Lejweleputswa District Municipality
Annual Financial Statements
for the year ended 30 June 2021

General Information

Nature of business and principal activities	District municipality
Mayoral committee from August 2016	
Executive Mayor	Cllr S Ngangelizwe
Speaker	Cllr PP Maleka
Councillors	Cllr ML Tlhone - MMC Health Service and Disaster Management
	Cllr MS Sehloho - MMC LED, Tourism, Agriculture, Youth and SMME
	Cllr NV Ntakumbana - MMC Community Services
	Cllr MH Ntsebeng - MMC Infrastructure
	Cllr MMT Matlabe - MMC Coroprate Services
	Cllr MJ Meli - MMC IDP, PMS, Policy Development and Monitoring
	Cllr JS Mabitla - MMC Finance
Municipal demarcation code	DC 18
Capacity of local authority	Low capacity
Grading of local authority	4
Accounting Officer	Mrs PME Kaota
Chief Finance Officer (CFO)	Mr PK Pitso
Registered office	Office of the Municipal Manager Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Business address	Corner of Jan Hofmeyer and Tempest Road Jim Fouche Park Welkom 9459
Postal address	P.O. Box 2163 Welkom 9460
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa
Enabling legislation	Constitution of the Republic of South Africa,1995 (Act No.108 of 1995) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Structures Act,1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000)
Website	www.lejweleputswa.co.za

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

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CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
MMC	Member of Mayoral Committee
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
IAS	International Accounting Standards

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 were given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

Palesa Matshidiso Elizabeth Kaota
Municipal Manager

Audit Committee Report

We are pleased to present the Audit Committee report for the financial year ended 30 June 2021 on Lejweleputswa District Municipality ("LDM").

Audit Committee Members and Attendance

The Audit Committee ("Committee") consists of five independent members. Members are appointed by the Municipal Council in terms of section 166 of Municipal Finance Management Act, 2003 (Act No. 56 of 2003). During the 2020/2021 financial year four ordinary meetings and one special meeting were held. The attendance is reflected in the table below:

Name of member	Position	Attended	Apologies	Total
Me G Mayisela	Chairperson	5	-	5
Me SPT Monosi	Member / Chairperson	4	1	5
Mr TA Montshikha	Member	5	-	5
Me DS Nage	Member	4	1	5
Mr TJ Macholo	Member	5	-	5

Audit Committee responsibility

The Audit Committee has adopted appropriate formal terms of reference as its Audit Committee charter ("the Charter"). The Audit Committee charter is reviewed and tabled before the Council for approval on an annual basis. The last review was on **5 November 2020** and serves as a guide for the Audit Commitee. The Audit Committee has discharged its responsibilities as contained in the Charter.

The effectiveness of internal control and risk management

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and Management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Internal Auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- reviewed and discussed the annual financial statements to be included in the annual report, with the AGSA and management;
- reviewed the AGSA's management report and management’s responses thereto;
- reviewed changes in accounting policies and practices;
- reviewed the Municipality's compliance with legal and regulatory provisions, and
- reviewed significant adjustments resulting from the audit.

We concur with and accept the AGSA's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal Audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality through their audits. Internal Audit has developed and implemented a risk-based three year strategic and annual operational audit plan.

Audit Committee Report

Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no material unresolved issues. We are satisfied that the Auditor-General is independent of the Municipality.

Me G Mayisela - Chairperson of the Audit Committee

Date: ____________________

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

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

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 151 797 383 and that the municipality's total assets exceed its liabilities by R 151 797 383.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2021 have not been adjusted to reflect their impact. The duration and impact of the COVID-pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the municipality for future periods.

Irregular expenditure written off.

During a council meeting which was held on 26 August 2021. The council wrote off irregular expenditure amounting to R1 172 61

4. Accounting Officer

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

Name
Palesa Matshidiso Elizabeth Kaota

5. Interest in controlled entities

Name of controlled entity	
Lejwe Le Putswa Development Agency	-

Lejweleputswa District Municipality is the parent of Lejwe Le Putswa Development Agency SOC Ltd and holds 100% interest.

Details of the municipality's investment in controlled entities are set out in note 8.

6. Auditors

Auditor-General of South Africa.

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020
Assets			
Current Assets			
Cash and cash equivalents	3	121 220 822	135 010 909
Other receivables	4	504 666	483 661
VAT receivable	5	2 976 161	1 388 148
		124 701 649	**136 882 718**
Non-Current Assets			
Property plant and equipment	6	65 794 233	59 595 701
Intangible assets	7	282 512	129 272
Investments in controlled entities	8	100	100
		66 076 845	**59 725 073**
Total Assets		**190 778 494**	**196 607 791**
Liabilities			
Current Liabilities			
Other financial liabilities	9	-	3 249 925
Payables from exchange transactions	10	19 942 229	17 875 688
Transfers payable (non-exchange)	11	-	7 313 724
Unspent conditional grants and receipts	13	26 882	1 000 000
Long service awards	12	886 000	492 000
Employee benefit obligation	12	314 000	224 000
		21 169 111	**30 155 337**
Non-Current Liabilities			
Employee benefit obligation	12	13 932 000	12 177 000
Long service awards	12	3 880 000	3 736 000
		17 812 000	**15 913 000**
Total Liabilities		**38 981 111**	**46 068 337**
Net Assets		**151 797 383**	**150 539 454**
Accumulated surplus		151 797 383	150 539 454

Lejweleputswa District Municipality
Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020
Revenue			
Revenue from exchange transactions			
Discount received		29 214	-
Operational revenue	15	225 638	332 198
Interest received	16	5 253 883	10 987 738
Total revenue from exchange transactions		**5 508 735**	**11 319 936**
Revenue from non-exchange transactions			
Transfer revenue			
Transfer and Subsidies	17	152 280 118	135 116 000
Total revenue	14	**157 788 853**	**146 435 936**
Expenditure			
Employee related cost	18	(97 162 812)	(83 625 609)
Remuneration of councillors	19	(9 356 205)	(9 291 443)
Transfers and subsidies	20	(17 148 658)	(11 530 852)
Depreciation and amortisation	21	(3 212 836)	(3 991 422)
Impairment / (Impairment loss)	22	(342 932)	(511 678)
Finance costs	23	(94 445)	(424 827)
Operating lease expenditure	24	(898 927)	(919 386)
Inventory consumed	25	(1 401 444)	(1 300 969)
Contracted services	26	(9 729 426)	(10 313 607)
Loss on disposal of assets and liabilities		(146 436)	(69 220)
Operational cost	27	(15 898 064)	(14 110 994)
Total expenditure		**(155 392 185)**	**(136 090 007)**
Surplus for the year		**2 396 668**	**10 346 379**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**141 123 707**	**141 123 707**
Changes in net assets		
Movement in assets	(930 632)	(930 632)
Net income (losses) recognised directly in net assets	(930 632)	(930 632)
Surplus for the year	10 346 379	10 346 379
Total recognised income and expenses for the year	9 415 747	9 415 747
Total changes	9 415 747	9 415 747
Opening balance as previously reported	150 539 454	150 539 454
Balance at 01 July 2020	**150 539 454**	**150 539 454**
Changes in net assets		
Surplus for the year	2 396 668	2 396 668
Movement in assets	(1 138 739)	(1 138 739)
Net income (losses) recognised directly in net assets	1 257 929	1 257 929
Total recognised income and expenses for the year	1 257 929	1 257 929
Total changes	1 257 929	1 257 929
Balance at 30 June 2021	**151 797 383**	**151 797 383**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020
Cash flows from operating activities			
Receipts			
Grants		152 280 118	135 116 000
Interest income		4 865 487	10 508 414
Other receipts		278 444	372 481
		157 424 049	145 996 895
Payments			
Employee costs		(104 650 163)	(91 864 709)
Suppliers		(52 558 772)	(45 212 730)
Finance costs		(94 445)	(485 646)
		(157 303 380)	(137 563 085)
Net cash flows from operating activities	30	**120 669**	**8 433 810**
Cash flows from investing activities			
Purchase of property plant and equipment	6	(9 692 078)	(3 970 418)
Proceeds from sale of property plant and equipment		-	229 936
Purchase of other intangible assets	7	(271 753)	(98 405)
Proceeds from sale of other intangible assets	7	-	21 300
Net cash flows from investing activities		**(9 963 831)**	**(3 817 587)**
Cash flows from financing activities			
Movement in other financial liabilities		(3 249 925)	(3 002 230)
Employee benefit obligation payments		(229 000)	(143 000)
Movement in long service awards		(468 000)	(685 000)
Net cash flows from financing activities		**(3 946 925)**	**(2 973 864)**
Net increase/(decrease) in cash and cash equivalents		**(13 790 087)**	**1 642 359**
Cash and cash equivalents at the beginning of the year		135 010 909	133 368 550
Cash and cash equivalents at the end of the year	3	**121 220 822**	**135 010 909**

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 41
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Discount received	-	-	**-**	29 214	**29 214**	
Operational revenue	250 000	-	**250 000**	225 638	**(24 362)**	X1
Interest received - investment	3 050 000	-	**3 050 000**	5 253 883	**2 203 883**	X2
Total revenue from exchange transactions	**3 300 000**	**-**	**3 300 000**	**5 508 735**	**2 208 735**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	144 832 000	-	**144 832 000**	152 280 118	**7 448 118**	X3
Total revenue	**148 132 000**	**-**	**148 132 000**	**157 788 853**	**9 656 853**	
Expenditure						
Employee remuneration	(101 331 862)	-	**(101 331 862)**	(97 162 812)	**4 169 050**	X4
Remuneration of councillors	(9 471 502)	-	**(9 471 502)**	(9 356 205)	**115 297**	X5
Transfers and Subsidies	(18 055 603)	-	**(18 055 603)**	(17 148 658)	**906 945**	X6
Depreciation and amortisation	(5 679 964)	-	**(5 679 964)**	(3 212 836)	**2 467 128**	X7
Impairment loss/ Reversal of impairments	-	-	**-**	(342 932)	**(342 932)**	
Finance cost	(635 510)	-	**(635 510)**	(94 445)	**541 065**	X8
Operating lease expenditure	(1 200 122)	-	**(1 200 122)**	(898 927)	**301 195**	X9
Inventory consumed	(3 489 209)	-	**(3 489 209)**	(1 401 444)	**2 087 765**	X10
Contracted services	(15 110 463)	-	**(15 110 463)**	(9 729 426)	**5 381 037**	X11
Operational cost	(20 968 258)	-	**(20 968 258)**	(15 898 064)	**5 070 194**	X12
Total expenditure	**(175 942 493)**	**-**	**(175 942 493)**	**(155 245 749)**	**20 696 744**	
Operating surplus	**(27 810 493)**	**-**	**(27 810 493)**	**2 543 104**	**30 353 597**	
Loss on disposal of assets and liabilities	-	-	**-**	(146 436)	**(146 436)**	
Surplus before taxation	**(27 810 493)**	**-**	**(27 810 493)**	**2 396 668**	**30 207 161**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(27 810 493)**	**-**	**(27 810 493)**	**2 396 668**	**30 207 161**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference Note 41
Statement of Financial Position						
Assets						
Current Assets						
Other receivables	15 257 320	-	**15 257 320**	504 666	**(14 752 654)**	X13
VAT receivable	-	-	**-**	2 976 161	**2 976 161**	
Cash and cash equivalents	97 708 753	(788 700)	**96 920 053**	121 220 822	**24 300 769**	X14
	112 966 073	**(788 700)**	**112 177 373**	**124 701 649**	**12 524 276**	
Non-Current Assets						
Property plant and equipment	66 602 980	689 109	**67 292 089**	65 794 233	**(1 497 856)**	X15
Intangible assets	175 659	-	**175 659**	282 512	**106 853**	X16
Investments in controlled entities	100	-	**100**	100	**-**	
	66 778 739	**689 109**	**67 467 848**	**66 076 845**	**(1 391 003)**	
Total Assets	**179 744 812**	**(99 591)**	**179 645 221**	**190 778 494**	**11 133 273**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	2 186 666	-	**2 186 666**	19 942 229	**17 755 563**	X17
Payables from non-exchange	19 399 902	-	**19 399 902**	-	**(19 399 902)**	X18
VAT payable	13 401 504	-	**13 401 504**	-	**(13 401 504)**	X19
Unspent conditional grants and receipts	-	-	**-**	26 882	**26 882**	
Long service awards	-	-	**-**	886 000	**886 000**	
Employee benefit obligation	8 826 928	-	**8 826 928**	314 000	**(8 512 928)**	X20
	43 815 000	**-**	**43 815 000**	**21 169 111**	**(22 645 889)**	
Non-Current Liabilities						
Borrowings	5 211 101	-	**5 211 101**	-	**(5 211 101)**	X21
Employee benefit obligation	12 394 000	-	**12 394 000**	13 932 000	**1 538 000**	X22
Long service awards	5 812 994	-	**5 812 994**	3 880 000	**(1 932 994)**	X23
	23 418 095	**-**	**23 418 095**	**17 812 000**	**(5 606 095)**	
Total Liabilities	**67 233 095**	**-**	**67 233 095**	**38 981 111**	**(28 251 984)**	
Net Assets	**112 511 717**	**(99 591)**	**112 412 126**	**151 503 907**	**39 385 257**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	112 511 717	(99 591)	**112 412 126**	151 503 907	**39 091 781**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

1.1 Going concern assumption

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

1.2 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:

Impairment testing

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.

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

Value in use of non-cash generating assets
The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Useful lives of property, plant and equipment and other assets

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.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

Effective interest rate

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

Allowance for impairment

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

1.3 Property plant and equipment

Property plant and equipment are tangible non-current 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.

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

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

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

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

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

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

Accounting Policies

1.3 Property plant and equipment (continued)

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Not depreciated
Buildings and paving	Straight line	30-45 years
Plant and machinery	Straight line	5-20 years
Furniture and fixtures	Straight line	5-15 years
Motor vehicles	Straight line	7-14 years
Office equipment (including computers)	Straight line	4-9 years
Emergency equipment	Straight line	5-10 years
Other property, plant and equipment	Straight line	5-10 years

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

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

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

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

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

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

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

1.4 Intangible assets

An asset is identifiable if it either:

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

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

1.4 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years indefinite

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

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

1.5 Investments in controlled entities

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

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

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

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

Accounting Policies

1.6 Financial instruments

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

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

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

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

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

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

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

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

It is settled at a future date.

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

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

A financial asset is:

cash;
a residual interest of another municipality; or
a contractual right to:

- receive cash or another financial asset from another municipality; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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

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

deliver cash or another financial asset to another entity; or
exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

1.6 Financial instruments (continued)

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of the entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of the entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of the entity.

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

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

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

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

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

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

Accounting Policies

1.6 Financial instruments (continued)

Classification

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

Class	**Category**
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	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
Other financial liabilities	Financial liability measured at amortised cost
Transfers payable (non-exchange)	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, 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 municipality measures all other financial assets and financial liabilities initially at fair value.

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

- 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.

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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 municipality 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 municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-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.

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

Accounting Policies

1.6 Financial instruments (continued)

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

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

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 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 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.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

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

1.6 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

the contractual rights to the cash flows from the financial asset expire, are settled or waived;

the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:

- derecognises the asset; and
- recognises separately any rights and obligations created or retained in the transfer.

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

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

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

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

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

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

Financial liabilities

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

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.

1.6 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

Statutory receivables (continued)

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

interest or other charges that may have accrued on the receivable (where applicable);
impairment losses; and
amounts derecognised.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

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

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

1.7 Leases

Operating leases - lessee

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

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

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

Identification

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

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

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

Value in use

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

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

Discount rate

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

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.

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

1.8 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 uses 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 municipality does not reduce the carrying amount of an asset below the highest of:

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

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

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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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.

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

Accounting Policies

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

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

Identification

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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.

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

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

Reversal of an impairment loss

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

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

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

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

1.10 Employee benefits

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 municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality 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 municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Accounting Policies

1.10 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 twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.10 Employee benefits (continued)

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

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 determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the 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).

1.10 Employee benefits (continued)

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) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Accounting Policies

1.10 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

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;
- interest 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.

1.11 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.

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 expenditure.

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

Accounting Policies

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:
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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:
a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
a present obligation that arises from past events but is not recognised because:
- it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured with sufficient reliability.

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

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Interest and investment income

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

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

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

Interest charged on debtor accounts are limited to the principal debt as prescribed by the National Credit Act.

1.13 Revenue from non-exchange transactions

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

1.13 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, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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.

Services in-kind

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

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

1.14 Investment income

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

1.15 Borrowing costs

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

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

1.16 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.

1.17 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.

1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

1.19 Grants in aid

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

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or

1.19 Grants in aid (continued)

expect a financial return, as would be expected from an investment.

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

1.20 Commitments

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

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

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

1.21 Budget information

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

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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

1.22 Related parties

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

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

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

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

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

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

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

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

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

1.23 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Accounting Policies

1.23 Events after the reporting date (continued)

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

1.24 VAT

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 1 (amended) Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP35 :Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP38 : Disclosure of interest in Other Entities	01 April 2020	Unlikely there will be a material impact
GRAP34 :Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 25 :Employee benefits	To be determined	Unlikely there will be a material impact
GRAP 104 (amended): Financial Instruments	To be determined	Unlikely there will be a material impact
Guideline: Guideline on the Application of Materiality to Financial Statements	To be determined	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 000	6 000
Bank balances	44 228 214	19 524 602
Short-term deposits	76 986 608	115 480 307
	121 220 822	**135 010 909**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA Bank - cheque account - 134000017	44 238 518	19 397 779	91 002 664	44 228 214	19 524 602	90 996 637
ABSA Bank - call account - 4094589145	-	-	10 613 141	-	-	10 613 141
ABSA Bank - call account - 40945890674	-	-	10 163 141	-	-	10 163 141
ABSA Bank - call account - 4094767743	23 300 079	22 516 493	21 139 632	23 300 079	22 516 493	21 139 632
ABSA Bank - call account - 9354965082	-	41 604 167	-	-	41 604 167	-
ABSA Bank - call account - 9356355225	53 686 529	51 359 646	-	53 686 529	51 359 646	-
Total	**121 225 126**	**134 878 085**	**132 918 578**	**121 214 822**	**135 004 908**	**132 912 551**

4. Other receivables

Salary advances	-	868
Deposits	4 700	4 700
Other receivables	(24 715)	(24 716)
Council receivables	30 760 923	30 396 119
Less: Allowance for impairment	(30 236 242)	(29 893 310)
	504 666	**483 661**

Credit quality of other receivables

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

Other receivables past due but not impaired

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

1 month past due	504 666	483 662

Reconciliation of allowance for impairment

Opening balance	29 893 310	29 386 632
Provision for impairment	342 932	506 678
	30 236 242	**29 893 310**

5. VAT receivable

VAT	2 976 161	1 388 148

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

5. VAT receivable (continued)

The carrying amount of VAT receivable approximates fair value due to its short term nature. The municipality reports to SARS on a cash basis and the amount receivables represent creditors/accruals owed by the municipality being more than VAT payable on cash receipts from customers. The input tax is claimed upon the cash payment to creditors. Output tax is paid upon cash receipts from debtors.

Notes to the Annual Financial Statements

Figures in Rand

6. Property plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 140 000	-	1 140 000	1 140 000	-	1 140 000
Buildings	76 588 808	(30 679 595)	45 909 213	76 165 211	(28 119 841)	48 045 370
Plant and equipment	1 043 162	(400 712)	642 450	806 418	(397 492)	408 926
Furniture and fixtures	6 846 292	(4 602 682)	2 243 610	6 383 435	(4 565 252)	1 818 183
Motor vehicles	3 538 648	(708 420)	2 830 228	3 919 578	(893 431)	3 026 147
Office equipment	6 480 877	(4 270 139)	2 210 738	6 081 903	(4 137 206)	1 944 697
Emergency equipment	54 443	(33 567)	20 876	43 548	(31 170)	12 378
Infrastructure	10 797 118	-	10 797 118	3 200 000	-	3 200 000
Total	**106 489 348**	**(40 695 115)**	**65 794 233**	**97 740 093**	**(38 144 392)**	**59 595 701**

Reconciliation of property plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation on disposal'	Depreciation	Total
Land	1 140 000	-	-	-	-	1 140 000
Buildings	48 045 370	480 655	(57 058)	28 604	(2 588 358)	45 909 213
Plant and equipment	408 926	560 607	(7 699)	6 425	(9 036)	642 450
Furniture and fixtures	1 818 183	473 923	(324 470)	264 570	(305 363)	2 243 610
Motor vehicles	3 026 147	-	-	-	(195 919)	2 830 228
Office equipment	1 944 697	816 176	(230 900)	170 358	(489 583)	2 210 738
Emergency equipment	12 378	10 892	-	-	(2 394)	20 876
Infrastructure	3 200 000	7 597 118	-	-	-	10 797 118
	59 595 701	**9 939 371**	**(620 127)**	**469 957**	**(3 590 653)**	**65 794 233**

Notes to the Annual Financial Statements

Figures in Rand

6. Property plant and equipment (continued)

Reconciliation of property plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation on disposal	Depreciation	Total
Land	1 140 000	-	-	-	-	1 140 000
Buildings	50 498 351	125 617	-	-	(2 578 598)	48 045 370
Plant and equipment	414 509	4 055	-	-	(9 638)	408 926
Furniture and fixtures	2 054 062	48 297	(5 508)	3 402	(282 070)	1 818 183
Motor vehicles	3 363 519	109 269	(109 269)	-	(337 372)	3 026 147
Office equipment	1 947 021	483 180	(184 379)	95 585	(396 710)	1 944 697
Emergency equipment	14 657	-	-	-	(2 276)	12 378
Infrastructure	-	3 200 000	-	-	-	3 200 000
	58 863 070	**3 970 418**	**(299 156)**	**98 987**	**(3 606 664)**	**59 595 701**

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Work in progress	10 797 118	10 797 118

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	3 200 000	3 200 000

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
General expenses	610 814	306 209

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Property plant and equipment (continued)

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

Notes to the Annual Financial Statements

Figures in Rand

7. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 151 452	(2 868 940)	282 512	2 906 069	(2 776 797)	129 272

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation on disposal	Amortisation	Total
Computer software	129 272	271 753	(26 369)	26 369	(118 512)	282 512
Computer software	-	-	-	-	-	-
	129 272	**271 753**	**(26 369)**	**26 369**	**(118 512)**	**282 512**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation on disposal	Amortisation	Total
Computer software	288 746	98 405	(21 300)	12 312	(248 891)	129 272

8. Investments in controlled entities

Name of company	% holding 2021	% holding 2020	Carrying amount 2021	Carrying amount 2020
Lejwe le Putswa Development Agency	100,00 %	100,00 %	100	100

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Other financial liabilities

At amortised cost		
ABSA loan (3044406667)	-	3 249 925
The loan is with ABSA Bank Limited and the repayments are made on a six monthly basis. The loan will be redeemed on 28 February 2021 and the loan bears interest at prime less 0.25%.		
The municipality did not default on any of the other financial liabilities, whether it be on the capital or the interest portions, and none of the terms attached to the other financial liabilities were negotiated.		

Current liabilities		
At amortised cost	-	3 249 925

10. Payables from exchange transactions

Trade payables	3 164 871	4 221 316
Accrued leave pay	13 049 245	10 139 640
Accrued bonus	3 310 721	3 097 340
Retention	417 392	417 392
	19 942 229	**17 875 688**

11. Transfers payable (non-exchange)

Masilonyana grants	-	7 313 724

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by ZAQEN Consultants and Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:
* Bonitas
* Hosmed
* Keyhealth
* LA Health
* Samwumed

The members od the post-employment health care benefit plan are made up as follows:

	2021	2020
In service member (employees)	122	123
In service members (employees) non-members	7	4
	129	**127**

Long service awards

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2021 by ZAQEN Consultants and Actuaries. The projected unit credit funding method has been used to determine the past - service liabilities at the valuation date and the projected annual expense in the year following the valuation date.
The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.
Long service benefits are awarded in the form of leave days and a percentage of salary. We have converted the awarded leave days into a percentage of the employee's annual salary. The conversion is based on a 250 working day year.

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

	2021	2020
Carrying value		
Employee benefit obligation (non-current portion)	13 932 000	12 177 000
Employee benefit obligation (current portion)	314 000	224 000
Long service awards (non-current portion)	3 880 000	3 736 000
Long service awards (current portion)	886 000	492 000
	19 012 000	**16 629 000**

Figures in Rand	2021	2020

12. Employee benefit obligations (continued)

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

Opening balance	12 401 000	12 394 000
Current service cost	819 000	749 000
Interest cost	1 556 000	1 286 000
Actuarial (gain) / losses	(301 000)	(1 885 000)
Benefits paid	(229 000)	(143 000)
	14 246 000	**12 401 000**

Changes in the present value of the long service award obligation are as follows:

Opening balance	4 228 000	4 200 000
Current service cost	436 000	384 000
Interest cost	503 000	427 000
Actuarial (gain) / losses	67 000	(98 000)
Benefits paid	(468 000)	(685 000)
	4 766 000	**4 228 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	Yield curve	Yield curve
Consumer price inflation	Difference between nominal and yield curve	Difference between nominal and yield curve
Medical aid contribution inflation	CPI+1%	CPI+1%

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
INEP Grant	26 882	1 000 000

Movement during the year

Balance at the beginning of the year	1 000 000	-
Additions during the year	10 924 000	5 566 000
Income recognition during the year	(11 897 118)	(4 566 000)
	26 882	**1 000 000**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

14. Revenue

Discount received	29 214	-
Operational revenue	225 638	332 198
Interest received	5 253 883	10 987 738
Transfers and subsidies	152 280 118	135 116 000
	157 788 853	**146 435 936**

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

Discount received	29 214	-
Operational revenue	225 638	332 198
Interest received	5 253 883	10 987 738
	5 508 735	**11 319 936**

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

Transfer revenue		
Transfers and subsidies	152 280 118	135 116 000

15. Operational revenue

Insurance refund	-	14 002
Auction fees on sale of assets	-	4 855
Commission received	50 305	50 028
Environmental health services income	-	103 500
SDL Refund	175 333	159 813
	225 638	**332 198**

16. Interest revenue

Interest revenue		
Interest received - investment and cash and cash equivalents	4 865 487	10 443 641
Interest received - trading	388 396	544 097
	5 253 883	**10 987 738**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

17. Transfers and subsidies

Operational grants

Equitable Shares	47 920 000	35 428 770
Financial Management Grant	1 000 000	1 000 000
Expanded Public Works Programme	1 000 000	1 000 000
Levy Replacement (Transitional) Grant	92 463 000	91 921 230
COVID-19 Grant	-	149 000
Rural Roads Asset Management Systems Grant	2 300 000	2 417 000
INEP Grant	7 597 118	3 200 000
	152 280 118	**135 116 000**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	11 897 118	7 766 000
Unconditional grants received	140 383 000	127 350 000
	152 280 118	**135 116 000**

Equitable Share

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

Rural Roads Asset Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 300 000	2 417 000
Conditions met - transferred to revenue	(2 300 000)	(2 417 000)
	-	**-**

The purpose of the grant is for the provision of system to collect rural road, traffic data and rural access bridges.

Financial Management Grant

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

The purpose of the grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Expanded Public Works Programme

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

The Expanded Public Works programme is an operational grant which is used by the municipality on its own discretion.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

17. Transfers and subsidies (continued)

Levy Replacement (Transitional) Grant

Current-year receipts	92 463 000	91 921 230
Conditions met - transferred to revenue	(92 463 000)	(91 921 230)
	-	-

The Levy Replacement (Transitional) Grant is an operational grant which is used by the municipality on its own discretion, which is mainly to fund its operational activities.

COVID-19 Grant

Current-year receipts	-	149 000
Conditions met - transferred to revenue	-	(149 000)
	-	-

The purpose of the grant is to provide additional access to basic services for vulnerable communities during the lockdown and to sanitise public transport facilities as the economy undergoes a phased re-opening.

Integrated National Electrification Program (INEP)

Balance unspent at beginning of year	1 000 000	1 000 000
Current-year receipts	6 624 000	3 200 000
Conditions met - transferred to revenue	(7 597 118)	(3 200 000)
	26 882	**1 000 000**

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

The purpose of the grant is to connect non-serviced areas to the national electricity grid , by bulding electrical infrastructure

Figures in Rand	2021	2020

18. Employee related costs

Bargaining council	17 804	16 618
Basic	53 983 463	48 816 549
Bonus - 13th cheque	4 380 241	3 985 720
Cellphone allowance	233 671	214 848
Contribution to pension and provident fund	9 245 336	8 425 369
Defined contribution plans	2 998 183	918 327
Group life insurance	893 569	815 503
Housing benefits and allowances	550 420	504 547
Leave pay provision charge	3 770 308	2 981 109
Medical aid - company contributions	4 826 735	4 552 098
Overtime payments	10 926	78 941
Standby allowance	1 435 262	313 857
Travel allowance	8 806 062	7 165 670
UIF	298 927	253 751
	91 450 907	**79 042 907**

Remuneration of Ms PME Kaota - Municipal Manager

Annual Remuneration	831 982	814 987
Car Allowance	239 270	232 926
Performance Bonuses	194 129	194 129
Contributions to UIF, Medical and Pension Funds	162 167	161 761
Cellphone Allowance	36 000	36 000
Housing Allowance	84 000	84 000
Acting Allowance and other payments	7 084	19 496
Bonus	63 712	75 836
Backpay	-	23 854
	1 618 344	**1 642 989**

Mr Makhetha acted during July 2021.

Remuneration of Mr PK Pitso - Chief Finance Officer

Annual Remuneration	850 097	694 522
Car Allowance	70 017	183 823
Performance Bonuses	158 685	158 685
Contributions to UIF, Medical and Pension Funds	213 462	184 246
Cellphone Allowance	30 000	30 000
Housing Allowance	-	50 000
Bonus	-	8 461
Acting Allowance and other payments	29 731	-
Backpay	-	20 654
	-	-
	1 351 992	**1 330 391**

Mrs Leshoro acted during August 2020, April 2021 and May 2021.

Remuneration of Ms Mahlangu - Manager Corporate Services

Annual Remuneration	623 405	-
Car Allowance	110 000	-
Cellphone Allowance	16 500	-
Contributions to UIF, Medical and Pension Funds	145 243	-
Housing Allowance	108 524	-
Performance bonus	145 461	-

Figures in Rand	2021	2020

18. Employee related costs (continued)

Acting Allowance and other payments	17 559	-
Bonus	51 950	-
	1 218 642	**-**

Mr Makheta acted during the month of July 2020.

Me Mgobozi acted during the month of January 2021 and February 2021.

Remuneration of Mr Kupiso - Manager Environmental Health and Disaster Management

Annual Remuneration	102 223	-
Car Allowance	19 820	-
Performance Bonuses	23 852	-
Contributions to UIF, Medical and Pension Funds	29 810	-
Cellphone Allowance	3 000	-
Housing Allowance	10 000	-
Bonus	8 519	-
Acting Allowance and other payments	27 250	113 985
	-	-
	224 474	**113 985**

Mr Nzume acted from 1 July 2020 until 31 May 2021.

Ms Njobe acted during August 2019 - May 2020.
Mr Nzume acted during June 2020.

Remuneration of Mr Makhetha - Manager LED

Annual Remuneration	680 078	666 185
Car Allowance	144 994	156 347
Performance Bonuses	158 685	158 685
Contributions to UIF, Medical and Pension Funds	184 747	174 981
Cellphone Allowance	18 000	18 000
Housing Allowance	60 000	60 000
Bonus	51 951	55 515
Backpay	-	19 496
	1 298 455	**1 309 209**

Remuneration of Me L.S. Rabie-Khonkhe - Manager Corporate Services

Annual Remuneration	-	1 773
Car Allowance	-	525
Cellphone Allowance	-	48
Housing Allowance	-	161
Acting Allowance and other payments	-	156 999
Bonus	-	26 623
	-	**186 129**

Figures in Rand	2021	2020

19. Remuneration of councillors

Mayoral committee members	4 542 528	4 606 328
Speaker	755 878	755 878
Executive mayor	934 646	934 569
Councillors	3 123 153	2 994 669
	9 356 205	**9 291 444**

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor has the use of a council owned vehicle for official duties as well as two full-time VIP protection/ drivers.

Executive Mayor	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Ngangelizwe	704 614	-	40 800	189 232	934 646

Speaker	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
Cllr Maleka	621 807	-	40 800	93 271	755 878

Mayoral committee members	Basic	Travel Allowance	Cellphone Allowance	Pension and Medical Aid	Total
7 Members	2 631 693	1 074 671	239 426	596 738	4 542 528
	-	-	-	-	-
Total	**2 631 693**	**1 074 671**	**239 426**	**596 738**	**4 542 528**

Part time councillors	Basic+ PAYE	Travel Allowance	Cellphone and data allowance	Pension and Medical Aid	Total
15 Members	1 562 553	543 969	303 203	241 520	2 651 245
Session allowances	471 907	-	-	-	471 907
	2 034 460	**543 969**	**303 203**	**241 520**	**3 123 152**

20. Transfers and subsidies

Allocation in kind: Local Municipalities	28 000	791 250
Allocation in kind: Households	733 947	2 526 027
Allocation in kind: Private enterprises	84 630	-
Monetary allocation: Development Agency	14 732 770	6 336 725
Monetary allocation: Households	703 281	1 406 860
Allocation in kind: Development Agency	866 030	469 990
	17 148 658	**11 530 852**

21. Depreciation and amortisation

Property plant and equipment	3 094 324	3 742 531
Intangible assets	118 512	248 891
	3 212 836	**3 991 422**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Impairment of assets

Impairments		
Trade and other receivables	342 932	511 678

23. Finance costs

Non-current borrowings	94 445	424 827

24. Lease rentals on operating lease

Equipment		
Contractual amounts	898 927	919 386

25. Inventory Consumed

Printing, stationary, personal protective equipment and cleaning material	1 401 444	1 300 969

26. Contracted Services

Outsourced Services		
Administrative and Support Staff	402 000	480 652
Burial Services	107 818	-
Catering Services	269 304	708 042
Cleaning Services	26 000	99 644
Fire Services	33 885	-
Litter Picking and Street Cleaning	1 558 098	1 507 709
Organic and Building Refuse Removal	29 600	-
Security Services	1 016 818	775 729
Project management	1 729 577	2 010 346
Transport Services	41 850	223 251
Consultants and Professional Services		
Business Advisory Services	624 724	453 848
Infrastructure and Planning	2 300 000	2 417 000
Laboratory Services	186 451	85 984
Legal Cost	800 070	1 081 307
Contractors		
Building	28 000	-
Catering Services	117 612	177 955
Employee Wellness	181 330	157 840
Event Promoters	5 000	-
Plants, Flowers and Other Decorations	91 738	134 300
Transportation	179 551	-
	9 729 426	**10 313 607**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Operational cost

Achievement and Awards	22 883	150 580
Advertising and Marketing	646 092	751 397
Auditors Remuneration	2 930 357	2 622 666
Bank charges	76 014	141 296
Bursaries	197 357	462 510
Communication	612 787	396 215
Entertainment	201 196	256 273
External Computer Services	1 108 556	612 093
Fuel and oil	161 603	299 138
Hire	583 252	332 420
Insurance	527 468	549 950
Learnership and internships	3 880 364	2 102 055
License and Registration Fees	22 412	109 156
Municipal Services	667 899	669 654
Repairs and maintenance	1 408 682	1 009 694
Skills Development Levy	816 994	688 206
Subscriptions and Membership fees	966 531	1 100 288
Supplier Development Programme	-	15 578
Resettlement cost	25 964	-
Travel and Subsistence	581 004	1 430 709
Uniforms	-	25 861
Workmen's Compensation Fund	460 649	385 255
	15 898 064	**14 110 994**

28. Related parties

Relationships			
Controlled entities	Refer to note 8		

Related party balances

Investments		
Lejwe Le Putswa Development Agency (SOC) Ltd	100	100
Transfers		
Lejwe Le Putswa Development Agency (SOC) Ltd	14 732 770	6 336 725
Purchases from related parties		
Manida Trading and Projects (The spouse of the director works for the Traffic Department)	-	4 100
Chav 814-Solutions (The father of the director works for the state)	46 958	8 987
IMM Holdings (The spouse of the director works for the state)	-	7 126
Gaoregoma (The father of the director works for the state)	-	25 800
MBV Group (The wife of the director works for the state)	-	29 900

29. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

. Financial instruments disclosure (continued)

Receivables from Non-exchange transactions	504 666	504 666
Cash and cash equivalents	121 220 822	121 220 822
	121 725 488	**121 725 488**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	19 942 229	19 942 229

2020

Financial assets

	At amortised cost	Total
Other receivables from non-exchange transactions	483 661	483 661
Cash and cash equivalents	135 010 909	135 010 909
	135 494 570	**135 494 570**

Financial liabilities

	At amortised cost	Total
Transfer payable	8 314 173	8 314 173
Trade and other payables from exchange transactions	17 875 691	17 875 691
	26 189 864	**26 189 864**

30. Cash generated from operations

Surplus	2 396 668	7 145 971
Adjustments for:		
Depreciation and amortisation	3 212 836	3 357 773
Gains or loss on sale of assets	146 436	(69 220)
Impairment	342 932	511 678
Movements in retirement benefit assets and liabilities	1 755 000	150 000
Movement in long service awards	144 000	713 000
Current service cost	(1 255 000)	(1 133 000)
Actuary gain or loss	234 000	(482 000)
Changes in working capital:		
Other receivables from non-exchange transactions	(21 004)	282 399
Payables from exchange transactions	2 066 538	9 393 717
VAT	(1 588 013)	(317 140)
Taxes and transfers payable (non-exchange)	(7 313 724)	(11 119 368)
	120 669	**8 433 810**

Figures in Rand	2021	2020

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Phatsimo management	3 374 699	-
Komatsu	3 662 000	-
Shorts Commercial Vehicles	1 232 466	-
	8 269 165	**-**

Total capital commitments		
Already contracted for but not provided for	8 269 165	-

This committed expenditure relates to plant and equipment and will be financed by existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	720 743
- in second to fifth year inclusive	-	766 667
	-	**1 487 410**

It is municipality policy to lease certain office equipment under operating leases. The lease term is 3 year at an annual rental. The lease will expire in December 2020

32. Contingencies

Litigation is in process where Matjhabeng Local Municipality and Lejweleputswa district Municipality are sued for damages as a result of a motor vehicle accident as a result of a pothole in which there was a loss of life. The municipality was cited as a second respondent and Matjhabeng Local Municipality as the first respondent. The potential liability is R1 400 000.

Litigation is in process where a claim for damages was instituted against Lejweleputswa district Municipality in respect of damages to their vehicle resulting from a pothole. The potential liability is R336 182.

Two employees are claiming overtime The potential liability is R1 465 515.

Two defamation of character disputes are still not in process. The potential liability is R1 300 000.

An application was received from the Department of Labour for non-compliance with the Employment Equity Act. The potential liability is R1 800 000.

Nature of litigation		
Labour claims	4 565 515	4 965 515
Public liability claims	1 736 182	1 736 182
	6 301 697	**6 701 697**

33. Prior period errors

<u>Interest income</u>

Interest accrued on investments were omitted from prior year.

33. Prior period errors (continued)

The effect is as follows:

Increase in accumulate surplus amounting to R 479 325

Increase in Interest received amounting to (R 479 325)

Transfers and subsidies

The effect is as follows:

Decrease in accumulate surplus amounting to R541 565

Increase in Allocation in kind : municipal entity amounting to (R469 990)

Increase in legal cost amounting to (R 71 575)

Other financial liabilities

The effect is as follows:

Decrease in other financial liabilties amounting to R 121 842

Increase in accumulated surplus amounting to (R 121 842)

Aganang Consulting Engineers

The effect is as follows: Commitments in 2018/19 AFS stated as R 2 2276 000 was understated by R141 000. Correction of error in 2019/20 AFS correctly stated commitment as R2 417 000 for the comparative year

INEP Grant5

The effect is as follows

Increase in Grants income amounting to (R 3 200 000)

Increase in accumulated surplus amounting to R 3 200 000

Property plant and equipment

The effect is as follows

Increase in property plant and equipment amounting to R 3 200 000

Decrease in accumulated surplus amounting to (R 3 200 000)

Property plant and equipment

The effect is as follows

Decrease in property plant and equipment amounting to (R 569 044)

Increase in accumulated surplus amounting to R 569 044

34. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

34. Risk management (continued)

Liquidity risk

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

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

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
Borrowings	3 249 925	-	-

Credit risk

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

Cash and cash equivalents and investments - the municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa. The municipality does not expect any counterparty to fail to meets its obligation.

Receivables from non-exchange transactions - management evaluated credit risk relating to customers on an ongoing basis. If there is no independent rating, risk control assess the credit quality of the customer, taking into account its financial position, past experience and other factors.

Market risk

Interest rate risk

The municipality has significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

The risk is managed on an on-going basis.

35. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 151 797 383 and that the municipality's total assets exceed its liabilities by R 151 797 383.

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

Figures in Rand	2021	2020

36. Events after the reporting date

Since December 2019, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

The municipality has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and results of operations as of and for the year ended 30 June 2021 have not been adjusted to reflect their impact. The duration and impact of the COVID-pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the municipality for future periods.

Irregular expenditure written off

During a council meeting which was held on 26 August 2021. The council wrote off irregular expenditure amounting to R1 172 612

37. Unauthorised expenditure

Add: Expenditure identified - current	2 912 252	-

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

Non-cash	1 673 591	-
Cash	1 238 661	-
	2 912 252	**-**

Analysed as follows: non-cash

Employee related cost	984 092	-
Depreciation and amortisation	196 397	-
Disposal of assets	146 436	-
Impairment loss	342 932	-
Reversal of Impairment	3 734	-
	1 673 591	**-**

Analysed as follows: cash

Operational Costs	59 891	-
Contracted services	180 801	-
Transfers and subsidies	187 282	-
Employee related costs	808 444	-
	1 236 418	**-**

Figures in Rand	2021	2020

37. Unauthorised expenditure (continued)

Unauthorised expenditure: Budget overspending – per municipal department:

Council General	1 474 062	-
Speaker	192 431	-
Executive Mayor	5 178	-
Mayoral Committee	11 794	-
Municipal Manager	180 919	-
Corporate Services	5 976	-
Property	107 275	-
Finance Services	137 358	-
LED and Planning	695 557	-
Disaster Management	34 536	-
Environmental Health	67 167	-
	2 912 253	**-**

38. Irregular expenditure

Opening balance as previously reported	1 253 349	664 017
Opening balance as restated	**1 253 349**	**664 017**
Add: Irregular Expenditure - current	10 818 350	1 172 612
Add: Irregular Expenditure - prior period	50 592	-
Less: Amount written off - prior period	(1 172 612)	(583 280)
Closing balance	**10 949 679**	**1 253 349**

39. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Current year subscription / fee	926 739	891 096
Amount paid - current year	(926 739)	(891 096)
	-	-

Audit fees

Current year subscription / fee	2 930 356	2 622 666
Amount paid - current year	(2 930 356)	(2 622 666)
	-	-

PAYE, SDL and UIF

Current year subscription / fee	19 433 391	16 640 368
Amount paid - current year	(19 433 391)	(16 640 368)
	-	-

Pension and medical aid deductions

Current year subscription / fee	25 175 115	22 893 363
Amount paid - current year	(25 175 115)	(22 893 363)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

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

VAT

VAT receivable	2 976 161	1 388 148

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

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

40. Deviation from supply chain management regulations

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

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

Details per supplier	Reason for deviation	2021	2020
Multiple suppliers	The municipality has procured goods and services in response to declared national disaster caused by Covid 19 pandemic, assisting all local municipalities within the district. Processes were not followed as a result of the emergency of the transaction.	-	2 645 329
Multiple suppliers	The municipality has procured laptops for employees to enable the social distancing under COVID 19 pandemic. Processes were not followed as a result of the emergency of the transaction.	-	256 987
MMA Johnnies Trading	Repairs to the roof of municipal offices after it was blown away after a storm	198 933	-
Adapt IT	Finance Department renews GRAP software licenses annually, the software assists the municipality with the compilation of the financial statements. The GRAP software is only provided by one company, Adapt IT. Due to Adapt IT being the only supplier it is not possible to provide 3 quotations.	118 839	108 037
Flair Media /City press	Advert of vacant policy	40 250	-
Human Motor Welkom	Repairs and service to municipality vehicle	44 611	-
Adami's Mining and electrical Suppliers	The municipality has appointed services provider Adami's Mining and Electrical Suppliers to supply and install 9600BTU council chamber air conditioner. Companies were invited to assists, but the first company to respond was appointed to avoid strip and quote by all companies.	-	85 325
The Institute of Internal Auditors South Africa	The Institute of Internal Auditors South Africa was appointed to provide to Internal Auditors Official through deviation as a single provider offering the training that is in line with municipal auditing requirements.	-	43 585
Malegeo Holdings	Malegeo Holdings was appointed to supply a generator	218 700	-
Westvaal Delta	Westvaal Delta was appointed to replace Isuzu bakkie engine. This transaction was treated as a sole provider as the dealership specialize with Isuzu.	-	125 659
		621 322	**3 264 922**

41. Budget differences

Material differences between budget and actual amounts

X1 - Varience is less than 10% no reason is required.

X2 - Municipality anticipate a decline in investment due to there only being two short term investment and interest rates going down. We received more than we had budgeted for.

X3 - This is due to the receipt of the National Electrification Program grant during the financial year.
X4 - Varience is less than 10% , difference is judged to be insignificant and thus no reason is required.

X5 - Varience is less than 10% , difference is judged to be insignificant and thus no reason is required.

X6 - Varience is less than 10% , difference is judged to be insignificant and thus no reason is required.

X7 - The under expenditure on the capital budget led to the under expenditure of depreciation

X8 - The outstanding interest interest on the loan account was settled during the financial year

X9 - Due to the cancelation of an operating lease that was supposed to commence during the financial year

X 10 - Overbudgeted due to anticipated increase in inventory consumed expenditure due to the procurement of consumables such as sanitisers, cloth masks, gloves to fight the spread of COVID 19

X 11 - Varience is less than 10% , difference is judged to be insignificant and thus no reason is required.

X12 - Varience is less than 10% , difference is judged to be insignificant and thus no reason is required.

X 13 - Management had not accounted for the impairment allowance of debtors, however the allowance for impairment greatly decreased debtor balances

X 14 - Management expected investments to greatly decrease due to the low interest rates, however our investments performed well and saw a sharp increase

X 15 - This is due to the under expenditure of our capital budget on PPE

X 16 - The additions during the year greatly increased the closing balance of our intangible assets

X 17 - Material varience due to the unanticipated increase attributable to accrued leave pay, bonus and trade payables that had to be accrued at the end of the financial year

X 18 - This is due to the decrease of unspent conditional grant liability to the decrease in unspent conditional grants as the municipality spends the remaining conditional grants

X 19 -The municipality did not engage in transactions that had output VAT during the financial year, therefore we did not have VAT payable to SARS.

X 20 - The calculation that is made for the future Post Employment Medical Aid Liability and Long Service Bonus is calculated by actuaries and the budget estimation is brought in line therewith. However, the revised estimation is only done at year end. .

X 21 - The loan was settled during the year, reducing the balance of the borrowings.

X 22 - The calculation that is made for the future Post Employment Medical Aid Liability and Long Service Bonus is calculated by actuaries and the budget estimation is brought in line therewith. However, the revised estimation is only done at year end. .

X 23 - The calculation that is made for the future Post Employment Medical Aid Liability and Long Service Bonus is calculated by actuaries and the budget estimation is brought in line therewith. However, the revised estimation is only done at year end.