364
Monuments and Menorials	368,300	368,300
	3,854,571	**3,854,571**

Reconciliation of heritage assets 2018

	Opening balance	**Total**
Historical Buildings	2,858,229	2,858,229
Works of Art	83,810	83,810
Antiques	528,518	528,518
Stamps	1,350	1,350
Rare Books	14,364	14,364
Monuments and Memorials	368,300	368,300
	3,854,571	**3,854,571**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

7. Employee benefit obligations

Defined benefit plan

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(61,874,000)	(62,904,000)
Present value of the defined benefit obligation-partly or wholly funded	(7,590,000)	(7,831,000)
	(69,464,000)	**(70,735,000)**

Present value of the defined benefit obligation-wholly unfunded		
Opening balance	(62,904,000)	(66,481,000)
Current service cost	(3,083,000)	(3,083,000)
Interest cost	(6,278,000)	(6,698,000)
Acturial gains/(losses) - change in financial assumption	5,155,000	6,709,000
Acturial gains/(losses) - experience variance	3,182,000	4,400,000
Benefit payment	2,054,000	2,249,000
	(61,874,000)	**(62,904,000)**

Present value of the defined benefit obligation partly or wholly funded		
Opening balance	(7,831,000)	(7,949,000)
Current service cost	(667,000)	(691,000)
Interest cost	(668,000)	(657,000)
Acturial gains/(losses) - change in financial assumption	183,000	100,000
Acturial gains/(losses) - experience variance	(681,000)	(198,000)
Benefit payment	2,074,000	1,564,000
	(7,590,000)	**(7,831,000)**

Net expense recognised in the statement of financial performance

Current service cost	3,750,000	3,774,000
Interest cost	6,946,000	8,046,000
Actuarial (gains) losses	(7,639,000)	(13,568,000)
Curtailment	(4,128,000)	(1,947,000)
	(1,071,000)	**(3,695,000)**

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

Post Employment Medical Benefits

Assumptions used at the reporting date:

Healthcare cost inflation	10.40 %	8.20 %
Discount rates used	8.20 %	9.90 %
Net discount	2.03 %	1.57 %

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019.

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Rationale for the economic assumptions

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BESA zero-coupon yield curve with a term of 16 years, the expected duration of the liability based on the current membership data, as at 30 June 2019.

Healthcare cost inflation

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index (“CPI”) by a margin of 1% to 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the healthcare cost inflation assumption.

The CPI inflation assumption using this methodology is 6.20% as at 30 June 2019. Thus, the healthcare cost inflation has been set as 8.20% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Maximum subsidy increase

The subsidy arrangement is subject to a maximum employer contributions of R 4 218. We assumed that this maximum subsidy is expected to increase in line with healthcare cost inflation.

Net discount rate

The relationship between the gross discount rate and salary inflation rate is more important than their individual values.

The future PRHS benefits are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The resulting net discount rate will be determined using the gross discount and benefit awards inflation rate as described above GRAP 25 valuation of the AbaQulusi Local Municipality post-retirement healthcare subsidy liability as at 30 June 2019.

7. Employee benefit obligations (continued)

Summary of membership data used in the valuation - Current Employees	30 June 2019 - Males	30 June 2019 - Females	30 June 2018 - Males	30 June 2018 - Females
Number of current employees	149	105	161	88
Average age of employees	45	43	45	43
Average years of past service	12	9	11	11
Average total monthly premium of Principal Members (R)*	2,537	2,656	2,367	2,599
Average total monthly premium of Adult dependants (R)*	1,874	1,966	1,749	1,952
	-	-	-	-

Summary of membership data used in the valuation	30 June 2019 - Males	30 June 2019 - Females	30 June 2018 - Males	30 June 2018 - Females
Number of continuation members	21	30	17	30
Average age of conituation members	71	76	72	76
Actual percentage married (%)	81	13	88	7
Average total monthly premium of Principal members (R)*	4,566	4,955	4,618	4,531
Average total monthly premium of adult dependants (R)*	3,090	3,408	3,170	3,116
	-	-	-	-

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

Long Service Awards

Assumptions used at the reporting date:

	- %	**- %**
Effect on the aggregate of the service cost and interest cost	8.20 %	8.80 %
Effect on defined benefit obligation	6.50 %	7.40 %
Net discount	1.60 %	1.30 %

7. Employee benefit obligations (continued)

Long service awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year.

The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2019.

Methodology

GRAP 25 requires that the Projected Unit Credit Method be used to determine the present value of the defined benefit obligation.

Rationale for the economic assumptions

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the balance sheet date. In line with GRAP 25 and current market practice, government bond yields are therefore used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 6 years, the expected duration of the liability based on the current membership data, as at 30 June 2019.

GRAP 25 valuation of the AbaQulusi Local Municipality long service awards liability as at 30 June 2019

Salary inflation

In the past, salary inflation has typically exceeded the Consumer Price Index (“CPI”) by a margin of around 2%.

The Bond Exchange of South Africa fits a real yield curve on index-linked bonds. This real yield curve is published together with the BEASSA yield curve on zero-coupon government bond yields, which is a nominal yield curve.

The inflation assumption methodology has been updated to reflect the use of the real and nominal yield curves to determine the inflation assumption as this provides more accurate information on the outlook on inflation at specific durations. Therefore, the best estimate inflation assumption is calculated as the difference between the nominal and real yield curves at the point corresponding to the duration of the liability, including a 0.5% inflation risk premium adjustment to make appropriate allowance for the current economic environment. A margin of 2% was added to this value to determine the salary inflation assumption.

The CPI inflation assumption using this methodology is 4.50% as at 30 June 2019. Thus, the salary inflation has been set as 6.50% at the valuation date, after allowing for a margin of 2% over CPI inflation.

Net discount rate

The relationship between the gross discount rate and salary inflation rate is more important than their individual values.

The future LSA benefits are projected in line with the salary inflation rate and discounted at the gross discount rate. This is equivalent to discounting the benefits at their current level at the net discount rate.

The resulting net discount rate will be determined using the gross discount and benefit awards inflation rate as described above.

Figures in Rand	2019	2018

7. Employee benefit obligations (continued)

Summary of membership data used in the valuation - Current Employees	**30 June 2019 - Males**	**30 June 2019 - Females**	**30 June 2018 - Males**	**30 June 2018 - Females**
Number of current employees	275	141	287	134
Average age of employees	47	43	47	44
Average years of past service	13	11	13	12
Average annual salary	185,351	185,516	174,490	174,331
	-	-	-	-

8. Inventories

	2019	2018
Electricity	5,814,302	7,910,824
Water	3,688,449	3,315,424
Rates and general	6,048,132	3,017,931
	15,550,883	**14,244,179**

Dipstick readings were done at year end to determine water on hand, all water costs were taken into account to determine the cost per kilolitre which was multiplied by the kilolitres on hand at year end

9. Receivables from exchange transactions

	2019	2018
Accrued Income:Investments	5,502,319	5,502,319

10. Receivables from non-exchange transactions

	2019	2018
Traffic Fines Debtor	47,706,339	32,016,034
Sundry Debtors	332,012	332,012
Other Receivables	293,673	197,453
Consumer debtors - Rates	61,244,217	51,662,925
Traffic Fines Provision	(42,633,812)	(28,204,217)
	66,942,429	**56,004,207**

11. VAT receivable

	2019	2018
VAT	6,059,116	-

The vat receivable and vat payable balances were included within one account in the prior year.

12. Receivables from exchange transactions

	2019	2018
Gross balances		
Electricity	29,560,142	30,491,284
Water	33,078,460	27,400,425
Sewerage	32,194,897	26,012,554
Refuse	24,017,156	19,411,063
Agreement Installment	287,673	266,822
Sundry Debtors - Consumer Debtors	21,864,756	14,252,697
Sundry Debtors Exchange Transactions	2,131,953	1,525,855
	143,135,037	**119,360,700**
Less: Allowance for impairment		
Debtors impairment	(82,562,715)	(52,221,504)
Net balance		
Debtors	60,572,322	67,139,196

Figures in Rand	2019	2018

12. Receivables from exchange transactions (continued)

	-	-

In the determination of the amounts deemed to be impaired during the prior financial year end (2017/2018), the municipal impairment policy was applied as follows:

In terms of Paragraph 62, the municipality first assessed whether objective evidence of impairment existed individually for financial assets that were individually significant.
Significant debtors was then assessed on an individual basis to determine if there was objective evidence of impairment.

Government debt oustanding will also not be written off or provided for as monies from inter-government debt should be fully recoverable. Debtors balances will not be written off in terms of the municipal by laws for outstanding rates balances. The calculation for impairment excludes property rates, rates penalties, rates collection charges, legal fees, and all Government debt

In terms of GRAP, if an entity determines that no objective evidence of impaiment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk.

The Municipality is responsible for providing services to the community. In the asbsence of information that suggests otherwise, these members of the community can be seen to fall within the same credit risk. Normal Consumer debt will be assessed as a category on its own.

The impairment loss was calculated as the difference between the assets carrying amount and the present value of estimated future cashflows discounted at the financial assets original effective interest rate. The past payment history of consumser debtors was used as the basis to estimate the future cashflows. Once the estimated cashflow was establised, it was then discounted at the effective interest rate. The difference between the carrying value and the discounted cashflows is then the provision.

In the determination of the amounts deemed to be impaired in the current financial year end (2018/2019), the municipal impairment policy was applied as follows:

0% of consumer debt greater than 0 days but less than or equal to 90 days
50% of consumer debt greater than 91 days but less than or equal to 120 days
50% of consumer debt greater than 121 days but less than or equal to 150 days
100% of consumer debt greater than 151 days

The calculation for impairment excludes property rates, rates penalties, rates collection charges, legal fees, and all Government debt:

VAT is included within the service balances in the prior year.

Long term receivables		
Land sales > 365 days	5,502,319	5,502,319

Figures in Rand	2019	2018

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,304	5,320
Bank balances	4,768,838	5,088,368
Short-term deposits	13,095,484	6,845,087
	17,870,626	**11,938,775**

	Bank Statement Balance		Cash Book Balance	
Account number/description	2019	2018	2019	2018
Absa - Cheque account -100 500 1109	29,029	53,379	29,029	53,379
Nedbank - Current Account - 106 737 9770	4,396,218	4,917,120	4,739,809	5,034,989
Subtotal	4,425,247	4,970,499	4,768,838	5,088,368
Total	**4,425,247**	**4,970,499**	**4,768,838**	**5,088,368**

Short term deposits		
Absa 9195460586	527	868
Standard Bank 068461763-011	63,785	59,751
Standard Bank 068461763-003	4,318	4,125
Nedbank 037165020780-00030	1,259	122,101
Nedbank 037165020780-00033	-	6,038,983
Nedbank 037165020780-00037	-	613,880
Nedbank 037165020780-00039	5,887,591	2,796
Nedbank 037165020780-00040	529	-
Nedbank 037165020780-00042	637,395	-
Nedbank 037165020780-00043	6,497,621	-
Absa 9122861337	2,459	2,588
	13,095,484	**6,845,092**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
INEP	7,537,448	25,714,707
Gijima	38,830	38,830
Land use management	229,850	229,850
Provincial housing	60,000	60,000
Upgrade Billing Emondlo	3,170	3,166
Housing	225,383	225,383
Water massification	2,569	2,569
COGTA Thusong Operational	127,000	191,920
MIG	6,390,365	-
EPWP	340,867	-
Cyber Cadet	357,854	174,624
Library	2,906,216	3,571,943
	18,219,552	**30,212,992**

Figures in Rand	2019	2018

15. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	27,141,705	3,302,897	30,444,602

Reconciliation of provisions - 2018

	Opening Balance	Additions	Finance costs	Total
Environmental rehabilitation	23,058,965	3,315,996	766,744	27,141,705

The determination of the cost required for the rehabilitation of the Vryheid, Coronation and other landfill sites was done as at 30 June 2019.

There has been no change to the Louwsburg and Enyathi landfill sites.

The Cost estimate is based on 25% preliminary and general (P&G) and a 10% contingency of the construction amount for unforseen items.

Additions of R 3 302 897 can be traced to solid waste-landfill sites on note 4.

	2019	2018
Vryheid	27,687,230	24,447,951
Louwsburg	251,500	251,500
Enyathi	1,261,535	1,261,535
Coronation	1,244,337	1,180,719
	30,444,602	**27,141,705**

16. Payables from exchange transactions

	2019	2018
Trade payables	120,000,372	76,574,999
Accruals	4,512,515	2,867,545
Hall deposits and refundable deposits	77,664	77,664
Retentions	8,173,271	7,293,449
Accrued leave pay	10,395,214	14,331,699
Salary control	-	8,843,648
Unallocated Deposits	578,303	740,174
Land purchase	-	5,831,808
	143,737,339	**116,560,986**

17. VAT payable

	2019	2018
VAT	-	2,441,289

The vat receivable and vat payable balances were included within one account in the prior year.

18. Consumer deposits

	2019	2018
Electricity	10,638,925	11,984,005
Water	1,219,445	1,215,801
	11,858,370	**13,199,806**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Revenue

Service charges	260,261,941	253,245,640
Rental of facilities and equipment	1,636,395	1,463,324
Licences and permits	4,492,555	4,624,914
Post employment benefits	1,071,000	3,695,000
Provision for doubtful debts	-	9,161,441
Other income	1,958,577	791,774
Interest received - investment	365,096	2,869,791
Fair value gain	17,776,431	37,051,935
Property rates	70,969,129	70,448,181
Property rates - penalties imposed	15,287,631	3,286,106
Government grants & subsidies	182,810,610	158,985,601
Fines, Penalties and Forfeits	16,943,750	12,327,021
	573,573,115	**557,950,728**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	260,261,941	253,245,640
Rental of facilities and equipment	1,636,395	1,463,324
Licences and permits	4,492,555	4,624,914
Fees earned	1,071,000	3,695,000
Debtors impairment provision	-	9,161,441
Other income	1,958,577	791,774
Interest received - investment	365,096	2,869,791
	269,785,564	**275,851,884**

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

Fair value gain	17,776,431	37,051,935
Property rates	70,969,129	70,448,181
Property rates - penalties imposed	15,287,631	3,286,106
Transfer revenue		
Government grants & subsidies	182,810,610	158,985,601
Fines, Penalties and Forfeits	16,943,750	12,327,021
	303,787,551	**282,098,844**

20. Service charges

Sale of electricity	180,867,950	186,291,429
Sale of water	32,941,540	32,785,468
Solid waste	18,401,753	14,903,717
Sewerage and sanitation charges	27,040,742	18,671,384
Other service charges	1,009,956	593,642
	260,261,941	**253,245,640**

21. Fines, Penalties and Forfeits

Traffic fines	16,943,750	12,319,100
Library fines	-	7,921
	16,943,750	**12,327,021**

Figures in Rand	2019	2018

22. Other income

IEC Election income	-	300,683
Tender income	-	206,464
Consumables	-	44,150
Sporting facilities	-	1,996
Commission income	243,150	238,481
Other income windeed and site rentals	1,715,427	-
	1,958,577	**791,774**

23. Investment revenue

Interest revenue		
Interest from investment and bank	365,096	2,869,791

24. Property rates

Rates received

Property Rates	70,969,129	70,448,181
	70,969,129	70,448,181
Property rates - penalties imposed	15,287,631	3,286,106
	86,256,760	**73,734,287**

Valuations

Residential (R 0.002108654)	4,130,544,000	3,268,775,005
Commercial (R 0.021085263)	1,549,526,000	1,083,985,031
State Owned (R0.0188556)	-	858,519,124
Place of Worship (R0.00)	99,167,000	103,885,000
Vacant Land (R 0.021085263)	149,894,500	147,335,000
Public Service Infrastructure (R0.00)	74,202,300	14,790,100
SPL (R0.0018857)	-	82,647,001
Agriculture (R 0.002108654)	3,552,036,000	2,315,069,201
Industrial (R0.0188556)	-	14,860,000
Municipal (R0.00)	253,736,000	33,225,600
Privately owned cemetry (R0.00)	300,000	-
Public benefit organization (R00.2108654)	4,001,000	-
Public Service Purpose (R0.00)	1,089,824,000	-
	0,903,230,800	**7,923,091,062**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 28 February 2019. Interim valuations are processed on a monthly basis to take into account changes in individual property values due to alterations and subdivisions. .

Rate are levied on a monthly basis with a final date for payment being the 09th of every month. Interest plus prime at 1% per annum is levied on outstanding rates

Rates on indigent, pensioners and person with disability grants and child headed households amount to: R 548.11 per annum

Rates will be due and payable in 12 equal or near installments on the 09 of each month, when the 09th is a public holiday or weekend the first day thereafter. The dates on which the determination of rates came into operation is 28 February 2019 Any rates not paid on the due dates will be subject to interest at the rate prime plus 1%. This notice is available on the municipalities website.

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Figures in Rand	2019	2018

25. Government grants and subsidies

Operating grants		
Equitable share	130,262,000	117,256,852
INEG	14,977,259	-
EPWP Grant	954,133	1,505,000
Finance Management Grant (FMG)	1,770,000	1,700,026
Library	4,332,727	2,195,957
Cyber Cadet	210,770	389,376
Museum	192,000	183,000
COGTA Thusong Operational	65,000	315,361
	152,763,889	**123,545,572**
Capital grants		
MIG	30,046,721	35,440,029
	182,810,610	**158,985,601**

Equitable Share

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

This grant is unconditional that supplements the revenue that municiplaities can raise themselves.

Equitable Share

Current-year receipts	130,062,000	117,256,852
Conditions met - transferred to revenue	(130,062,000)	(117,256,852)
	-	-

DOE Grant

Balance unspent at beginning of year	25,714,707	10,714,707
Current-year receipts	-	15,000,000
Conditions met - transferred to revenue	(14,926,773)	-
Transfer to equitable share	(18,000,000)	-
	(7,212,066)	**25,714,707**

Gijima

Balance unspent at beginning of year	38,830	38,830

Land use management

Balance unspent at beginning of year	229,850	229,850

Provincial Housing Grant

Balance unspent at beginning of year	60,000	60,000

MIG

Current-year receipts	36,434,000	35,440,029
Conditions met - transferred to revenue	(30,046,721)	(35,440,029)
	6,387,279	-

Figures in Rand	2019	2018

25. Government grants and subsidies (continued)

FMG

Current-year receipts	1,770,000	1,700,000
Conditions met - transferred to revenue	(1,770,000)	(1,700,000)
	-	-

Upgrade Billing Emondlo

Balance unspent at beginning of year	3,166	3,166

Housing Grant

Balance unspent at beginning of year	225,383	225,383

Emergency Repair Grant (COGTA) - water masification

Balance unspent at beginning of year	2,569	2,569

Library Grant

Balance unspent at beginning of year	3,571,943	2,462,900
Current-year receipts	3,667,000	3,305,000
Conditions met - transferred to revenue	(4,332,727)	(2,195,957)
	2,906,216	**3,571,943**

Museum Grant

Current-year receipts	192,000	183,000
Conditions met - transferred to revenue	(192,000)	(183,000)
	-	-

EPWP Grant

Current-year receipts	1,295,000	1,505,000
Conditions met - transferred to revenue	(954,133)	(1,505,000)
	340,867	**-**

COGTA Thusong Centre Operational

Balance unspent at beginning of year	191,920	507,281
Conditions met - transferred to revenue	-	(315,361)
	191,920	**191,920**

Cyber Cadet

Balance unspent at beginning of year	174,624	-
Current-year receipts	394,000	564,000
Conditions met - transferred to revenue	(210,770)	(389,376)
	357,854	**174,624**

Figures in Rand	2019	2018

26. Employee related costs

Bargaining council	15,579,421	16,480,124
Basic	106,261,713	102,875,703
Bonus	3,981,841	5,806,694
Housing benefits and allowances	282,155	794,935
Leave pay provision charge	(2,987,502)	2,919
Long-service awards	-	161,367
Medical aid - company contributions	7,049,850	7,672,381
Other	-	2,375,368
Overtime payments	10,538,120	17,450,171
SDL	1,142,105	-
UIF	678,249	714,390
	142,525,952	**154,334,052**

Remuneration of Municipal Manager

Annual Remuneration	1,313,058	1,034,298
Car Allowance	36,000	37,915
Performance Bonuses	-	30,000
Contributions to UIF, Medical and Pension Funds	32,170	67,076
Subsistance and Travel	64,295	-
	1,445,523	**1,169,289**

Remuneration of chief finance officer

Annual Remuneration	932,548	980,888
Cellphone allowance	30,000	30,000
Susbistance and Travel	49,319	54,086
Other	55,610	8,213
	1,067,477	**1,073,187**

Remuneration of director Technical

Annual Remuneration	325,722	434,169
Cellphone allowance	10,000	15,000
Subsistance and Travel	15,635	24,251
Other	66,883	8,216
	418,240	**481,636**

Remuneration of director Corporate

Annual Remuneration	932,548	434,169
Cellphone allowance	30,000	15,000
Subsistance and Travel	16,947	8,216
Other	8,864	5,354
	988,359	**462,739**

Remuneration director Community

Annual Remuneration	310,849	664,771

Figures in Rand	2019	2018

26. Employee related costs (continued)

Backpay salary	-	27,654
Cellphone allowance	10,000	22,500
Subsistance and travel	6,443	20,738
Other	71,508	500
	398,800	**736,163**

Remuneration director planning and development - JS Landman

Annual Remuneration	700,406	110,596
Cellphone allowance	30,000	5,000
Travel allowance	21,559	36,865
Other	6,833	-
	758,798	**152,461**

Mr JS Landman was employed in May 2018.

Remuneration director planning and development - Mr HD Zulu

Annual Remuneration	-	150,133
Housing allowance	-	54,906
Cellphone allowance	-	8,295
Leave	-	132,101
Subsistance	-	68,340
Acting allowance (Municipal Manager)	-	11,771
	-	**425,546**

Mr HD Zulu was employed from July 2017 to September 2017.

Figures in Rand	2019	2018

27. Remuneration of Councillors

Mayor	831,361	832,270
Deputy Mayor	688,786	700,074
Executive committee members	3,853,512	3,720,602
Speaker	686,691	705,960
Councillors	8,511,066	9,195,922
Councillors travel allowance	35,776	178,646
Councillors cell allowance	1,535,953	994,700
	16,143,145	**16,328,174**

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time employees. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Municipality. The Executive Committee members are provided with an office only.

The Mayor, Deputy Mayor and the Speaker each has a full time bodyguard and a driver.

Mayor

Salary	787,061	779,867
Cellphone allowance	44,400	32,800
Other	-	11,600
	831,461	**824,267**

Deputy Mayor

Salary	629,647	624,675
Subsistance allowance	14,739	25,310
Cellphone allowance	44,400	32,041
Other	-	11,600
	688,786	**693,626**

Speaker

Salary	629,646	629,647
Subsistance allowance	12,644	12,706
Cellphone allowance	44,400	32,800
Other	-	11,600
	686,690	**686,753**

Other Councillors

Salary	8,511,066	12,570,734
Housing allowance	-	72,000
Cellphone allowance	1,535,953	1,189,100
Subsistance allowance	35,776	10,280
Medical aid	-	69,120
	10,082,795	**13,911,234**

28. Remuneration of councillors

Remuneration of councillors	16,143,145	16,328,174

29. Depreciation, amortisation and impairment

Depreciation	74,555,964	66,709,733
Amortisation	301,152	296,125
Impairment	-	7,231,495
	74,857,116	**74,237,353**

Figures in Rand	2019	2018

30. Finance costs - general

Land purchase	-	18,665,207
Interest on investment	-	2,235
Landfill sites	-	766,744
Interest bank	1,584,104	-
Interest on overdue accounts	513,447	-
	2,097,551	**19,434,186**

31. Repairs and maintenance

Buildings, facilities and other assets	1,822,945	-
Repairs to pumps - waste water works	-	722,804
Repairs to pump stations - waste water works	3,020,511	20,488
Repairs to pumps - water works	-	540,825
Repairs to pipes and network	-	1,124,166
Street lights - electricity	7,052	751,000
Robots - electricity	-	74,876
Substations - electricty	3,055,469	345,883
Overhead lines - electricity	-	101,776
New connections - electricity	-	81,767
Transformers - electricity	-	219,068
Buildings - electricity	1,152,930	1,090
Repairs to buildings	-	284,202
Repairs to roads - pothole patching	-	691,023
Maintenance of equipment	10,147	-
Repairs to roads - grading of roads	-	662,019
	9,069,054	**5,620,987**

32. Contracted Services

Ado Research Lab	-	306,267
Burial services	560,200	476,850
Catering services	171,252	643,394
Computer Services	4,939,595	-
Electrical costs	9,788,394	71,090
Event promoters	31,400	2,450
Legal costs	-	51,725
Maintenance of assets	6,296,078	11,986,359
Meter Reading	3,174,233	2,663,365
Other Financial Services	7,082,921	11,065,606
Planning and Development	1,890,117	1,856,850
Refuse Removal	12,850,074	9,671,500
Security	14,702,303	8,554,223
Hire of vehicles	13,125,627	-
Valuers and Assessors	-	282,531
	74,612,194	**47,632,210**

33. Hire of vehicle and equipment

Equipment	-	247,476
Vehicles	-	17,155,638
	-	**17,403,114**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

34. Provision for impairment

Traffic fine impairment	14,429,595	10,402,222
Provision for impairment debtors	30,341,211	-
	44,770,806	**10,402,222**

35. Bulk purchases

Electricity	165,871,402	114,329,479

36. General expenses

Advertising	963,108	1,069,475
Auditors remuneration	2,867,098	2,288,268
Bank charges	1,447,490	1,251,487
Commission on vendor sales	1,789,518	1,872,466
Consumables	19,909,555	10,348,825
Delivery expenses	42,889	86,672
Fuel and oil	2,358,640	2,319,181
Government grants and subsidies	6,525,567	16,919,365
Insurance	3,000	1,691,478
Inventory written off	314,799	-
Legal expenses	13,291,611	3,357,438
Other expenses	5,780,000	1,343,492
Postage and courier	854,233	828,639
Printing and stationery	-	11,613
Protective clothing	82,283	64,680
Subscriptions and membership fees	523,519	2,844,530
Telephone and fax	865,897	1,509,669
Title deed search fees	7,735	5,374
Training	-	218,268
Travel - local	101,627	497,183
Utilities - Other	5,996,251	6,928,187
	63,724,820	**55,456,290**

37. Loss on disposal of assets and liabilities

Property, plant and equipment	-	25,180,912

38. Auditors' remuneration

Fees	2,867,098	2,288,268

Figures in Rand	2019	2018

39. Cash generated from operations

	2019	2018
(Deficit) surplus	(20,133,935)	17,573,249
Adjustments for:		
Depreciation and amortisation	74,857,116	61,459,279
Finance costs	513,446	19,434,186
Debt impairment	44,770,806	25,412,742
Movements in retirement benefit assets and liabilities	(1,071,000)	(3,695,000)
Leave pay provision	(2,987,502)	2,919
Loss on disposal	-	25,180,912
Provision for landfill site	3,302,897	-
Interest income	(1,958,577)	(2,869,791)
Penalties	(15,161,295)	(12,327,021)
Changes in working capital:		
Inventories	(1,306,704)	(5,722,242)
Trade receivables from exchange	6,566,873	4,392,871
Other receivables from non-exchange transactions	(11,238,905)	(12,594,471)
Payables from exchange transactions	(2,706,329)	(10,217,614)
VAT	(6,059,116)	(28,488,306)
Unspent conditional grants and receipts	(11,993,440)	(15,968,306)
Consumer deposits	(1,341,436)	-
Other payables	2,441,289	(2,441,289)
	56,494,188	**59,132,118**

Figures in Rand	2019	2018

40. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure	12,942,004	8,735,140
• Community	6,924,079	6,344,365
• Other	-	90,893
	19,866,083	**15,170,398**

Approved and not contracted for		
• Infrastructure	5,298,894	-
• Community	18,289,043	-
	23,587,937	**-**

Total capital commitments		
Approved and contracted for	19,866,083	15,170,398
Approved and not contracted for	23,587,937	-
	43,454,020	**15,170,398**

Project	**Commitment**
Bekezulu Library Ward 11	8,066,231
Cecil Emmett Hall Ward 08	281,034
Cliffdale Hall Ward 7	6,046,219
Coronation Community Hall Ward 06	1,536,745
Electrification Ward 2	869,797
Electrification Ward 3	1,475,853
Electrification Ward 4	1,031,099
Electrification Ward 5 & 7	556,881
Electrification Ward 7	1,062,134
eZingadini Low Level Bridge	365,412
High Street Bridge Completion	1,235,196
Louwsburg Taxi Rank	3,780,516
Makhukhula Community Hall Ward 4	4,176,592
Mpongoza Gravel Road	374,633
Ncengumusa Creche Ward 18	1,325,785
Road Paving - New Lakeside	3,179,681
Tarring of Road from KwaBalele to next to Police Station	2,791,318
Tarring of Road from Zama to kwaBalele - Bhekumthetho Ward 19	5,298,894
	43,454,020
	43,454,020

Figures in Rand	2019	2018

41. Contingencies

Legal letters were sent to the Municipalitiy's attorneys in order to obtain details of potential claims. The details of the claimant and an estimation of the potential claim is detailed below :

Contingencies		
African Oxygen Limited	-	8,000
Martin Mathininius Pretorius	-	400,000
Martin Mathininius Pretorius	-	100,000
51 Employees	-	50,000
Appeals board	-	150,000
Eric Maphiri	-	50,000
Mrs Martha Laas	-	200,000
Johannes C. Van Der Colf	-	80,000
Afriforum	-	25,000
Noord Vrystaat	-	100,000
Itrmas	-	500,000
Nashay Singh	-	550,000
Tender documents relating to reading of metres	-	37,747
JF Hoffman	-	145,301
Metgovis	-	105,873
SA local authourities and pension fund	-	431,980
Dumani projects (Pty) Ltd (legal fees and damage)	-	342,545
High Court case number 3265/2009 Edcon ltd and Wrley and Parsons RSA	-	6,157,101
Tz 98 illegal occupations of the Erf 61	-	56,558
T423 Non-responsive client	-	5,154
FJ Bender	-	71,917
MP Mdletshe	-	13,260
Hofman	-	193,795
Dumani Projects	-	282,544
Metgovis	-	64,772
Edcon	-	6,169,591
Graceland investments	-	48,720
MI Sangweni	-	137,388
IFP Mthembu	-	100,000
MEC/VJ Mthembu and Abaqulusi	-	20,000
Sharp business/Sharks Prof	-	3,000,000
Farm Welgevonden (Shoba)	-	50,000
Sharp Business Service	-	2,000,000
Ngwenya and Zwane Inc	-	121,872
Kuntwela Ezansi Ventures	-	539,411
Sengikhona Soloutions	-	1,242,189
Sibisi AD and others	100,000	-
Matusa	100,000	-
Independent Baptist Church	300,000	-
Sibiya QJ and other	100,000	-
PWC	50,000	-
Makwatheni Community	100,000	-
Mlambo P & L others	120,000	-
Mbatha BM others	170,000	-
	1,040,000	**23,550,718**

Figures in Rand	2019	2018

42. Related parties

During the current financial year the following related party transactions were identified:

Lithotech was in service of the state (Ethekwini Municipality) as declared on the MD4 dated 9 September 2014.

The SCM Management conducted a search on the central supplier database (CSD) and the following entity's was identified as related parties.

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Lithotec sales KZN	59,050	52,440
Conlog (Pty) Ltd	66,815	3,263,588
Samkelintokozo	-	108,000
Gess Trading	-	138,985
Vodacom (Pty) Ltd	450,418	705,152
Dikida Transport	-	2,000,000
Isqiniseko Trading	-	261,120
KD Electrical	-	452,722
Otis (Pty) Ltd	-	24,923
Workman Dynamics	-	138,016
Zitt Construction	-	22,900
Altron TMT SA Group	523,326	1,582,129
	1,099,609	**8,749,975**

In addition refer to note on irregular expenditure

43. Prior period errors

The aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2018 is as follows:

During the financial year 2018/2019 the following prior period errors were identified and corrected. These corrections were made to correctly reflect the comparative figures for the 2017/2018 financial year.

The table below outlines the reasons for the necessary adjustments:

43. Prior period errors (continued)

Trade payables	**2018**
Balance as previously reported	(119,771,943)
Reversal of accruals (Credit notes passed)	354,126
Annual bonus incorrectly raised in 2018	2,856,832
Restated balance as at 30 June 2018	**(116,560,985)**

Receivable from exchange transactions	**2018**
Balance as previously reported	50,703,524
Reversal of incorrect Rates balance raised in 2015	300,653
Restated balance as at 30 June 2018	**51,004,177**

Property plant and equipment	**2018**
Balance as previously reported - Cost	3,244,621,637
Land adjustment - Bloemenkrans No 853	1,729,000
Additions to WIP progress not capitalised in 2018	2,026,435
Buildings Adjustments - Enyatahi Village	96,485,090
Other Infrastructure Adjustments - Enyatahi Village	13,600,000
AUC - Undeveloped Land Adjustments - Enyatahi Village	(25,100,000)
Restated balance as at 30 June 2018	**3,333,362,162**

Property plant and equipment	**2018**
Balance Previously report - Accumulated Depreciation	(1,801,469,760)
Accumulated Depreciation on Buildings Adjustments - Enyatahi Village	(41,488,589)
Accumulated Depreciation Other Infrastructure Adjustments - Enyatahi Village	(10,200,000)
Restated balance as at 30 June 2018	**(1,853,158,349)**

Accumulated surplus	**2018**
Balance as perviously reported	(1,372,808,346)
Accumulated Depreciation on Buildings Adjustments - Enyatahi Village	41,488,589
Accumulated Depreciation Other Infrastructure Adjustments - Enyatahi Village	10,200,000
Land Adjustment - Bloemenkrans No. 853	(1,729,000)
Additions to WIP progress not capitalised in 2018	(2,026,435)
Buildings Adjustments - Enyatahi Village	(96,485,090)
Other Infrastructure Adjustments - Enyatahi Village	(13,600,000)
AUC - Undeveloped Land Adjustments - Enyatahi Village	25,100,000
Reversal of Transactions posted to Control Account in the 2017 & 2018 Financial years	(300,653)
Reversal of Annual Bonus incorrectly raised in 2018	(2,856,832)
Reversal of Accruals (Credit Notes processed)	(354,126)
Restated balance as at 30 June 2017	**(1,413,371,893)**

44. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had accumulated deficits of R 1,393,237,989 and that the municipality's total liabilities exceed its assets by R 1,393,237,989.

Going Concern Assessment of AbaQulusi Local Municipality performed by Management for the financial year ending 30 June 2019.

Figures in Rand	2019	2018

44. Going concern (continued)

Ratio Analysis

The following financial ratios were considered:

Asset Test Ratio

Financial Year	Current Assets	Current Liabilities	Acid Test Ratio
2016/2017	98,229,660	137,558,885	0.71
2017/2018	138,267,726	180,947,176	0.76
2018/2019	100,052.947	173,815,257	0.58

The asset test ratio is calculated as a municipality's current assets minus inventory divided by current liabilities. The accepted acid test ratio is considered to be 1:1.

Current Asset Ratio

Financial Year	Current Assets	Current Liabilities	Current Asset Ratio
2016/2017	106,751,597	137,558,885	0.78
2017/2018	152,203,226	180,947,176	0.84
2018/2019	166,995,376	173,815,257	0.96

The current ratio (also known as the working capital ratio) is calculated as current assets divided by current liabilities. This ratio measures the extent to which current or short-term assets can be disposed to liquidate the current or short-term liabilities. The acceptable ratio is 1:1.

Debt Ratio

Financial Year	Total Liabilities	Total Assets	Debt Ratio
2016/2017	235,047,850	1,704,996,831	14%
2017/2018	278,823,881	1,705,465,899	16%
2018/2019	273,723,859	1,666,961,853	16%

The debt ratio is the proportion of debt the entity has relative to its assets and provides an indication as to how much the municipality relies on debt to finance their assets. This ratio assists entities to assess risks they are facing in terms of their debt load.

Approximately 16% of municipal assets were financed through debt in the 2017/2018 financial year, and approximately 16% in the 2018/2019 financial year.

The proportion of debt to asset is quite low and in a favourable position.

Prior year – Cleveshay

44. Going concern (continued)

The below the norm ratio of 1:1 can be justified as the municipality's bank accounts are still attached, resulting from a long-standing court battle with Claveshay Estates over the compensation on land which was expropriated. The settlement of agreement in the KZN High Court on Case number 8935 relating to Claveshay indicated that the defendant (the municipality) had to pay interest on the sum of R25,100,000 as from 12 June 2006 at a rate of 15.5% until the date of payment.

Based on the amounts that were attached by the Sheriff's office to pay over to Claveshay and the interest cost calculation, an amount of R 37 933 399 were deducted from municipalities bank account in the prior financial year end. A balance of R 5 831 808 of interest was payable in the current financial year.

In addition, since the prior year, the operating deficit has increased from R 43 306 969 to R 67 320 660 resulting in a R 24 013 691 regression.

Anticipated Revenue

The municipality expects to receive the following grants in the year 2019/20 financial year.

Grant	**Amount**
Equitable Share	R 145 195 000
Municipal Infrastructure Grant	R 37 135 000
Financial Management Grant	R 2 235 000
Electrification Grant	R 9 600 000

Based on the above revised ratios and extract of the revised Profit/ Loss, there is no indication that the Municipality may not meet its obligations as they become due in the short term. In addition, there is no indication of material uncertainties or events that cast doubt on the municipality's ability to continue as a going concern.

The annual financial statements will be prepared on the basis of accounting policies applicable to a going concern.

The going concern principle is the assumption that an entity will remain in operation for the foreseeable future. Conversely, this means the entity will not be forced to halt operations and liquidate its assets in the near term.

The municipality is assumed to be a going concern in the absence of significant information to the contrary. An example of such contrary information is the municipality's inability to meet its obligations as they come due.

Going forward, in addition to the continued receipt of grant funding from National Treasury for operations in the form of Equitable Share, management intends enforcing more stringent controls around debt collection, awarding of contracts and spending in accordance with the municipal budget. The municipality has begun a process of curbing all un-necessary expenditure with a key focus on cost containment.

In addition, the councillors have reviewed the entity's cash flow forecast for the year ended 30 June 2020 and, considering this review and the current financial position, they are satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

CONCLUSION: Management is of the opinion that there is no risk that the municipality will not be operational in foreseeable future and thus the going concern basis is an accurate basis for the preparation of the AFS for 2019.

45. Events after the reporting date

There were no adjusting or non-adjusting events after the reporting period.

Figures in Rand	2019	2018

46. Unauthorised expenditure

Unauthorised expenditure	233,938,158	125,481,301
Personnel	-	25,712,058
Finance costs	513,447	18,884,186
Bulk purchases	6,769,402	-
Provision for doubtful debts	44,770,806	10,402,222
Lease rentals on operating lease	-	17,403,114
General expenses	-	30,434,290
Repairs and maintenance	-	5,620,987
	285,991,813	**233,938,158**

47. Fruitless and wasteful expenditure

Opening balance	19,504,987	820,456
Interest relating to land	-	18,665,207
Eskom interest	418,689	10,276
Telkom Interest	12,880	9,048
Auditor General	81,878	-
	20,018,434	**19,504,987**

Figures in Rand	2019	2018

48. Irregular expenditure

Opening balance	159,389,040	117,524,674
Legal claims	-	11,648,727
Illanga lighting distribution	-	113,950
Mntambo financial consulting	-	197,790
Nizohlomu Trading	-	80,000
Spumnathi Logistic and Trade	-	199,715
Skhobobo Enterprise	-	199,200
N & P Trading and Project	-	34,500
Homefront Trading 268 CC	-	17,680
Mchilombovu Civils Construction and Plant Hire	-	1,265,800
Hartman Emergency Care	-	96,377
TK Gutters plumbers and plant hire	-	148,200
Sipho Plant Hire and Construction	-	363,204
Conlog (Pty) ltd	-	1,208,290
Revive Electrical Transformers	-	164,160
Actom Electrical	-	7,723,413
Qababa Civils	-	32,133
Ekhaya Promotions	-	2,481,371
Ado research labs	-	378,325
Altech Netstar	-	29,948
Bidvest Steiner	19,967	11,266
Bigen Africa Services	829,151	-
Brandfin Trade	-	5,626
Centrafin (Pty) Ltd	-	264,882
Chris Vermaak	-	331,858
DOE grant	-	92,722
Daisy communications	77,730	-
Courier services	18,315	-
Cascade consulting	46,000	-
Emondlo bus service	145,000	-
KD electrical	79,468	140,197
Lasercom	-	157,804
Link up security	554,787	740,597
MWEB Connect (Pty) Ltd	40,983	86,036
Marsh	-	1,596,503
Municipal Incorp	309,167	1,267,882
Nashua	5,628	-
Otis (Pty) Ltd	-	11,741
RIS Vehicle Hire	899,949	4,173,250
Reochem (Pty) Ltd	2,975,806	486,058
Rumas	199,500	-
Stainer Hygiene (Pty) Ltd	60,143	-
Steiner Hygene Express	-	93,776
TK Gutters	351,900	-
Thembaleth Civils	-	89,838
Time Freight	62,224	49,792
Total Client Service	-	4,144,310
Wesbank Fleet services	7,970,979	3,354
Vermaak	140,455	-
Windeed Systems	24,777	-
Procurement from individuals who are in service of the state (refer to Note 43)	-	1,734,091
	174,200,969	**159,389,040**

Figures in Rand	2019	2018

49. Deviation from supply chain management regulations

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

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

The current deviations related to various expenditure due to emergencies, being impossible to follow the procurement process and there being only one sole supplier

Supply Chain Management Deviations more than R 200 000		
Bell equipment	219,764	-
Abaphumeleli Trading 651	298,080	-
Kambula Electrical	530,409	-
Mpitetsana Trading Enterprise (Pty) Ltd	701,063	-
Msuftu Transport	377,574	-
T & J Electrical	290,105	-
Kantech services (Pty) Ltd	-	548,351
Emergency gutters and plumbers	351,900	-
	2,768,895	**548,351**

Supply Chain Management Deviations less than R 200 000		
Various deviations less than R 200 000	785,632	2,510,262

50. Distribution Losses

The actual loss in distribution water cannot be determined in view of the fact that eMondlo consumers are not billed. The difference between water purified and sold can therefore not be regarded as lost in distribution, seeing that a large percentage of it is not metered.

Electricity		
No of consumers (Residential and Commercial)	19,316	24,714
Units purchased	148,062,579	151,582,918
Units sold	120,606,457	118,775,566
Units lost in distribution	27,456,121	32,807,352
% lost in distribution	19	22
Total costs (expenses)	205,759,644	146,378,959
Cost per unit purchased	1	1
Total cost lost through distribution	38,155,230	31,681,050
	-	**-**

Water		
No of consumers (Residential and Commercial)	18,121	19,512
Kilolitres purified	8,136,845	6,559,600
Units sold (Total)	2,339,901	2,542,748
Units lost through distribution	4,894,312	3,173,932
% lost in distribution	60	48
Total costs (expenses)	26,394,787	29,804,722
Cost per kilolitre purified	3	5
Total cost lost through distribution	15,876,462	14,421,331
	-	**-**

Figures in Rand	2019	2018

51. Water Inventory

Water Inventory - 2018	Rand Value of Inventory 2018
Opening Balance	24,259
Purified	29,804,722
Less sold	(11,553,433)
Less loss through purification 10%	(2,980,472)
Less sold to indigent	(539,835)
Loss through distribution	(14,421,331)
Closing Balance	**333,910**

Water Inventory - 2019	Rand Value of Inventory 2019
Opening Balance	333,910
Purified	26,394,787
Less sold	(7,590,312)
Less loss through purification 10%	(2,639,378)
Less sold to indigent	(234,362)
Loss through distribution	(15,876,461)
	388,184

52. Risk Mangement

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

Cash flow forecasts are prepared and adequate, utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Financial Instruments		
Current Assets	166,995,375	149,025,673
Current Liabilities	173,815,261	165,626,029
	-	-
Liquidity Ratio	0.96	0.90

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.

At 30 June 2019, financial instruments exposed to interest rate risk were call and notice deposits**.**

Credit Risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in cash. The Municipalities exposure to credit risk is indicated below.

Figures in Rand	2019	2018

52. Risk Mangement (continued)

Cash and cash equivalents	17,870,625	11,938,775
Receivables from non exchange transactions	66,942,429	55,703,524
Receivables from exchange transactions	60,572,322	48,469,475
	-	-

Figures in Rand	2019	2018

53. Additional Note in terms of the Municipal Finance Management Act

PAYE and UIF		
Current year payroll deductions	23,122,464	23,372,988
Amount paid current year	(23,122,464)	(23,372,988)
	-	-

54. Reasons for differences identified in the Statement of Comparison of Budget and Actual

53.1 - Due to the municipality experiencing historically non-payment from customers and not want to incur expenditure for monies they don't have, the municipality budgeted prudently.

53.2 - The municipality did not renew some the leases due to section 139 intervention, the ministerial representative is attending to this.

53.3 - The municipality budgeted prudently because the municipality is experiencing a financial crisis.

53.4 - Due to the municipality experiencing historically non-payment from customers and not want to incur expenditure for monies they don't have, the municipality budgeted prudently.

53.5 - The municipality had no money to invest due to cash flow constraints.

53.6 - The municipality had no money to invest due to cash flow constraints.

53.7 - The municipality under went stringent collection.

53. 8 - The municipality under went stringent collection

53.9 - The municipality applied for a rollover of INEP grant and this was not approved, therefor national treasury deducted the amount from the current allocation.

53.10 - Vacant post not filled due to cash flow constraints.

53.11 - Councillors are paid as per government gazette.

53.12 - Fruitless and wasteful, unplanned.

53.13 - Additional depreciable assets were purchased.

53.14 - Item not budgeted for

53. 15 - This has been included as general expenditure.

53.16 - Eskom rates high than anticipated

53.17 - The municipality under went stringent cost savings due to financial crisis.

53.18 - The expenditure for free basic services is contained in bulk purchases.

53.19 - The municipality under went stringent cost savings due to financial crisis.