Phokwane Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

General Information

Nature of business and principal activities	Phokwane Municipality is a local municipality performing the functions as set out in the Constitution (Act no.105 of 1996)
Legal form of entity	Local municipality as defined in the Municipal Structures Act (Act no.117 of 1998)
Jurisdiction	The Phokwane Municipality includes the following areas: Hartswater, Jan Kempdrop, Pampierstad, Ganspan
Members of Council	
Mayor	OS Tumodi
Speaker	RP Selogilwe
Councillors	SKJ Botman
	TP Lottering
	PJ Majahe
	SS Lewis
	MA van Wyk
	TE Joubert
	AG Gill
Accounting Officers	Ms B Mgaguli - Acting since 14 October 2021
	Ms KG Gaborone - Acting from 23 March 2021 to 11 October 2021
	Mr BK Ndwandwe - Administrator from 8 April 2019 to 31 March 2021
Chief Finance Officer (CFO)	Ms TP Modisa - Acting since 18 February 2021
	Mr JS Gomba - Administrator from 8 April 2019 to 31 March 2021
Registered office	24 Hertzog Street Hartswater 8570
Postal address	Private Bag X3 Hartswater 8570
Bankers	Standard Bank of South Africa ABSA Bank Limited
Auditors	The Auditor General of South Africa
Attorneys	Towell and Goenewaldt Van de Wall and Partners Liezel van De Merwe
Members of the audit committee	Sechaba Thole (Chairperson) Letlhogonolo Berend Maisaka Pule

General Information

Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003)
	Division of Revenue Act
	The Income Tax Act (Act no. 58 of 1962)
	Value Added Tax Act (Act no 89 of 1991)
	Municipal Structures Act (Act no. 117 of 1998)
	Municipal Systems Act (Act no. 32 of 2000)
	Municipal Planning and Performance Management Regulations
	Housing Act (Act no. 107 of 1997)
	Skills Development Levies Act (Act no. 9 of 1999)
	Employment Equity Act (Act no. 30 of 1966)
	Unemployment Insurance Act (Act no. 30 of 1966)
	Basic Conditions of Employment Act (Act no. 75 of 1997)
	Supply Chain Management Regulations, 2005
	Disaster Management Act of 2016
	Spatial Planning and Land Use Management Act (Act 16 of 2013)
	Property Rates Act 6 of 2004

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COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
FMG	Finance Management Grant
IAS	International Accounting Standards
IDP	Integrated Development Plan
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
INEP	Integrated National Electrification Programme
NERSA	National Energy Regulator of South Africa
MSA	Municipal Systems Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
PAYE	Pay As You Earn
SALGA	South African Local Government Association
SARS	South African Revenue Services

Accounting Officers' Responsibilities and Approval

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

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

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

The accounting officers acknowledge that they are 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 officers to meet these responsibilities, the accounting officers 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 officers are 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 officers have 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, they are 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 municipality 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 officers 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 102, which have been prepared on the going concern basis, were approved by the accounting officers on 22 July 2022 and were signed on its behalf by:

Ms B Mgaguli
Acting Municipal Manager

Accounting Officers' Report

The accounting officers submit their report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

- The operating net surplus (deficit) of R 129 777 602 (2020: deficit R 62 190 187).
- The municipality's current liabilities exceed its current assets by R 287 486 852 (2020: R 186 865 125).
- Debtors days grew to 1420 days from (2020: 1380 days).

2. Going concern

Notwithstanding that municipality had an accumulated surplus (deficit) of R 129 777 602 (2020: deficit R 62 190 187) and that the municipality's total assets exceeded its liabilities by the said R 287 486 852 (2018: R 186 865 125); the persistency over a sustained period of time of the above mentioned deficit and current liabilities in excess of the current assets, is worrisome. Strategies to address the root causes of the said situation are under way as part of the Financial Recovery Plan in terms of section 139 (1) (b), (4) and (5) of the Constitution with effect from April 2019.

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.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2022 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue it's operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 45.

3. Subsequent events

Refer to note 46 details of subsequent events.

4. Accounting Officers' interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Ms B Mgaguli	South African	Acting since 14 October 2021
Ms KG Gaborone	South African	Acting from 23 March 2021 to 11 October 2021
Mr BK Ndwandwe	South African	Administrator from 8 April 2019 to 31 March 2021

7. Auditors

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

Phokwane Local Municipality

(Registration number NC094)
Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	5 286 292	4 496 604
Other receivables from exchange transactions	4	8 991 805	4 494 434
Statutory receivables from non-exchange transactions	5	25 103 262	19 312 241
Statutory receivables from exchange transactions	6	7 546 422	30 397 131
Receivables from exchange transactions	7	24 517 881	55 751 019
Cash and cash equivalents	8	59 633 545	43 090 617
		131 079 207	**157 542 046**
Non-Current Assets			
Investment property	9	23 986 426	23 470 084
Property, plant and equipment	10	1 198 031 745	1 219 658 935
Intangible assets	11	5 310 380	101 135
Heritage assets	12	7 635 063	7 635 063
Receivable from exchange transactions	13	-	2 286 267
Receivables from non-exchange transactions	14	-	403 119
		1 234 963 614	**1 253 554 603**
Total Assets		**1 366 042 821**	**1 411 096 649**
Liabilities			
Current Liabilities			
Finance lease obligation	15	103 949	190 425
Payables from exchange transactions	16	366 785 473	308 117 927
Consumer deposits	17	3 981 008	3 336 207
Employee benefit obligation	18	1 071 000	863 000
Unspent conditional grants and receipts	19	46 624 629	31 899 612
		418 566 059	**344 407 171**
Non-Current Liabilities			
Finance lease obligation	15	-	103 949
Employee benefit obligation	18	17 527 000	15 481 000
Provisions	20	129 444 731	120 821 897
		146 971 731	**136 406 846**
Total Liabilities		**565 537 790**	**480 814 017**
Net Assets		**800 505 031**	**930 282 632**
Accumulated surplus		800 505 031	930 282 632

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	140 327 715	146 214 297
Rental of facilities and equipment	23	73 694	112 160
Interest received (trading)		25 061 905	26 588 784
Commissions received	25	231 467	-
Other income	25	4 543 739	4 831 914
Interest received - investment	24	1 118 866	2 548 643
Total revenue from exchange transactions		**171 357 386**	**180 295 798**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	29 591 248	27 606 753
Transfer revenue			
Government grants & subsidies	27	150 549 984	145 403 603
Fines, Penalties and Forfeits		106 761	406 163
Interest received (trading)		6 401 815	7 146 894
Total revenue from non-exchange transactions		**186 649 808**	**180 563 413**
Total revenue	21	**358 007 194**	**360 859 211**
Expenditure			
Employee related costs	28	(90 697 780)	(85 869 222)
Remuneration of councillors	29	(4 330 308)	(6 008 762)
Depreciation and amortisation	30	(62 301 989)	(68 330 511)
Finance costs	32	(14 223 248)	(21 762 828)
Debt Impairment	33	(151 717 657)	(72 147 709)
Bulk purchases	34	(124 579 671)	(123 856 684)
General Expenses	35	(39 056 378)	(40 328 584)
Total expenditure		**(486 907 031)**	**(418 304 300)**
Operating deficit		**(128 899 837)**	**(57 445 089)**
Gain / (loss) on disposal of assets and liabilities		(1 216 777)	32 849
Fair value adjustments		516 342	-
Actuarial gains / (losses)	18	(341 362)	1 962 000
Reversal of impairments (Impairment loss)	31	164 032	(6 739 947)
		(877 765)	**(4 745 098)**
Deficit for the year		**(129 777 602)**	**(62 190 187)**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	973 648 728	973 648 728
Adjustments		
Correction of errors	18 824 091	18 824 091
Balance at 01 July 2019 as restated*	**992 472 819**	**992 472 819**
Changes in net assets		
Deficit for the year	(62 190 187)	(62 190 187)
Total changes	(62 190 187)	(62 190 187)
Restated* Balance at 01 July 2020	**930 282 633**	**930 282 633**
Changes in net assets		
Deficit for the year	(129 777 602)	(129 777 602)
Total changes	(129 777 602)	(129 777 602)
Balance at 30 June 2021	**800 505 031**	**800 505 031**

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		70 286 600	82 612 182
Grants		165 275 001	164 709 000
Interest income		32 582 586	36 284 321
		268 144 187	283 605 503
Payments			
Employee costs		(93 115 450)	(90 459 984)
Suppliers		(105 758 190)	(112 325 769)
Finance costs		(6 753 419)	(17 474 416)
		(205 627 059)	(220 260 169)
Net cash flows from operating activities	37	**62 517 128**	**63 345 334**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(40 224 234)	(34 064 662)
Proceeds from sale of investment property	9	-	136 480
Purchase of other intangible assets	11	(5 559 535)	-
Net cash flows from investing activities		**(45 783 769)**	**(33 928 182)**
Cash flows from financing activities			
Finance lease payments		(190 431)	(106 145)
Net increase/(decrease) in cash and cash equivalents		**16 542 928**	**29 311 007**
Cash and cash equivalents at the beginning of the year		43 090 617	13 779 610
Cash and cash equivalents at the end of the year	8	**59 633 545**	**43 090 617**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	214 779 252	-	**214 779 252**	140 327 715	**(74 451 537)**	52, x1
Rental of facilities and equipment	500 000	-	**500 000**	73 694	**(426 306)**	52, x2
Interest received (trading)	30 611 581	-	**30 611 581**	25 061 905	**(5 549 676)**	52, x3
Commissions received	-	-	**-**	231 467	**231 467**	52, x4
Other income	57 933	-	**57 933**	4 543 739	**4 485 806**	52, x5
Interest received - investment	3 013 623	-	**3 013 623**	1 118 866	**(1 894 757)**	52, x6
Total revenue from exchange transactions	**248 962 389**	**-**	**248 962 389**	**171 357 386**	**(77 605 003)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	59 315 073	(22 240 975)	**37 074 098**	29 591 248	**(7 482 850)**	52, x7
Transfer revenue						
Government grants & subsidies	116 384 000	18 490 350	**134 874 350**	150 549 984	**15 675 634**	52, x8
Fines, Penalties and Forfeits	270 000	-	**270 000**	106 761	**(163 239)**	52, x9
Other transfer revenue 1	-	-	**-**	6 401 815	**6 401 815**	52, x10
Total revenue from non-exchange transactions	**175 969 073**	**(3 750 625)**	**172 218 448**	**186 649 808**	**14 431 360**	
Total revenue	**424 931 462**	**(3 750 625)**	**421 180 837**	**358 007 194**	**(63 173 643)**	
Expenditure						
Personnel	(86 095 084)	4 930 200	**(81 164 884)**	(90 697 780)	**(9 532 896)**	52, x11
Remuneration of councillors	(7 199 669)	3 599 829	**(3 599 840)**	(4 330 308)	**(730 468)**	52, x12
Depreciation and amortisation	(30 000 000)	(50 000 000)	**(80 000 000)**	(62 301 989)	**17 698 011**	52, x13
Impairment loss/ Reversal of impairments	-	-	**-**	164 032	**164 032**	52, x14
Finance costs	(150 000)	-	**(150 000)**	(14 223 248)	**(14 073 248)**	52, x15
Debt Impairment	(30 081 118)	-	**(30 081 118)**	(151 717 657)	**(121 636 539)**	52, x16
Bulk purchases	(151 427 318)	-	**(151 427 318)**	(124 579 671)	**26 847 647**	52, x17
Contracted Services	(17 402 128)	(500 000)	**(17 902 128)**	-	**17 902 128**	52, x18
Transfers and Subsidies	(1 250 403)	-	**(1 250 403)**	-	**1 250 403**	52, x19
General Expenses	(23 014 732)	(12 380 608)	**(35 395 340)**	(39 056 378)	**(3 661 038)**	52, x20
Total expenditure	**(346 620 452)**	**(54 350 579)**	**(400 971 031)**	**(486 742 999)**	**(85 771 968)**	
Operating deficit	**78 311 010**	**(58 101 204)**	**20 209 806**	**(128 735 805)**	**(148 945 611)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 216 777)	**(1 216 777)**	52, x21
Fair value adjustments	-	-	**-**	516 342	**516 342**	52, x22
Actuarial gains/losses	-	-	**-**	(341 362)	**(341 362)**	52, x23
	-	**-**	**-**	**(1 041 797)**	**(1 041 797)**	
Deficit before taxation	**78 311 010**	**(58 101 204)**	**20 209 806**	**(129 777 602)**	**(149 987 408)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**78 311 010**	**(58 101 204)**	**20 209 806**	**(129 777 602)**	**(149 987 408)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	18 910 931	-	**18 910 931**	5 286 292	**(13 624 639)**	52, x24
Other receivables from exchange transactions	31 154 656	-	**31 154 656**	8 991 805	**(22 162 851)**	52, x25
Statutory receivables from non-exchange transactions	-	-	**-**	25 103 262	**25 103 262**	52, x26
VAT receivable	-	-	**-**	(26 419 726)	**(26 419 726)**	52, x27
Consumer debtors	-	-	**-**	24 517 881	**24 517 881**	52, x28
Cash and cash equivalents	10 734 745	-	**10 734 745**	59 633 545	**48 898 800**	52, x29
	60 800 332	**-**	**60 800 332**	**97 113 059**	**36 312 727**	
Non-Current Assets						
Investment property	23 606 564	-	**23 606 564**	23 986 426	**379 862**	52, x30
Property, plant and equipment	1 336 498 514	-	**1 336 498 514**	1 198 031 745	**(138 466 769)**	52, x31
Intangible assets	4 892 165	-	**4 892 165**	5 310 380	**418 215**	52, x32
Heritage assets	-	-	**-**	7 635 063	**7 635 063**	52, x33
Receivable from exchange transactions	9 110 582	-	**9 110 582**	-	**(9 110 582)**	52, x34
	1 374 107 825	**-**	**1 374 107 825**	**1 234 963 614**	**(139 144 211)**	
Total Assets	**1 434 908 157**	**-**	**1 434 908 157**	**1 332 076 673**	**(102 831 484)**	
Liabilities						
Current Liabilities						
Other financial liabilities	16 624	-	**16 624**	-	**(16 624)**	52, x35
Finance lease obligation	-	-	**-**	103 949	**103 949**	
Payables from exchange transactions	187 826 932	-	**187 826 932**	366 785 475	**178 958 543**	52, x36
VAT payable	-	-	**-**	(33 966 148)	**(33 966 148)**	52, x37
Consumer deposits	3 336 207	-	**3 336 207**	3 981 008	**644 801**	52, x38
Employee benefit obligation	-	-	**-**	1 071 000	**1 071 000**	52, x39
Unspent conditional grants and receipts	-	-	**-**	46 624 629	**46 624 629**	52, x40
Provisions	864 000	-	**864 000**	-	**(864 000)**	52, x41
Bank overdraft	33 624 611	-	**33 624 611**	-	**(33 624 611)**	52, x42
	225 668 374	**-**	**225 668 374**	**384 599 913**	**158 931 539**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	17 527 000	**17 527 000**	52, x39
Provisions	45 026 102	-	**45 026 102**	129 444 731	**84 418 629**	52, x41
	45 026 102	**-**	**45 026 102**	**146 971 731**	**101 945 629**	
Total Liabilities	**270 694 476**	**-**	**270 694 476**	**531 571 644**	**260 877 168**	
Net Assets	**1 164 213 681**	**-**	**1 164 213 681**	**800 505 029**	**(363 708 652)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 164 213 681	-	**1 164 213 681**	800 505 029	**(363 708 652)**	

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 off to the nearest Rand.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as exchange rates inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

Allowance for doubtful debts

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

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5. Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

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

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

1.4 Investment property (continued)

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

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

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

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

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

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

Fair value

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

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows.

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

1.4 Investment property (continued)

Derecognition

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

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Depreciation and impairment:

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

Land, except for landfill and quary sites, is not depreciated as it has an indefinate useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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 shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 100 years
Sport and recreation facilities	Straight line	5 - 100 years
Electrical Infrastructure	Straight line	15 - 60 years
Water supply Infrastructure	Straight line	5 - 90 years
Roads Infrastructure	Straight line	5 - 100 years
Sanitation Infrastructure	Straight line	5 - 100 years
Stomwater Infrastructure	Straight line	20 - 60 years
Solid Waste Infrstructure	Straight line	9 - 80 years
Housing	Straight line	5 - 100 years
Operational buildings	Straight line	5 - 100 years
Computer equipment	Straight line	4 - 7 years
Furniture and Fittings	Straight line	4 - 7 years
Lease assets - Office equipment	Straight line	5 years
Machinery and equipment	Straight line	4 - 5 years
Office equipment	Straight line	3 -7 years
Vehicles	Straight line	4 - 15 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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

Intangible assets are initially recognised at cost.

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

Subsequent measurement:

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.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

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 - 5 years

Derecognition:

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

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

1.8 Heritage assets

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

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

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

1.8 Heritage assets (continued)

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

The heritage assets of the municipality shall not be depreciated but, the municipality assess at each reporting date whether here is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or he recoverable service amount of the heritage asset.

Transfers

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

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

For a transfer from investment property carried at fair value, on inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount shall be recognised in surplus or deficit.

Derecognition

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

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

Application of deemed cost - Derivative 7

The Municipality opted to take advantage of the transitional provision as contained in the Directive 7 of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.9 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.

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together 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

1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchamge transactions	Financial asset measured at amortised cost
Statutory receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost

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

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

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

1.9 Financial instruments (continued)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it 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 entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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

1.9 Financial instruments (continued)

Presentation

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

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

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Accounting Policies

1.10 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

Accounting Policies

1.10 Statutory receivables (continued)

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.

1.11 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Accounting Policies

1.11 Leases (continued)

Operating leases - lessee

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

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 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.

1.13 Impairment of cash-generating assets (continued)

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

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

1.15 Share capital / contributed capital

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

1.16 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

1.16 Employee benefits (continued)

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

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

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

1.16 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

1.16 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure 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 entity 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 entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

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

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

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

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

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

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

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

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Accounting Policies

1.16 Employee benefits (continued)

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 [OR is not] presented as the net of the amount recognised for a reimbursement.

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

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

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

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

Accounting Policies

1.16 Employee benefits (continued)

Termination benefits

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

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

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

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

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

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-endfor each employee.

1.17 Provisions and contingencies

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

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

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

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

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

1.17 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating surplus.

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

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

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

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

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

A contingent liability is 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. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

1.17 Provisions and contingencies (continued)

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

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

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

1.19 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July.The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.20 Revenue from non-exchange transactions

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

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

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

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

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

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

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

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

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

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

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.

Accounting Policies

1.21 Investment income

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

1.22 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.

1.23 Current year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.24 Comparative figures

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

1.25 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.

1.26 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.

1.27 Irregular expenditure

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

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

Accounting Policies

1.27 Irregular expenditure (continued)

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

1.28 Use of estimates

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

1.29 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure is set out in Appendices B and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury.

The municipality operates solely in its area of jurisdiction as determined by the Municipal Demarcation Board. Although the municipality operates in a number of geographical areas, it is irrelevant for the municipality to make decisions about the municipality as the goods or services provided are substantially the same within these geographical areas.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the annual financial statements.

1.30 Conditional grants and receipts

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

1.31 Budget information

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

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

The approved budget is prepared on a cash 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 budget for the economic entity includes all the entities approved budgets under its control.

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

1.32 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.

Accounting Policies

1.32 Related parties (continued)

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.

1.33 Events after reporting date

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

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

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

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

1.34 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% as at 1 April 2018 (2017: 14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

1.35 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2020/2021 annual financial statements.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:
- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the standard for the first time in the 2020/2021 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality has adopted the standard for the first time in the 2020/2021 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality has adopted the standard for the first time in the 2020/2021 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020

The municipality has adopted the standard for the first time in the 2020/2021 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The municipality has adopted the standard for the first time in the 2019/2021 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

A municipality applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after 01 April 2020.

The municipality has adopted the interpretation for the first time in the 2020/2021 annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods but are not relevant to its operations:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 104 (amended): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

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

The municipality does not envisage the adoption of the until such time as it becomes applicable to the municipality's operations.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after 01 April 2020.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

3. Inventories

Water - at cost	3 042 590	2 627 107
Consumable stores	2 243 702	1 792 835
Fuel (Diesel, Petrol)	-	76 662
	5 286 292	**4 496 604**

3.1 Inventories recognised as an expense during the year

Bulk water	52 359 867	54 398 229

Inventory pledged as security

No inventory was pledged as security for any financial liability of the municipality at year end.

4. Other receivables from exchange transactions

Other receivables	8 991 805	4 494 434

Other receivables from exchange transactions pledged as security

No other receivables from exchange transactions were pledged as security for any financial liability at year end.

Credit quality of other receivables from exchange transactions

The credit quality of trade and other receivables 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 from exchange transactions past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 8 991 805 (2020: R 4 494 434) were past due but not impaired.

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

3 months past due	8 991 805	4 494 434

5. Statutory receivables from non-exchange transactions

Traffic fines	18 905	18 905
Deposits paid	974 753	940 262
Other sundry receivables	591 011	591 011
Property rates	23 518 593	17 762 063
	25 103 262	**19 312 241**

Statutory receivables from non-exchange transactions pledged as security

None of the statutory receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Figures in Rand	2021	2020

5. Statutory receivables from non-exchange transactions (continued)

Property rates: Ageing

Current (0 -30 days)	3 016 858	4 591 877
31 - 60 days	2 578 368	1 756 815
61 - 90 days	2 483 530	2 445 148
91 days +	127 647 854	108 575 404
Less: impairment	(112 208 017)	(99 607 181)
	23 518 593	**17 762 063**

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	813 862	1 087 897
31 - 60 days	713 795	748 867
61 - 90 days	673 166	683 014
91 days +	48 449 086	45 642 788
	50 649 909	48 162 566
Less: Allowance for impairment	(41 873 335)	(42 281 495)
	8 776 574	**5 881 071**

Industrial/ commercial

Current (0 -30 days)	2 162 892	1 572 792
31 - 60 days	1 824 644	1 123 200
61 - 90 days	1 770 609	1 063 667
91 days +	72 428 907	58 957 166
	78 187 052	62 716 825
Less: Allowance for impairment	(64 638 865)	(57 325 686)
	13 548 187	**5 391 139**

National and provincial government

Current (0 -30 days)	40 104	48 987
31 - 60 days	39 930	10 135
61 - 90 days	39 755	10 135
91 days +	6 769 861	6 420 596
	6 889 650	6 489 853
Less: Allowance for impairment	(5 695 818)	-
	1 193 832	**6 489 853**

Total

Current (0 -30 days)	3 016 857	4 591 877
31 - 60 days	2 578 368	1 756 815
61 - 90 days	2 483 531	2 445 148
91 days +	127 647 854	108 575 404
	135 726 610	117 369 244
Less: Allowance for impairment	(112 208 017)	(99 607 181)
	23 518 593	**17 762 063**

Credit quality of statutory receivables from non-exchange transactions

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:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

5. Statutory receivables from non-exchange transactions (continued)

Fair value of statutory receivables from non-exchange transactions

Property rates debtors are payable within 30 days. The credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of property rates debtors is not performed in terms of GRAP 104 on initial recognition.

Statutory receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 25 103 262 (2020: R 19 312 241) were past due but not impaired.

Statutory receivables from non-exchange transactions impaired

As of 30 June 2021, statutory receivables from non-exchange transactions of R 112 208 018 (2020: R 99 607 181) were impaired and provided for.

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

	2021	2020
Opening balance	(99 607 181)	(86 039 622)
Provision for impairment	(12 600 837)	(13 567 559)
	(112 208 018)	**(99 607 181)**

6. Statutory receivables from exchange transactions

	2021	2020
VAT	7 546 422	30 397 131

7. Receivables from exchange transactions

	2021	2020
Gross balances		
Electricity	63 485 335	54 025 638
Water	280 806 131	220 838 299
Sewerage	170 089 796	147 926 102
Refuse	111 318 543	96 541 011
Sundry	20 393 678	18 878 751
	646 093 483	**538 209 801**
Less: Allowance for impairment		
Electricity	(59 555 994)	(38 946 810)
Water	(274 199 706)	(197 117 377)
Sewerage	(162 176 155)	(141 532 090)
Refuse	(106 528 660)	(92 791 747)
Sundry	(19 115 087)	(12 070 758)
	(621 575 602)	**(482 458 782)**
Net balance		
Electricity	3 929 341	15 078 828
Water	6 606 425	23 720 922
Sewerage	7 913 641	6 394 012
Refuse	4 789 883	3 749 264
Sundry	1 278 591	6 807 993
	24 517 881	**55 751 019**

7. Receivables from exchange transactions (continued)

Figures in Rand	2021	2020
Electricity		
Current (0 -30 days)	5 939 672	9 199 312
31 - 60 days	2 846 045	4 682 606
61 - 90 days	3 868 085	1 907 989
91 days+	50 831 533	38 235 731
Less: impairment	(59 555 994)	(38 946 810)
	3 929 341	**15 078 828**
Water		
Current (0 -30 days)	12 573 585	10 906 735
31 - 60 days	3 459 437	3 350 196
61 - 90 days	12 567 236	4 952 754
91 days+	252 205 873	201 628 613
Less: impairment	(274 199 706)	(197 117 376)
	6 606 425	**23 720 922**
Sewerage		
Current (0 -30 days)	2 225 267	3 423 496
31 - 60 days	2 145 257	1 347 175
61 - 90 days	2 114 014	2 075 217
91 days +	163 605 257	141 080 213
Less: impairment	(162 176 154)	(141 532 089)
	7 913 641	**6 394 012**
Refuse		
Current (0 -30 days)	1 503 651	2 325 267
31 - 60 days	1 440 185	914 400
61 - 90 days	1 411 477	1 383 411
91 days +	106 963 230	91 917 934
Less: impairment	(106 528 660)	(92 791 748)
	4 789 883	**3 749 264**
Sundry		
Current (0 -30 days)	142 041	251 792
31 - 60 days	142 360	93 928
61 - 90 days	141 382	141 345
91 days +	19 967 896	18 391 686
Less: impairment	(19 115 088)	(12 070 758)
	1 278 591	**6 807 993**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	15 619 236	12 867 426
31 - 60 days	7 386 683	10 241 230
61 - 90 days	14 798 257	10 620 912
91 days +	555 746 716	391 443 386
	593 550 892	425 172 954
Less: Allowance for impairment	(571 026 892)	(414 311 653)
	22 524 000	**10 861 301**

Industrial/ commercial		
Current (0 -30 days)	3 543 361	13 164 851
31 - 60 days	1 736 524	2 784 291
61 - 90 days	3 022 114	2 520 487
91 days +	9 332 987	61 014 955
	17 634 986	79 484 584
Less: Allowance for impairment	(16 965 776)	(68 147 129)
	669 210	**11 337 455**

National and provincial government		
Current (0 -30 days)	3 221 618	4 531 839
31 - 60 days	910 077	1 027 162
61 - 90 days	2 281 823	1 212 369
91 days +	28 494 086	26 780 893
	34 907 604	33 552 263
Less: Allowance for impairment	(33 582 934)	-
	1 324 670	**33 552 263**

Total		
Current (0 -30 days)	22 384 217	30 564 117
31 - 60 days	10 033 284	14 052 683
61 - 90 days	20 102 194	14 353 768
91 days +	593 573 789	479 239 234
	646 093 484	538 209 802
Less: Allowance for impairment	(621 575 603)	(482 458 783)
	24 517 881	**55 751 019**

Less: Allowance for impairment		
Current (0 -30 days)	(11 871 611)	(21 722 244)
31 - 60 days	(8 215 229)	(8 473 295)
61 - 90 days	(11 722 022)	(9 071 605)
91 days +	(589 766 740)	(443 191 638)
	(621 575 602)	**(482 458 782)**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(482 458 782)	(423 878 632)
Contributions to allowance	(139 116 820)	(58 580 150)
Reversal of allowance	-	-
	(621 575 602)	**(482 458 782)**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Receivables from exchange transactions (continued)

Receivables from exchange transactions pledged as security

None of the receivables from exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation

Credit quality of receivables from exchange transactions

The credit quality of consumer debtors 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:

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 24 517 881 (2020: R 55 751 019) were past due but not impaired.

Receivables from exchange transactions impaired

As of 30 June 2021, receivables from exchange transactions of R (621 575 603) (2020: R 493 593 001) were impaired and provided for.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	30 244 609	31 473 394
Short-term deposits	29 388 936	11 617 223
	59 633 545	**43 090 617**

Bank guarantee exists for an amount of R 95 000,00 at 30 June 2021.

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 - 1930000309 (Primary Account)	30 244 609	31 473 394	6 496 326	30 244 609	31 473 394	6 496 326
ABSA Bank - 911851699 (General Call Account)	29 388 936	11 617 223	7 283 273	29 388 936	11 617 223	7 283 273
Petty cash float	-	-	12	-	-	12
Total	**59 633 545**	**43 090 617**	**13 779 611**	**59 633 545**	**43 090 617**	**13 779 611**

9. Investment property

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	23 986 426	-	23 986 426	23 470 084	-	23 470 084

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

9. Investment property (continued)

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	23 470 084	516 342	23 986 426

Reconciliation of investment property - 2020

	Opening balance	Disposals	Total
Investment property	23 606 564	(136 480)	23 470 084

Pledged as security

There are no investment properties pledged as security for any financial liability at year-end.

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.

Details of valuation

Property valuations were performed by an independent valuer, Mr Tinus Nel (registered with the South African Council of Property Valuers as a Professional Valuer, with registration number 6990/2), and representing IAT Consulting (Pty) Ltd. IAT Consulting (Pty) Ltd is not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation is based on a unit rate which has been determined from the trends in the general market growth rate as indicated by the FNB housing price index for June 2021 This base rate has been adjusted with various factors such as property use, comparability of sales and market activity to determine a fair value under current market conditions at 30 June 2021 The fair value adjustments rate applied was 2.20% in 2021.

Deemed cost

Deemed cost was determined using fair value.

Notes to the Annual Financial Statements

Figures in Rand

10. 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	31 679 261	(5 559)	31 673 702	31 679 261	(5 559)	31 673 702
Buildings	81 036 145	(58 002 932)	23 033 213	80 345 640	(57 951 755)	22 393 885
Infrastructure	2 355 438 632	(1 404 002 717)	951 435 915	2 297 646 453	(1 351 173 920)	946 472 533
Community	134 284 886	(108 600 884)	25 684 002	136 735 417	(108 112 902)	28 622 515
Other property, plant and equipment	46 240 968	(24 127 996)	22 112 972	28 029 940	(21 175 704)	6 854 236
Work in progress	144 091 941	-	144 091 941	183 642 064	-	183 642 064
Total	**2 792 771 833**	**(1 594 740 088)**	**1 198 031 745**	**2 758 078 775**	**(1 538 419 840)**	**1 219 658 935**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers (out) / in	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	31 673 702	-	-	-	-	-	-	-	31 673 702
Buildings	22 393 885	-	(217 569)	3 118 742	-	(2 258 480)	(3 365)	-	23 033 213
Infrastructure	946 472 533	-	(603 176)	58 871 722	1 153 005	(54 341 601)	(226 287)	109 719	951 435 915
Community	28 622 515	-	(332 210)	156 431	-	(3 046 712)	(148 368)	432 346	25 684 002
Other property, plant and equipment	6 854 236	17 627 462	(52 673)	-	-	(2 316 053)	-	-	22 112 972
Work in progress	183 642 064	22 596 772	-	(62 146 895)	-	-	-	-	144 091 941
	1 219 658 935	**40 224 234**	**(1 205 628)**	**-**	**1 153 005**	**(61 962 846)**	**(378 020)**	**542 065**	**1 198 031 745**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	32 472 311	-	(798 609)	-	-	31 673 702
Buildings	25 000 172	-	-	(2 606 287)	-	22 393 885
Infrastructure	1 006 866 034	-	-	(60 393 501)	-	946 472 533
Community	31 951 873	-	-	(3 329 358)	-	28 622 515
Other property, plant and equipment	8 550 082	162 730	(58 082)	(1 800 494)	-	6 854 236
Work in progress	156 480 079	33 901 932	-	-	(6 739 947)	183 642 064
	1 261 320 551	**34 064 662**	**(856 691)**	**(68 129 640)**	**(6 739 947)**	**1 219 658 935**

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Assets subject to finance lease (Net carrying amount)

Office equipment	-	93 795

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

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Pampierstad: Bulk Water Infrastructure Phase 2	24 514 368	24 514 368
Provision of Water and Sanitation for 608 Stands in Guldenskat - Phase 1	2 834 128	2 834 128
Pampierstad Bulk Water Infrastructure	3 637 095	3 637 095
Masakeng 1200 Sites Sewer Reticulation Network	56 169 724	56 169 724
	87 155 315	**87 155 315**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	181 013 190	2 628 874	-	183 642 064
Additions/capital expenditure	19 321 599	156 431	3 118 742	22 596 772
Transferred to completed items	(58 871 722)	(156 431)	(3 118 742)	(62 146 895)
	141 463 067	**2 628 874**	**-**	**144 091 941**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	147 111 258	9 368 821	156 480 079
Additions/capital expenditure	33 901 932	-	33 901 932
Impairments	-	(6 739 947)	(6 739 947)
	181 013 190	**2 628 874**	**183 642 064**

Expenditure incurred to repair and maintain property, plant and equipment

Deemed cost

Deemed cost was determined using depreciated replacement cost.

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

	2021			2020		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software and licences	6 321 590	(1 011 210)	5 310 380	704 406	(603 271)	101 135

Reconciliation of intangible assets - 2021

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Total**
Computer software and licences	101 135	5 559 535	(11 147)	(339 143)	5 310 380

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software and licences	192 166	(91 031)	101 135

Pledged as security

No intangible assets has been pledged as security for any financial liability at year-end.

12. Heritage assets

	2021			2020		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Art Collections, antiquities and exhibits	17 728	-	17 728	17 728	-	17 728
Historical buildings, monuments and conservation areas	7 617 335	-	7 617 335	7 617 335	-	7 617 335
Total	**7 635 063**	**-**	**7 635 063**	**7 635 063**	**-**	**7 635 063**

Reconciliation of heritage assets 2021

	Opening balance	**Total**
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	7 617 335	7 617 335
	7 635 063	**7 635 063**

Reconciliation of heritage assets 2020

	Opening balance	**Total**
Art Collections, antiquities and exhibits	17 728	17 728
Historical buildings, monuments and conservation areas	7 617 335	7 617 335
	7 635 063	**7 635 063**

Pledged as security

No heritage are pledged as security for any financial liability at year-end.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Heritage assets (continued)

Deemed costs

Deemed cost was determined using depreciated replacement cost.

13. Receivable from exchange transactions

Carry value of arrangement debtors at year-end	-	4 567 520
Less: short-term portion	-	(1 174 724)
Less:Discounting	-	(1 106 529)
	-	**2 286 267**

14. Receivables from non-exchange transactions

Carrying value of arrangement debtors at year end	-	710 037
Less: Short-term portion	-	(158 046)
Less:Discounting	-	(148 871)
	-	**403 120**

Receivables from exchange transactions includes debtors who made payment arrangement with the municipality for their account in arrears. The portion of the arrangement that exceeds 12 months from year end date is treated as a long term receivable.

15. Finance lease obligation

Minimum lease payments due		
- within one year	-	190 425
- in second to fifth year inclusive	-	178 135
	-	368 560
less: future finance charges	-	(74 186)
Present value of minimum lease payments	**-**	**294 374**
Present value of minimum lease payments due		
- within one year	-	135 002
- in second to fifth year inclusive	-	159 372
	-	**294 374**
Non-current liabilities	-	103 949
Current liabilities	103 949	190 425
	103 949	**294 374**

The municipality entered into a non-cancellable lease agreement for photo copying machines with Konica Minolta. The substance of the agreement qualifies it to be accounted as a finance lease as the risk and rewards associated with the machines passes from the lessor (Minolta) to Phokwane Local Municipality (Lessee) at the inception of the lease.

The lease commenced from 01 July 2018 and will end on 30 June 2021, with option to renew for further 12 months. The average effective borrowing rate was -% (2020: 35%).

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Payables from exchange transactions

Trade payables	316 481 212	279 082 234
Payments received in advanced	18 084 617	10 002 992
Retentions	6 506 679	5 857 760
Unallocated deposits	13 620 309	1 395 874
Staff leave accrual	9 793 074	9 482 827
Staff bonus accrual	2 201 517	2 211 160
Payroll control account	98 065	85 080
	366 785 473	**308 117 927**

17. Consumer deposits

Electricity	870 546	876 448
Water	2 591 214	2 445 396
Hall rentals	519 248	14 363
	3 981 008	**3 336 207**

18. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(12 971 000)	(11 250 000)
Present value of the defined benefit obligation-partly or wholly funded	(5 627 000)	(5 094 000)
	(18 598 000)	**(16 344 000)**
Non-current liabilities	(17 527 000)	(15 481 000)
Current liabilities	(1 071 000)	(863 000)
	(18 598 000)	**(16 344 000)**
Benefits		
Post-retirement medical aid benefit	(12 479 000)	(10 777 000)
Long service awards	(5 048 000)	(4 704 000)
	(17 527 000)	**(15 481 000)**

Post retirement benefits

Post Retirement Medical Aid Benefit		
Balance 1 July	(11 250 000)	(11 965 000)
Contribution for the year	(473 000)	(572 000)
Interest cost	(1 138 000)	(1 094 000)
Benefits paid during the year	498 784	472 000
Actuarial gains/(losses)	(608 784)	1 909 000
.	(12 971 000)	(11 250 000)
Less: Transfer to current portion	492 000	473 000
	(12 479 000)	**(10 777 000)**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Employee benefit obligations (continued)

Members		
Current (In service) members	90	98
Continuation members (pensioners)	10	10
	100	**108**

The liability in respect of past service has been estimated to be as follows:

Liability		
Current (In service) members	7 022 000	7 169 000
Continuation members (pensioners)	4 228 000	4 226 000
	11 250 000	**11 395 000**

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Samwumed

Key actuarial assumptions used:

Discount rate	10,01%	10,33%
CPI (Consumer Price Inflation)	5,32%	4,92%
Health Care Cost Inflation Rate	6,82%	6,42%
Maximum subsidy inflation rate	4,74%	4,44%

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

Discount Rate

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

Consequently, a discount rate of 10.01% per annum has been used. The corresponding index-linked yield at this term is 3.97%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021.

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

Component	Duration (Years)	Fixed - Interest Yield	Index linked Yield
In-service members' retirement liability	20,55	11,39%	4,81%
Continuation members' liability	7,83	8,58%	4,50%
		-	
		-	

18. Employee benefit obligations (continued)

		-	
Liability-weighted average	**15,69**	**10,33%**	**4,68%**

Health Care Cost Inflation Rate:

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

A health care cost inflation rate of 6.82% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.32%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 2.99% which derives from ((1+10.01%)/(1+6.82%))-1.

The expected inflation assumption of 5.32% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.97%) and those of fixed interest bonds (10.01%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.01%-0.50%)/(1+3.97%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2022.

Maximum Subsidy Inflation Rate:

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,773.12 per member per month for the year ending 30 June 2022. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 6.32%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.74% was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2022.

Replacement Ratio:

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

Demographic Assumptions

Mortality During Employment:

SA85-90 ultimate table, adjusted for female lives.

Post-Employment Mortality:

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

Withdrawal from Service

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

18. Employee benefit obligations (continued)

Withdrawal rates:

Age Band	Withdrawal rate males	Withdrawal rate females
20	9%	9%
25	8%	85
30	6%	6%
35	5%	5%
40	5%	5%
45	4%	4%
50	3%	3%
55+	0%	0%

Average Retirement Age:

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

Continuation of Membership

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

Family Profile

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

Sensitivity Analysis on the Accrued Liability

18. Employee benefit obligations (continued)

Assumption	Change	% Change	In-service members	Continuation members	Total liability
Central assumptions			8 370 00	4 601 000	12 971 000
Health care inflation rate	+1% yr	5%	8 886 00	4 675 000	13 561 000
Health care inflation	-1% yr	-6%	7 674 00	4 471 000	12 145 000
Discount rate	+1% yr	-11%	7 208 00	4 293 000	11 501 000
Discount rate	-1% yr	14%	9 825 00	4 951 000	14 776 000
Post-employment mortality	+1% yr	-3%	8 142 00	4 437 000	12 579 000
Post-employment mortality	-1% yr	3%	8 595 00	4 765 000	13 360 000
Average retirement age	-1% yr	6%	9 111 000	4 601 000	13 712 000
Membership continuation	-10%	-9%	7 254 000	4 601 000	11 855 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2021:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			473 00	1 138 000	1 611 000
Health care inflation rate	+1% yr	6%	514 00	1 200 000	1 714 000
Health care inflation	-1% yr	-9%	418 00	1 053 000	1 471 000
Discount rate	+1% yr	-6%	399 00	1 108 000	1 507 000
Discount rate	-1% yr	8%	567 00	1 170 000	1 737 000
Post-employment mortality	-1% yr	3%	485 00	1 172 000	1 657 000
Average retirement age	-1% yr	3%	445 000	1 218 000	1 663 000
Membership continuation	-10%	-10%	410 000	1 042 000	1 452 000

Long service award

Long service award	2021	2020
Balance 1 July	(5 094 000)	(4 923 000)
Current service cost	(618 000)	(597 000)
Interest cost	(361 000)	(369 000)
Benefits paid during the year	178 578	742 000
Actuarial gains/(losses)	267 422	53 000
Subtotal	(5 627 000)	(5 094 000)
Less: Transfer to current portion	579 000	390 000
Balance 30 June	**(5 048 000)**	**(4 704 000)**

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible	2021	2020
As at year end, the following number of employees were eligible for long service bonuses	339	366

Key actuarial assumptions used:

	2021	2020
Discount rate	9,13%	7,37%
General earnings inflation rate	5,77%	3,97%
Net Effective Discount Rate	3,18%	3,27%

18. Employee benefit obligations (continued)

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

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

Key Demographic assumations

Table below summarises the key demographic assumptions used

Average retirement age: 62

Mortality during employment: SA 85-90

Age Band	Withdrawal rate males	Withdrawal rate females
20	9%	9%
30	6%	6%
40	5%	5%
50	3%	3%
55	0%	0%

Sensetivity analysis

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made.

The assumptions which tend to have the greatest impact on the results are:

- the general earnings inflation rate assumption;
- the discount rate assumption;
- the average retirement age of employees; and
- assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:

- a one percentage point increase and decrease in the assumed general earnings inflation rate;
- a one percentage point increase and decrease in the discount rate;
- a two-year increase and decrease in the assumed average retirement age of eligible employees; and
- a two-fold increase and a 50% decrease in the assumed rates of withdrawal from service.

Sensitivity Analysis on the Accrued Liability

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

18. Employee benefit obligations (continued)

Assumption	Change	% Change	Liability
Central assumptions			5 627 00
General earnings inflation rate	+1%	6%	5 961 00
General earnings inflation rate	-1%	-5%	5 323 00
Discount rate	+1%	-6%	5 315 00
Discount rate	-1%	6%	5 976 00
Average retirement age	+2% yr	7%	6 038 00
Average retirement age	-2% yr	-12%	4 959 00
Withdrawal rates age	x2	-19%	4 536 000
Withdrawal rates age	x0,55	13%	6 376 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2021:

Assumption	Change	% Change	Current service cost	Interest cost	Total liability
Central assumptions			618 00	361 000	979 000
General earnings inflation rate	+1%	7%	667 00	385 000	1 052 000
General earnings inflation rate	-1%	-7%	340 00	913 000	1 253 000
Discount rate	+1%	-2%	385 00	962 000	1 347 000
Discount rate	-1%	2%	334 00	996 000	1 330 000
Average retirement age	+2% yr	7%	391 00	1 048 000	1 439 000
Average retirement age	-2% yr	-10%	316 00	885 000	1 201 000
Withdrawal rates	x2	-25%	284 000	731 000	1 015 000
Withdrawal rates	x0,5	18%	415 000	1 158 000	1 573 000

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant (MSIG)	169 582	169 582
COGHSTA Grant	42 778	42 778
Finance Management Grant (FMG)	1 089 387	1 128 694
Water Service Operating Grant (WSOG)	11 301 376	7 255 654
INEP	3 527 412	12 106 975
Northern Cape Roads Grant (NCRG)	1 463 126	1 463 126
Library Grant	2 399 126	2 399 126
Northern Cape Public Works Grant (NCPWG)	312 375	312 375
Municipal Infrastructure Grant (MIG)	26 299 467	5 760 302
Expanded Public Works Program (EPWP)	20 000	1 142 000
Disaster Management Grant	-	119 000
	46 624 629	**31 899 612**

Movement during the year

Balance at the beginning of the year	31 899 612	12 594 216
Additions during the year	173 716 000	172 470 000
Income recognition during the year	(150 549 983)	(145 403 604)
Funds withheld	(8 441 000)	(7 761 000)
	46 624 629	**31 899 612**

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; and

19. Unspent conditional grants and receipts (continued)

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

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

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

20. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	120 821 897	1 153 005	7 469 829	129 444 731

Reconciliation of provisions - 2020

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	116 533 485	(12 315 526)	16 603 938	120 821 897

Environmental rehabilitation provision

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

Area of the rehabilitation sites	Jan Kempdorp	Hartswater (Old)	Hartswater (New)	Ganspan	Pampierstad
Area (ha)	2,9	2,3	4,8	4,6	1,9

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. Total cost and estimated date of decommission of the sites are as follows:

The municipality does not have a permit of licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

Liabilities are present obligations arising from past events, the settlement of which is expected to result in an outflow from the municipalities resources embodying economic benefits. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environment Management Act, Act 107 of 1998, section 3(14)-(16) and 4(10) of Government Notice 718 of 3 July 2009 and the landfill permits issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The following key assumptions are used:

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to the market yields (at the financial position date) on government bonds. The currency and terms of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

As such a net discount rate of 4% p.a (2020 2.02%) has been used. The net discount rate was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the markert closed on 30 June 2021 (2020) reduced by the contract price adjustment index (CPAF) as obtained from the South African Forum of Civil Engineering Contractors (SAFCEC).

Municipal site	Year	2021 Provision	2020 Provision	2019 Provision
Old Hartswater	2 016	34 429 032	33 529 509	32 421 469
New Hartswater	2 021	5 785 327	4 232 554	4 035 528
Jan Kempdorp	2 015	12 547 306	10 743 648	10 243 528
Ganspan	2 016	67 274 037	65 398 486	63 237 281
Pampierstad	2 016	9 409 032	6 917 700	6 595 679
		129 444 734	**120 821 897**	**116 533 485**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

21. Revenue

Service charges	140 327 715	146 214 297
Rental of facilities and equipment	73 694	112 160
Interest received (trading)	25 061 905	26 588 784
Commissions received	231 467	-
Other income	4 543 739	4 831 914
Interest received - investment	1 118 866	2 548 643
Property rates	29 591 248	27 606 753
Government grants & subsidies	150 549 984	145 403 603
Fines, Penalties and Forfeits	106 761	406 163
Interest received - Receivables from non-exchange	6 401 815	7 146 894
	358 007 194	**360 859 211**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	140 327 715	146 214 297
Rental of facilities and equipment	73 694	112 160
Interest received (trading)	25 061 905	26 588 784
Commissions received	231 467	-
Other income	4 543 739	4 831 914
Interest received - investment	1 118 866	2 548 643
	171 357 386	**180 295 798**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	29 591 248	27 606 753
Transfer revenue		
Government grants & subsidies	150 549 984	145 403 603
Fines, Penalties and Forfeits	106 761	406 163
Interest - receivables from non-exchange	6 401 815	7 146 894
	186 649 808	**180 563 413**

22. Service charges

Sale of electricity	54 533 409	86 466 774
Sale of water	56 524 290	35 748 971
Sewerage and sanitation charges	17 351 006	15 419 050
Refuse removal	11 919 010	11 598 863
Indigents subsidies paid	-	(3 019 361)
	140 327 715	**146 214 297**

23. Rental of facilities and equipment

Premises		
Premises	73 694	112 160

24. Investment revenue

Interest revenue		
Bank	1 084 334	2 500 313
Deposits	34 532	48 330
	1 118 866	**2 548 643**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Other income

Commissions received	231 467	-
Other income	4 543 739	4 831 914
	4 775 206	**4 831 914**

26. Property rates

Rates billed

Property rates	29 591 248	27 606 753

Rates reconciliation

Residential	8 644 059	14 610 195
Commercial	9 517 650	8 549 361
State	376 073	1 115 450
Agricultural	11 053 467	6 824 930
Less: Income forgone	-	(3 493 183)
	29 591 249	**27 606 753**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Government grants and subsidies

Operating grants		
Equitable share	130 024 000	104 786 000
Finance Management Grant	639 308	1 965 713
Expanded Public Works Programme Grant	1 000 000	-
	131 663 308	**106 751 713**
Capital grants		
Municipal Infrastructure Grant (MIG)	5 252 834	8 524 699
Intergrated National Electrification Grant	7 179 563	2 351 025
Water Systems Operating Grant	6 454 279	27 776 166
	18 886 676	**38 651 890**
	150 549 984	**145 403 603**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	20 525 984	40 617 603
Unconditional grants received	130 024 000	104 786 000
	150 549 984	**145 403 603**

Equitable Share

Current-year receipts	121 583 000	97 025 000
Conditions met - transferred to revenue	(130 024 000)	(104 786 000)
Surrendered	8 441 000	7 761 000
	-	**-**

Conditions still to be met - remain liabilities (see note 19).

Finance Management Grant

Balance unspent at beginning of year	1 128 694	414 408
Current-year receipts	3 000 000	2 680 000
Conditions met - transferred to revenue	(639 307)	(1 965 714)
Surrendered	(2 400 000)	-
	1 089 387	**1 128 694**

Conditions still to be met - remain liabilities (see note 19).

Municipal Infrastructure Grant

Balance unspent at beginning of year	5 760 302	7 601 000
Current-year receipts	25 792 000	14 285 000
Conditions met - transferred to revenue	(5 252 835)	(8 524 698)
Unapproved rollover	-	(7 601 000)
	26 299 467	**5 760 302**

Conditions still to be met - remain liabilities (see note 19).

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Government grants and subsidies (continued)

Water System Operating Grant

Balance unspent at beginning of year	7 255 654	31 820
Current-year receipts	10 500 000	35 000 000
Conditions met - transferred to revenue	(6 454 278)	(27 776 166)
	11 301 376	**7 255 654**

Conditions still to be met - remain liabilities (see note 19).

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	12 106 975	160 000
Current-year receipts	3 400 000	14 458 000
Conditions met - transferred to revenue	(7 179 563)	(2 351 025)
Surrendered	(4 800 000)	(160 000)
	3 527 412	**12 106 975**

Conditions still to be met - remain liabilities (see note 19).

Expanded Public Works Programme Grant

Balance unspent at beginning of year	1 142 000	-
Current-year receipts	1 000 000	1 142 000
Conditions met - transferred to revenue	(1 000 000)	-
Surrendered	(1 122 000)	-
	20 000	**1 142 000**

Conditions still to be met - remain liabilities (see note 19).

Disaster Management Grant

Balance unspent at beginning of year	119 000	-
Current-year receipts	-	119 000
Surrendered	(119 000)	-
	-	**119 000**

Conditions still to be met - remain liabilities (see note 19).

Municipal Systems Improvement Grant

Balance unspent at beginning of year	169 582	169 582

Conditions still to be met - remain liabilities (see note 19).

COGHSTA Grant

Balance unspent at beginning of year	42 778	42 778

Conditions still to be met - remain liabilities (see note 19).

Northern Cape Roads Grant

Balance unspent at beginning of year	1 463 126	1 463 126

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19).

Library Grant

Balance unspent at beginning of year	2 399 126	2 399 126

Conditions still to be met - remain liabilities (see note 19).

NC Public Works Grant

Balance unspent at beginning of year	312 375	312 375

Conditions still to be met - remain liabilities (see note 19).

28. Employee related costs

	2021	2020
Basic	63 797 420	59 488 026
Bonus	5 126 974	4 936 770
Medical aid	3 531 416	3 647 243
UIF	578 029	568 293
SDL	566 093	557 743
Other payroll levies	42 441	40 987
Leave pay provision charge	827 481	1 306 940
Travel, motor car, accommodation, subsistence and other allowances	668 521	526 231
Overtime payments	3 591 876	3 512 121
Long-service awards	618 000	175 213
Acting allowances	73 195	106 408
Housing benefits and allowances	124 422	114 913
Pension and provident fund	11 151 912	10 888 334
	90 697 780	**85 869 222**

Remuneration of municipal manager - KG Gaborane

	2021	2020
Acting allowance	51 622	-
Car Allowance	57 593	-
Contributions to UIF, Medical and Pension Funds	1 106	-
	110 321	**-**

Remuneration of municipal manager - Adv. MC Mogale (Appointed 1 February 2017)

	2021	2020
Annual Remuneration	-	165 754
Contributions to UIF, Medical and Pension Funds	-	1 658
	-	**167 412**

Remuneration of chief financial officer - TP Modisa (Acting since 18 February 2021)

	2021	2020
Annual Remuneration	560 902	-
Car Allowance	42 568	-
Acting allowance	21 573	-
Other	8 982	-
Contributions to UIF, Medical and Pension Funds	160 196	-
	794 221	**-**

Remuneration of Director of Operations - Mr Z Nikani

	2021	2020
Annual Remuneration	-	70 548
Car Allowance	-	17 000
Cellphone Allowance	-	800
Contributions to UIF, Medical and Pension Funds	-	1 574
	-	**89 922**

Remuneration of Human Settlement Director - Mr R Sengani

	2021	2020
Annual Remuneration	-	70 548
Car Allowance	-	10 131
Cellphone Allowance	-	800
Housing	-	3 100
Contributions to UIF, Medical and Pension Funds	-	4 570
	-	**89 149**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

28. Employee related costs (continued)

Remuneration of Corporate Services Director - Mr MS Mojaki

Annual Remuneration	527 315	519 209
Car Allowance	127 705	131 081
Cellphone Allowance	-	9 600
Annual Bonus	-	40 562
Remote allowance	32 457	-
Other	9 600	-
Contributions to UIF, Medical and Pension Funds	152 601	148 749
	849 678	**849 201**

29. Remuneration of councillors

Executive Mayor	527 804	914 305
Speaker	429 395	368 919
Councillors	3 373 109	4 725 536
	4 330 308	**6 008 760**

The Mayor and Speaker are full time. Each is provided with an office and shared secreterial support at the cost of the Council.

The mayor has use of a Council owned vehicle for official duties.

30. Depreciation and amortisation

Property, plant and equipment	61 962 846	68 239 481
Intangible assets	339 143	91 030
	62 301 989	**68 330 511**

31. Impairment of assets

Impairments		
Property, plant and equipment	(164 032)	6 739 947
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or recoverable service amount of the asset was based on its fair value less costs to sell or its value in use.		

32. Finance costs

Receivable from exchange and non-exchange - discounting	-	84 289
Employee benefit obligation	1 499 000	1 803 000
Landfill provision	7 469 829	8 778 777
Trade and other payables	5 254 419	11 096 762
	14 223 248	**21 762 828**

33. Debt impairment

Debt impairment	151 717 657	72 147 709

Figures in Rand	2021	2020

34. Bulk purchases

Electricity - Eskom	72 219 804	69 458 455
Water	52 359 867	54 398 229
	124 579 671	**123 856 684**

35. General expenses

Advertising	178 962	134 042
Auditors remuneration	3 500 011	871 070
Bank charges	662 799	641 675
Cleaning	-	2 333
Commission paid	377	7 693
Consulting and professional fees	10 061 723	12 659 875
Entertainment	54 450	-
Hire	1 818 070	1 348 720
Insurance	1 021 506	724 527
Motor vehicle expenses	507 749	86 178
Fuel and oil	1 519 919	1 235 051
Postage and courier	-	152 181
Printing and stationery	357 471	464 839
Protective clothing	659 219	985 941
Inventory, spares and materials consumed	9 845 048	8 339 049
Security (Guarding of municipal property)	5 653 435	4 834 674
Subscriptions and membership fees	963 737	1 211 980
Telephone and fax	903 022	697 361
Training	92 473	733 512
Travel - local	8 400	313 584
Sports, recreation and other expenses	-	623
Water distribution costs	-	3 571 961
Agency fees	-	17 659
Sample analysis	228 742	-
Chemicals	1 019 265	1 294 056
	39 056 378	**40 328 584**

36. Auditors' remuneration

Fees	3 500 011	871 070

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

37. Cash generated from operations

	2021	2020
Deficit	(129 777 602)	(62 190 187)
Adjustments for:		
Depreciation and amortisation	62 301 989	68 330 511
Gain on sale of assets and liabilities	1 216 777	746 851
Fair value adjustments	(516 342)	-
Impairment	(164 032)	6 739 947
Debt impairment	151 717 657	72 147 709
Movements in retirement benefit assets and liabilities	2 254 000	(544 000)
Movements in provisions	7 469 829	4 288 412
Changes in working capital:		
Inventories	(789 688)	1 372 529
Other receivables from exchange transactions	(4 497 371)	(895 761)
Receivable from exchange transactions - current	(117 795 133)	(97 363 402)
Other receivables from non-exchange transactions	(5 791 021)	(5 672 766)
Payables from exchange transactions	58 667 538	50 486 971
VAT	22 850 709	6 453 868
Unspent conditional grants and receipts	14 725 017	19 305 397
Consumer deposits	644 801	139 255
	62 517 128	**63 345 334**

38. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	24 517 881	24 517 881
Cash and cash equivalents	59 633 545	59 633 545
	84 151 426	**84 151 426**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	366 785 473	366 785 473
Consumer deposits	3 981 008	3 981 008
	370 766 481	**370 766 481**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

38. Financial instruments disclosure (continued)

2020

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	58 037 286	58 037 286
Cash and cash equivalents	43 090 617	43 090 617
	101 127 903	**101 127 903**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	308 117 927	308 117 927
Consumer deposits	3 336 207	3 336 207
	311 454 134	**311 454 134**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

39. Contingencies

Contingent liabilities

The following litigations have been raised against the municipality:

2021 Matters	Legal representative	Status	Value of litigation	Description
CCG (Pty) Ltd vs Phokwane Local Muncipality	Towell & Groenewaldt	In progress	8 000 000	The Municipality terminated the contract on the basis of affordability of the Mscoa System
Adv AS Siebern obo Setologo	Office of the state Attorney	Consultation pending	4 000 000	The municipality is the 3rd repondent in the matter. The 1st and 2nd respondents dumped ammunition on the municipal land. A child suffered injuries out of explosives.
CC Victor vs Phokwane Local Municipality	Towell & Groenewaldt	In progress	1 400 000	Merits already settled at 70/30 in favour of Plaintiff. Likelihood of settling quantum AT 30/70 to plaintiff.
Silvester B Trading	N/A	In progress	1 900 000	Contract terminated without lawful reason
B Visagie	N/A	Consultation pending	350 000	Negligence

Notes to the Annual Financial Statements

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39. Contingencies (continued)

Senwes	N/A	In progress	669 708	The legal dispute is the accuracy of the municipal billing system. There are dispute resolution mechanisms which may resolve the dispute and reduce the claimed amount
Dephetogo Security Services	N/A	In progress	3 600 000	Reinstatement of contract
UMS	N/A	In progress	3 200 000	Breach of contract
Matseba Consulting	N/A	In progress	2 400 000	Breach of contract
IMATU obo Z Nikani & Another	N/A	In progress	9 000 000	Unfair Dismissal (Unlawful termination of contract)
JJ Steenkamp	N/A	In progress	Imprisonment of Accounting Officer	Municipal non-compliance with environmental legislation, Health and Safety. Sewer spilling into business premises. Business closed as a result
Motla Consulting Engineers (Pty) LTD	N/A	In progress	624 895	Contract unilaterally terminated without just cause
T. Mwali vs PLM	N/A	In progress	Permanent Employment on a post with a degree qualification	Challenging appointment of Manager Political Office
JK Screen & Signs	N/A	In progress	300 000	Disconnection of electricity

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39. Contingencies (continued)

Van Vuuren Bande	Engelsman	In progress	150 000	Parties to engage in dispute resolution. The municipality's billing on the account is being challenged a recalculation.
Meat Market (Pty) LTD	N/A	In progress	200 000	The legal dispute is the accuracy of the municipal billing system. There are dispute resolution mechanisms which may resolve the dispute and reduce the claimed amount.
	-	**-**	**35 794 603**	**-**

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39. Contingencies (continued)

2020 Matters	Legal representative	Status	Value of litigation	Description
CC Victor vs Phokwane Local Municipality	Towell & Groenewaldt	In progress	1 400 000	Negligence by municipality (pothole on road claim)
Telkom SA vs Phokwane Local Municipality	Not yet appointed	Received notice institute proceedings	42 000	Negligence – damage to underground cables
Adv AS Siebern obo Setologo	Office of the state Attorney	Consultation pending	6 000 000	The municipality is the 3rd repondent in the matter. The 1st and 2nd respondents dumped ammunition on the municipal land. A child suffered injuries out of explosives.
CCG (Pty) Ltd vs Phokwane Local Muncipality	Towell & Groenewaldt	In progress	8 000 000	Breach of contract
Vaalharts Ratepayers Association vs Phokwane Local Municipality	Not yet appointed	In progress	-	Applicants seeking an order allowing them to pay Eskom for electricity consumed
Claim for damages PH02/0004	Towell & Groenewaldt	In progress	3 000 00	Claim for damages
	-	**-**	**18 442 000**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	7 770 461	17 499 794
Total capital commitments		
Already contracted for but not provided for	7 770 461	17 499 794

Total commitments

Total commitments		
Authorised capital expenditure	7 770 461	17 499 794

This committed expenditure relates to property, plant and equipment and will be financed via government grants and subsidies.

Commitments are disclosed exclusive of VAT.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Related parties

Relationships

Interest in related parties	Councillors and /or management of the municipality
Services rendered to related parties	The services rendered to related parties are charged at the approved tarrifs that were advertised to the public. We have disclosed this information under the heading councillors arrear consumer accounts Refer to note 50
Compensation of related parties	Compensation of key management personnel Refer to note 28
Compensation of related parties	Compensation of councillors Refer to note 29
Joint ventures	Municipality has no joint venture arrangement
Associates	Municipality has no associates in their business arrangement
Related party relationship	The municipalities officials declared the following reationship with the listed companies. It should be noted that no transactions were entered into between these related parties and the municipality
Councillors	No business interest, shares and / or directorships held
Municipal manager	No business interest, shares and / or directorships held
Acting Municipal Manager	No business interest, shares and / or directorships held
Chief Financial Officer	No business interest, shares and / or directorships held

Notes to the Annual Financial Statements

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41. Related parties (continued)

Remuneration of management

Management class: Executive management

2021

Name	Acting allowance	Annual remuneration	Car allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Senior Management	73 195	1 088 217	227 866	313 903	51 038	1 754 219

2020

Name	Annual remuneration	Car allowance	Contribution to UIF, Medical and pension funds	Other allowance	Total
Senior Management	866 622	158 213	166 963	3 100	1 194 898

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

42. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated the comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

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

42.1. Prior period error - Understatement of payables from exchange transactions - Salary control

During the period under review it was noted that payables from exchange transactions were understated due to pension medical outstanding medical aid not provided for and maintenance deduction not paid. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in payables from exchange transactions	(42 910)
Increase in accumulated surplus	(35 770)
	(78 680)

Statement of financial performance	
Increase in employee related costs	78 680

42.2. Prior period error - Overstatement of payables from exchange transactions

During the period under review it was noted that payables from exchange transactions were overstated due bulk to purchases reconciliations not adequetely performed. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease payables from exchange transactions	952 706
Increase in accumulated surplus	(2 205 964)
	(1 253 258)

Statement of financial performance	
Decrease in bulk purchases	(2 342 409)
Increase in finance costs	23 705
Increase in general expenses	3 571 962
	1 253 258

42.3. Prior period error - Investment property register misstated due to the incorrect recognition of additions

During the period under review it was noted that the investment property register for the year ended 30 June 2020 was misstated due to the incorrect inclusion of items as additions in the year together with the incorrect recognition of fair value adjustments. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in investment property	(13 515 550)
Decrease in accumulated surplus	6 392 596
	(7 122 954)

Statement of financial performance	
Decrease in fair value adjustments	6 986 474
Increase in gain / (loss) on disposal of assets and liabilities	136 480
	7 122 954

Figures in Rand	2021	2020

42. Prior period errors (continued)

42.4. Prior period error - Water inventory misstated due to incorrect application of unit costs

During the period under review it was noted that the water inventory on hand at 30 June 2019 and 30 June 2020 was understated due to the ommission of the Sedibeng service delivery and maintenance costs from the cost price of water inventory on hand at 30 June 2019 and 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in inventory	2 127 686
Increase in accumulated surplus	(2 995 215)
	(867 529)

Statement of financial performance	
Increase in bulk purchases	867 529

42.5. Prior period error - Community assets misstated due to derecognitions of community facilities in the 2018/19 financial year

During the period under review it was noted that the community asset register was misstated at 30 June 2019 due to the incorrect inclusion of derecognised community facilities in the register at 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in community assets	77 764
Increase in accumulated surplus	(684 733)
Increase in work in progress	34 797
	(572 172)

Statement of financial performance	
Increase in depreciation and amortisation	572 172

42.6. Prior period error - Land misstated due to the incorrect recognition of certain land parcels in the 2019/20 financial year

During the period under review it was noted that land associated with certain community and other assets were incorrectly recognised as at 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in property, plant and equipment land	(798 609)

Statement of financial performance	
Increase in gain / (loss) on disposal of assets and liabilities	798 609

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

42. Prior period errors (continued)

42.7. Prior period error - Buildings FAR depreciation misstated for the year ended 30 June 2020

During the period under review it was noted that depreciation provided for on buildings for the year ended 30 June 2020 was misstated. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in property, plant and equipment buildings	241 075

Statement of financial performance	
Decrease in depreciation and amortisation	(241 075)

42.8.Prior period error - Work in progress mistated due to projects not being unbundled and retention omitted

During the period under review it was noted that the capital work in progress register was misstated at 30 June 2020 due to the omission of retention on a suppliers invoice at 30 June 2020. Furthermore it was noted that capital work in progress was overstated with various completed projects at 30 June 2019. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in vat receivable	2 145
Increase in payables from exchange transactions	(16 445)
Decrease in work in progress	(25 357 733)
Decrease in accumulated surplus	25 372 033
	-

42.9. Prior period error - Overstatement of cash and cash equivalents

During the period under review it was noted that the petty cash balance was overstated due to balance carried forward from the 2018/19 financial year not being cleared in 2019/20 year as the fund had been utilised. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in cash and cash equivalents	(12)
Decrease in accumulated surplus	12
	-

42.10. Prior period error - Understatement of receivables from non-exchange transactions

During the period under review it was noted that security deposits paid to Eskom had not been updated since the 2018/19 year with the interest earned and deposit on new accounts. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in statutory receivables from non-exchange transaction	79 119
Increase in accumulated surplus	(30 789)
	48 330

Statement of financial performance	
Increase in interest received	(48 330)

42. Prior period errors (continued)

42.11. Prior period error - Infrastructure register misstated due to various ommissions

During the period under review it was noted that the infrastructure register was misstated due to the non-capitilisation of various capital work in progress projects completed in prior financial years. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in property plant and equipment (infrastructure)	47 980 314
Increase in accumulated surplus	(44 780 024)
	3 200 290

Statement of financial performance	
Decrease in depreciation and amortisation	(3 200 290)

42.12. Prior period error - Understatement of unspent conditional grants and receipts

During the period under review it was noted that the Disaster management grant amounting to R119 000 was received but this grant was not spent at 30 June 2020 and furthermore was not allocated to unspent conditional grants and receipts at 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in other receivables from exchange transactions	119 000
Increase in unspent conditional grants and receipts	(119 000)
	-

42.13. Prior period error - Cash and cash equivalents misstated due to unrecorded direct deposits

During the period under review it was noted that cash and cash equivalents were misstated at 30 June 202o due to the non-recording of deposits directly received in the municipality's main account at 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Increase in cash and cash equivalents	1 395 874
Increase in sundry creditors	(1 395 874)
	-

42.14. Prior period error - Movable FAR misstated

During the period under review it was noted that the movable fixed assset register was misstated due to the incorrect recognition of additions of certain assets for the year ended 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position	
Decrease in other property, plant and equipment	(64 687)
Decrease in accumulated surplus	143 763
	79 076

42. Prior period errors (continued)

Statement of financial performance	
Decrease in depreciation and amortisation	(109 840)
Increase in general expenditure	30 764
	(79 076)

42.15. Prior period error - Correction of Additional disclosures - Contributions to local government

During the period under review it was noted that Contributions to local government was incorrectly disclosed, the disclosure indicated outstanding balance although the balance was settled during the year for the year ended 30 June 2020. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Disclosure notes - Additional disclosures - Contributions to local government	
As previously reported	1 211 980
Correction of error	(1 211 980)
Restated	**-**

42.16. Prior period error - Correction of commitments

During the period under review it was noted that commitments were misstated due to commitments being disclosed including VAT and certain payments not taken into account.. The comparative statements for 2019/20 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Disclosure notes - Additional disclosures - Contributions to local government	
As previously reported	22 404 032
Correction of error	(4 904 238)
Restated	**17 499 794**

43. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that the prior year account balances and totals were misstated due missmapping of various general ledger account. That error has since been rectified in the current year.

The effects of the reclassification are as follows:

Statement of financial performance - extract	Comparative figures previously reported	Reclassification	After reclassification
Other receivables from exchange transactions	318 037	4 176 397	4 494 434
Payables from exchage transactions	(303 941 529)	(4 176 397)	(308 117 926)
	(303 623 492)	**-**	**(303 623 492)**

Statement of financial performance - extract	Comparative figures previously reported	Reclassification	Total
Interest received (trading)	29 089 097	(2 500 313)	26 588 784
Interest received (investment)	-	2 500 313	2 500 313
General expenses - Auditors remuneration	5 999 184	(5 128 114)	871 070
General expenses - Consulting and professional fees	7 531 761	5 128 114	12 659 875
	42 620 042	**-**	**42 620 042**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

44. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	3 981 008	-	-	-
Employee benefit oblgation	1 071 000	-	-	-
Payables from exchange transactions	366 785 473	-	-	-
Unspent conditional grants and receipts	46 624 629	-	-	-
	418 462 110	**-**	**-**	**-**

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	3 336 207	-	-	-
Employee benefit obligation	863 000	-	-	-
Payables from exchange transactions	308 117 927	-	-	-
Unspent conditional grants and receipts	31 899 612	-	-	-
	344 216 746	**-**	**-**	**-**

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

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

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, and therefore it is not exposed to interest rate risk.

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Figures in Rand	2021	2020

44. Risk management (continued)

Foreign exchange risk

The municipality does not engage in foreign exchange transactions.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Price risk

The municipality is not exposed to price risk.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

45. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 800 505 031 and that the municipality's total assets exceed its liabilities by R 800 505 031.

We draw attention to the fact that at 30 June 2021, a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

1. The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.

2. Unspent grants to be surrendered are cash backed as required.

3. The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.

4. The consumer debtors days outstanding increased to 1420 days from (2020: 1380 days).

5. Electricity distribution losses (technical and non-technical) have increased to 37% (2020:16%) and the water distribution losses has decreased to 45% from (2020: 53%).

6. The municipality's current liabilities exceeds it's current assets by R 287 486 852 (2018: R 186 865 125) which indicates a current ratio which is below the required norm of 1.5 - 2.

7. The municipality incurred a net surplus (deficit) for the year under review of R 129 777 602 (2020: deficit R 62 190 187), the major contributors to this change is increases impairments, finance costs, employee related costs.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, 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 dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

Notes to the Annual Financial Statements

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46. Events after the reporting date

The municipality appointed Ms B Mgaguli as acting Municipal Manager effective from 14 October 2021.

There was a change in the political leasdership after the reporting date but before the financial statements were authorised for issue.

47. Unauthorised expenditure

	2021	2020
Opening balance as previously reported	906 838 584	895 460 234
Opening balance as restated	**906 838 584**	**895 460 234**
Add: Expenditure identified - current	193 753 776	11 378 350
Add: Expenditure identified - prior period	-	-
Less: Approved/condoned/authorised by council	-	-
Closing balance	**1 100 592 360**	**906 838 584**

48. Fruitless and wasteful expenditure

	2021	2020
Opening balance as previously reported	36 163 103	25 565 281
Opening balance as restated	**36 163 103**	**25 565 281**
Add: Expenditure identified - current	-	10 597 822
Add: Expenditure identified - prior period	-	-
Less: Amounts recoverable - current	-	-
Less: Amounts recoverable - prior period	-	-
Less: Amount written off - current	-	-
Less: Amount written off - prior period	-	-
Closing balance	**36 163 103**	**36 163 103**

Figures in Rand	2021	2020

48. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings	2021	2020
Interest on late payments	Management is initiating an investigation into the cause for fruitless and wasteful expenditure as disclosed and as required in the MFMA	-	10 406 607
Interest on late - SARS VAT	Management is initiating an investigation into the cause for fruitless and wasteful expenditure as disclosed and as required in the MFMA	-	191 215
		-	**10 597 822**

Fruitless and and wasteful expenditure of R 5 254 419.00 (2020: R 11 297 413.00) was identified, however due to the exemption granted to municipalities by the Minister of Finance, only R R 10 597 822.00 fruitless and and wasteful expenditure relating to interest and penalties and interest on outstanding balances before 31 March 2020 was reported.

49. Irregular expenditure

	2021	2020
Opening balance as previously reported	301 765 525	297 871 603
Opening balance as restated	**301 765 525**	**297 871 603**
Add: Irregular Expenditure - current	6 121 122	3 893 922
Add: Irregular Expenditure - prior period	-	-
Less: Amounts recoverable - current	-	-
Less: Amounts recoverable - prior period	-	-
Less: Amount written off - current	-	-
Less: Amount written off - prior period	-	-
Closing balance	**307 886 647**	**301 765 525**

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

	Disciplinary steps taken/criminal proceedings	2021	2020
Procurement in contravention of municipal Supply chain management regulation in terms MFMA	Management is initiating an investigation to cause for irregular expenditure in line with MFMA requirements.	6 121 122	3 893 922

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	1 263 394
Current year subscription / fee	963 737	1 211 980
Amount paid - current year	(963 737)	(1 211 980)
Amount paid - previous years	-	(1 263 394)
	-	-

Material losses

Electricity distribution losses (KWh)		
KWh purchased	49 983 800	53 028 196
KWh sold	(31 580 403)	(44 706 599)
KWh losses	**18 403 397**	**8 321 597**
% losses	37	16
Average cost per KWh unit	0,90	0,78
Loss in Rand value	**16 571 738**	**6 490 846**

Water distribution losses (Mega litres)		
Mega litres purchased	4 573 230	4 660 439
Mega litres sold	(2 536 588)	(2 207 526)
Mega litres losses	**2 036 642**	**2 452 913**
% losses	45	63
Average cost per unit	4,83	4,61
Loss in Rand value	**9 829 064**	**11 307 927**

Audit fees

Opening balance	19 424	2 001 448
Current year subscription / fee	4 025 090	3 019 016
Amount paid - current year	(3 998 747)	(2 999 592)
Amount paid - previous years	(19 424)	(2 001 448)
	26 343	**19 424**

PAYE and UIF

Current year subscription / fee	9 958 261	10 417 012
Amount paid - current year	(9 958 261)	(10 417 012)
	-	-

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

Pension and Medical Aid Deductions

Current year subscription / fee	22 012 234	24 290 446
Amount paid - current year	(22 012 234)	(24 290 446)
	-	-

VAT

VAT receivable	7 546 422	30 397 131

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor OS Tumodi	1 669	39 193	40 862
Councillor RP Selogilwe	4 182	133 547	137 729
Councillor PJ Majahe	1 182	12 382	13 564
Councillor SS Lewis	3 721	9 066	12 787
	10 754	**194 188**	**204 942**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor D Sillands	523	987	1 510
Councillor L Magerman	2 253	3 583	5 836
Councillor S Lewis	1 130	1 171	2 301
Councillor CJ Adams	6 637	16 701	23 338
Councillor H Morometse	2 821	59 630	62 451
Councillor JP Chwarisang	1 234	30 446	31 680
Councillor HM Modiakgotla	2 422	41 200	43 622
Councillor JS Musie	1 690	1 699	3 389
Councillor GG Halter	968	4 930	5 898
Councillor TM Kolwane	944	17 190	18 134
Councillor KD Sedisho	1 105	37 711	38 816
Councillor KM Kalman	1 119	10 663	11 782
Councillor SJ Rudman	6 054	16 749	22 803
Councillor SS Thube	6 399	77 337	83 736
Councillor MK Tivane	937	7 856	8 793
	36 236	**327 853**	**364 089**

51. 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 officers and includes a note to the annual financial statements.

Deviations	Less than R 30 000	Between R 30 001 and R 100 000	Between R 100 001 and R 2 000 000	Total
Emergency	-	528 907	9 537 617	10 066 524
Other	-	725 386	17 212 423	17 937 809
	-	**1 254 293**	**26 750 040**	**28 004 333**

52. Budget differences

Material differences between budget and actual amounts

All variances greater / less than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2021.

X1: Management anticipated that proper controls are implemented to ensure billing is correct and done on a monthly basis.

X2: Rental of facilities is difficult to predict as it is based on the frequency of unpredictable events.

X3: Due to constant increase in receivable balances.

X4: Commission not budgted for.

X5: Other income is difficult to predict as it is based on the frequency of unpredictable events.

X6: Management had planned to put more funds in investment accounts.

X7: Management anticipated that proper controls are implemented to ensure billing is correct and done on a monthly basis.

X8: Grant budget did not take into account the funds withheld.

X9: Fines and penalties are difficult to predict as it is based on the frequency of unpredictable events.

X10: Grants budget did not take into account the funds withheld.

X11: Due to annual increases not taken into account on budgeted.

X12: Due to annual increases not taken into account on budgeted.

X13: Depreciation not correctly budgeted as the fixed asset register was redone.

X14: Impairment loss reversals not budgeted for.

X15: Interest on outstanding payables not correctly budgeted.

X16: Due to decrease in collections.

X17: Decrease mainly due to load shedding.

X18: Contracted services included as part of general expenses.

X19: No transfer and subsidies cost during the year.

52. Budget differences (continued)

X20: Due to cost cutting measures.

X21: Year end adjustment, not budgeted for.

X22: Year end adjustment, not budgeted for..

X23: Year end adjustment, not budgeted for..

X24: Inventory not adequetely budget for..

X25: Budget includes for receivables from non- exchange.

X26: Not budgeted for.

X27: Not budgeted for.

X28: Not budgeted for.

X29: Management anticipated grants funds to be spent at year end.

X30: Insignificant.

X31: Management aniticipated increase in additions.

X32: Increase due to additons.

X33: Not budgeted for.

X34: No arrangement debtors have been account for.

X35: Only current portion of finance lease outstanding.

X36: Not adequetely budgeted for.

X37: Not budgeted for.

X38: Insignificant.

X39: Year end adjustment, not budgeted for.

X40: Management anticipated that grant funding will be utilised in full.

X41: Provisions were under budgeted.

X2: Bank overdraft incorrect budgeted for.