NATURALLY PROGRESSIVE

Polokwane Local Municipality
Audited Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	The City of Polokwane is a category B local authority established interms of section 151 of the Constitution of the Republic of South Africa(Act 108 of 1996)
Executive Mayor	TP Nkadimeng
Mayoral committee	
	MJ Ralefatane -Speaker of Council
	MK Teffo - Chief Whip
	RC Molepo - MMC Finance & LED
	NW Kganyago - MMC Water & Sanitation
	MF Kubjana - MMC Roads & Stormwater
	H Shaikh - MMC Spatial Planning & Development
	LR Setati - MMC Admin & Governance
	T Nkwe - MMC Housing
	MJ Maja - MMC Sports, Arts, Culture & Special Focus
	MB Malebana - MMC Energy
	SJ Malope - MMC Waste & Environment
	ML Mothata - MMC Community Safety
Councillors	AR Baloyi
	AH Botha
	TDR Chidi
	C Coetzee
	ME Choshi
	SJ Dikgale
	FA Haas
	PJ Hiine
	TE Hopane
	FJ Joubert
	MJ Kaka
	N Khan
	MW Laka
	MV Ledwaba
	NJ Lekgodi
	Z Lekgodi
	LF Lephalala
	RF Lourens
	MG Mabote
	NE Machaba
	MF Maenetja
	ME Makamela
	TP Makgopja
	JF Makwela
	ME Malatji
	ME Maleka
	RR Malema
	CM Mamabolo
	HS Manaka
	PE Manamela
	HM Mankga
	HF Marx

General Information

	AM Masekela
	TS Mashau
	MC Mashiane
	MV Mathye
	MT Matonzi
	ML Mehlape
	MA Moakamedi
	MT Modiba
	MS Modiba
	TF Moeti
	TJ Mogale
	DM Mohlabeng
	MF Mohlasedi
	RP Mohlaona
	TSP Mojapelo
	FJ Molepo
	MB Molope
	PE Moshoeu
	MS Mothapo
	ME Mothapo
	JE Mothapo
	LS Mothata
	MJ Mothiba
	KJ Mphekgwana
	TG Phaka
	MR Phala
	MS Phosoko
	KW Phosoko
	M Pretorius
	MM Ramakgoakgoa
	MF Ramaphakela
	MO Ramaphoko
	PA Rapetswa
	TR Raphela
	MW Sathekge
	MR Sekgobela
	MC Sesera
	RV Shadung
	NA Shivhabu
	KM Skosana
	KG Tsheola
	K Vallabh
Grading of local authority	Grade 10
Accounting Officer	DH Makobe
Chief Finance Officer (CFO)	N Essa CA(SA)
Business address	Civic Centre Cnr Landros Mare and Bodenstein Streets Polokwane

General Information

	0699
Postal address	P O Box 111 Polokwane 0700
Bankers	Standard Bank
Auditors	Auditor General South Africa (AGSA) Registered Auditors
Attorneys	Pule Incorporated Mogaswa Attorneys AM Carrim Attorneys Maboku Mangena Attorneys Kgatla Incorporated Matabane Incorporated Noko Maimela Incorporated Rachoene Attorneys
Level of assurance	These unaudited annual financial statements have been audited in compliance with the applicable requirements of the Municipal Finance Management Act Act 56 of 2003.
Members of the Audit and Performance Audit Committee	MW Mokwele MF Kekana JM Mabuza Ms MP Ramutsheli

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

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MMC	Member of Mayoral Committee
MSA	Municipal Systems Act
PHA	Polokwane Housing Association

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited 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 audited annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

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

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

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

The audited annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

DH Makobe
Municipal Manager

Statement of Financial Position as at 30 June 2020

	Note(s)	2020 R	2019 Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	420 294 249	131 260 132
Investments	4	-	57 829 129
Receivables from exchange transactions	5	111 372 825	129 838 944
Other receivables from exchange transactions	6	20 524 609	10 182 738
Receivables from non-exchange transactions	7	494 938 817	392 676 478
Inventories	8	154 851 074	143 263 390
VAT receivable	9	70 686 817	56 014 460
Prepayments		25 246 315	31 224 132
		1 297 914 706	**952 289 403**
Non-Current Assets			
Investment property	10	1 115 883 515	737 261 262
Property, plant and equipment	11	15 569 843 949	13 087 009 738
Biological assets that form part of an agricultural activity	12	4 450 352	4 732 398
Heritage assets	13	21 899 818	21 899 818
Intangible assets	14	30 156 632	35 401 467
Investments in controlled entities	15	1 000	1 000
Other receivables from exchange transactions	6	144 352	144 352
		16 742 379 618	**13 886 450 035**
Total Assets		**18 040 294 324**	**14 838 739 438**
Liabilities			
Current Liabilities			
Consumer deposits	16	71 199 462	73 101 634
Payables from exchange transactions	17	990 813 111	950 588 984
Long term loans - current portion	18	50 541 553	56 527 527
Unspent conditional grants and receipts	19	147 917 307	117 241 045
Finance lease obligation	20	5 171 543	9 259 421
Provisions	21	163 302 040	8 177 041
		1 428 945 016	**1 214 895 652**
Non-Current Liabilities			
Long term loans	18	415 509 507	466 051 071
Finance lease obligation	20	7 092 516	12 157 465
Provisions	21	186 698 031	174 284 431
Employee benefit obligation	22	197 335 000	193 906 000
		806 635 054	**846 398 967**
Total Liabilities		**2 235 580 070**	**2 061 294 619**
Net Assets		**15 804 714 254**	**12 777 444 819**
Reserves			
Revaluation reserve	23	9 594 102 247	7 424 537 335
Accumulated surplus		6 210 612 007	5 352 907 484
Total Net Assets		**15 804 714 254**	**12 777 444 819**

* See Note 50

Statement of Financial Performance

	Note(s)	2020 R	2019 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	24	1 490 130 351	1 321 630 886
Rental of facilities and equipment	25	9 045 882	14 879 613
Interest earned on outstanding debtors	31	73 744 846	64 961 794
Agency services	26	21 214 389	25 145 487
Licences and permits	27	5 467 702	7 674 212
Other income	28	15 984 467	18 566 724
Interest received - investment	29	19 871 721	13 123 882
Total revenue from exchange transactions		**1 635 459 358**	**1 465 982 598**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	504 767 991	420 312 776
Interest earned on outstanding debtors	31	35 251 713	-
Transfer revenue			
Government grants & subsidies	32	2 317 883 489	2 040 214 312
Public contributions and donations	33	1 043 000	30 403 347
Fines, Penalties and Forfeits	34	31 584 439	31 298 121
Total revenue from non-exchange transactions		**2 890 530 632**	**2 522 228 556**
Total revenue		**4 525 989 990**	**3 988 211 154**
Expenditure			
Employee related costs	35	(922 982 023)	(854 607 710)
Remuneration of councillors	36	(38 521 740)	(37 955 256)
Depreciation and amortisation	37	(733 506 713)	(676 847 021)
Finance costs	38	(69 673 253)	(72 228 885)
Bad debts written off	62	(159 919 458)	(216 987 976)
Bulk purchases	39	(920 913 470)	(810 741 840)
Contracted services	40	(759 928 938)	(728 337 372)
Transfers and subsidies	41	(179 850 619)	(24 664 032)
Inventory consumed	42	(47 063 860)	(123 515 270)
General Expenses	43	(208 183 137)	(246 904 409)
Total expenditure		**(4 040 543 211)**	**(3 792 789 771)**
Operating surplus		**485 446 779**	**195 421 383**
(Loss)/gain on disposal of assets and liabilities	47	(1 432 906)	(8 606 596)
Fair value adjustments	44	374 387 076	15 323 376
Impairment loss	45	(696 417)	(3 540 467)
Inventories losses/write-downs	48	-	(6 192 159)
		372 257 753	**(3 015 846)**
Surplus for the year		**857 704 532**	**192 405 537**

* See Note 50

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	7 426 020 555	5 248 999 850	12 675 020 405
Adjustments			
Correction of errors	-	(88 497 903)	(88 497 903)
Balance at 01 July 2018 as restated*	**7 426 020 555**	**5 160 501 947**	**12 586 522 502**
Changes in net assets			
Revaluation of non current assets	(1 483 220)	-	(1 483 220)
Net income (losses) recognised directly in net assets	(1 483 220)	-	(1 483 220)
Surplus for the year	-	192 405 537	192 405 537
Total recognised income and expenses for the year	(1 483 220)	192 405 537	190 922 317
Total changes	(1 483 220)	192 405 537	190 922 317
Restated* Balance at 01 July 2019	**7 424 537 335**	**5 352 907 475**	**12 777 444 810**
Changes in net assets			
Revaluation of Property, plant and equipment	2 172 429 921	-	2 172 429 921
Disposal of asset	(2 865 009)	-	(2 865 009)
Net income (losses) recognised directly in net assets	2 169 564 912	-	2 169 564 912
Surplus for the year	-	857 704 532	857 704 532
Total recognised income and expenses for the year	2 169 564 912	857 704 532	3 027 269 444
Total changes	2 169 564 912	857 704 532	3 027 269 444
Balance at 30 June 2020	**9 594 102 247**	**6 210 612 007**	**15 804 714 254**
Note(s)	23		

* See Note 50

Cash Flow Statement

	Note(s)	2020 R	2019 Restated* R
Cash flows from operating activities			
Receipts			
Cash receipts from customers, government and others		4 300 226 914	3 777 907 681
Interest income		19 871 721	13 123 882
		4 320 098 635	3 791 031 563
Payments			
Cash paid to suppliers and employees		(2 905 926 389)	(2 483 553 307)
Finance costs		(69 673 253)	(72 228 885)
		(2 975 599 642)	(2 555 782 192)
Net cash flows from operating activities	49	**1 344 498 993**	**1 235 249 371**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(1 042 776 336)	(1 075 302 746)
Purchase of investment property	10	(675 812)	-
Purchase of other intangible assets	14	(161 740)	(25 667 422)
Purchase of financial assets		(3 600 000)	(64 200 000)
(Increase)/decrease in current investments		57 959 323	116 410 788
Net cash flows from investing activities		**(989 254 565)**	**(1 048 759 380)**
Cash flows from financing activities			
Repayment of long term loans		(56 527 538)	(38 835 917)
Finance lease payments		(9 682 767)	(20 440 775)
Net cash flows from financing activities		**(66 210 305)**	**(59 276 692)**
Net increase/(decrease) in cash and cash equivalents		**289 034 123**	**127 213 299**
Cash and cash equivalents at the beginning of the year		131 260 132	4 046 833
Cash and cash equivalents at the end of the year	3	**420 294 255**	**131 260 132**

* See Note 50

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 766 071 008	-	**1 766 071 008**	1 490 130 351	**(275 940 657)**	N1
Rental of facilities and equipment	39 538 944	(5 000 000)	**34 538 944**	9 045 882	**(25 493 062)**	N2
Interest received (trading)	84 800 004	8 000 000	**92 800 004**	73 744 846	**(19 055 158)**	N3
Agency services	26 499 996	-	**26 499 996**	21 214 389	**(5 285 607)**	N4
Licences and permits	15 784 020	-	**15 784 020**	5 467 702	**(10 316 318)**	N5
Other income - (rollup)	297 849 000	(10 000 236)	**287 848 764**	15 984 467	**(271 864 297)**	N10
Interest received - investment	28 917 996	(4 000 000)	**24 917 996**	19 871 721	**(5 046 275)**	N6
Total revenue from exchange transactions	**2 259 460 968**	**(11 000 236)**	**2 248 460 732**	**1 635 459 358**	**(613 001 374)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	480 000 000	19 200 000	**499 200 000**	504 767 991	**5 567 991**	N8
Interest, Dividends and Rent on Land	-	-	**-**	35 251 713	**35 251 713**	
Transfer revenue						
Government grants & subsidies	2 320 502 996	143 196 000	**2 463 698 996**	2 317 883 489	**(145 815 507)**	N8
Public contributions and donations	-	-	**-**	1 043 000	**1 043 000**	N9
Fines, Penalties and Forfeits	16 959 996	18 000 000	**34 959 996**	31 584 439	**(3 375 557)**	N7
Total revenue from non-exchange transactions	**2 817 462 992**	**180 396 000**	**2 997 858 992**	**2 890 530 632**	**(107 328 360)**	
Total revenue	**5 076 923 960**	**169 395 764**	**5 246 319 724**	**4 525 989 990**	**(720 329 734)**	
Expenditure						
Employee Related Costs	(921 193 000)	10 421 100	**(910 771 900)**	(922 982 023)	**(12 210 123)**	N11
Remuneration of councillors	(40 099 968)	-	**(40 099 968)**	(38 521 740)	**1 578 228**	N8
Depreciation and amortisation	(237 000 000)	(46 627 318)	**(283 627 318)**	(733 506 713)	**(449 879 395)**	N13
Impairment loss/ Reversal of impairments	-	-	**-**	(696 417)	**(696 417)**	N17
Finance costs	(85 122 000)	13 000 000	**(72 122 000)**	(69 673 253)	**2 448 747**	N8
Bad debts written off	(200 000 004)	46 627 330	**(153 372 674)**	(159 919 458)	**(6 546 784)**	N8
Bulk purchases	(968 547 000)	(3 000 000)	**(971 547 000)**	(920 913 470)	**50 633 530**	N8
Contracted Services	(757 056 000)	(211 776 592)	**(968 832 592)**	(759 928 938)	**208 903 654**	N14
Transfers and Subsidies	(11 500 008)	(16 411 473)	**(27 911 481)**	(179 850 619)	**(151 939 138)**	N15
Inventory Consumed	(85 588 932)	(16 759 500)	**(102 348 432)**	(47 063 860)	**55 284 572**	N12
General Expenses	(243 824 000)	(22 659 823)	**(266 483 823)**	(208 183 137)	**58 300 686**	N16
Total expenditure	**(3 549 930 912)**	**(247 186 276)**	**(3 797 117 188)**	**(4 041 239 628)**	**(244 122 440)**	
Operating surplus	**1 526 993 048**	**(77 790 512)**	**1 449 202 536**	**484 750 362**	**(964 452 174)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 432 906)	**(1 432 906)**	N9
Fair value adjustments	-	-	**-**	374 387 076	**374 387 076**	N9

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
	-	**-**	**-**	**372 954 170**	**372 954 170**	
Surplus before taxation	**1 526 993 048**	**(77 790 512)**	**1 449 202 536**	**857 704 532**	**(591 498 004)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 526 993 048**	**(77 790 512)**	**1 449 202 536**	**857 704 532**	**(591 498 004)**	

Accounting Policies

1. Presentation of Audited Annual Financial Statements

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These audited 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 Materiality

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

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

1.4 Transfer of functions between entities not under common control

Definitions

An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.

An acquirer is the entity that obtains control of the acquiree or transferor.

Acquisition date is the date on which the acquirer obtains control of the acquiree.

Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.

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

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 function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity’s objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

1.4 Transfer of functions between entities not under common control (continued)

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Non-controlling interest is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

Owners (for the purposes of this Standard), is used broadly to include holders of residual interests.

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.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

The acquisition method

The municipality accounts for each transfer of functions between entities not under common control by applying the acquisition method.

Applying the acquisition method requires:
(a) identifying the acquirer;
(b) determining the acquisition date;
(c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
(d) recognising the difference between (c) and the consideration transferred to the seller.

Identifying the acquirer

For each transfer of functions between entities not under common control, one of the combining entities is identified as the acquirer.

The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement.

Determining the acquirer includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the acquisition date

The acquirer identifies the acquisition date, which is the date on which it obtains control of the acquiree.

All relevant facts and circumstances are considered in identifying the transfer date.

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

1.4 Transfer of functions between entities not under common control (continued)

As of the acquisition date, the municipality as acquirer recognises, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

Recognition conditions:

To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date.

In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the municipality as acquirer and the acquiree (or its former owners) agreed in the binding arrangement rather than the result of separate transactions.

Operating leases:

The municipality as acquirer recognises no assets or liabilities related to an operating lease in which the acquiree is the lessee.

The municipality as acquirer determines whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The municipality as acquirer recognises an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.

An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants‘ willingness to pay a price for the lease even if it is at market terms.

Intangible assets:

The municipality as acquirer separately recognises the identifiable intangible assets acquired in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

Classifying or designating identifiable assets acquired and liabilities assumed in a transfer of functions:

At the acquisition date, the municipality as acquirer classifies or designates the identifiable assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequent to the acquisition date. The municipality as acquirer makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.

Measurement principle

The municipality as acquirer measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Non-controlling interest in an acquiree:

For each transfer of functions, the municipality as acquirer measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity‘s net assets in the event of liquidation at either:

- fair value; or
- the present ownership instruments‘ proportionate share in the recognised amounts of the acquiree‘s identifiable net assets.

Assets with uncertain cash flows (valuation allowances):

The municipality as acquirer does not recognise a separate valuation allowance as of the acquisition date for assets acquired in a transfer of functions that are measured at their acquisition-date fair values because the effects of uncertainty about future cash flows are included in the fair value measure.

Assets subject to operating leases in which the acquiree is the lessor:

In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the municipality as acquirer takes into account the terms of the lease.

1.4 Transfer of functions between entities not under common control (continued)

Exceptions to the recognition principles

Contingent liabilities:

The requirements in the Standard of GRAP on Provisions, Contingent assets and Contingent liabilities do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the municipality as acquirer recognises as of the acquisition date a contingent liability assumed in a transfer of functions if it is a present obligation that arises from past events and its fair value can be measured reliably.

Exceptions to both the recognition and measurement principles

Employee benefits:

The municipality as acquirer recognises and measures a liability (or asset, if any) related to the acquiree‘s employee benefit arrangements in accordance with the Standard of GRAP on Employee Benefits.

Indemnification assets:

The seller in a transfer of functions may contractually indemnify the municipality as acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. The municipality as acquirer recognises an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the municipality as acquirer recognises the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary.

Exceptions to the measurement principle

Reacquired rights:

The municipality as acquirer measures the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract or other binding arrangement regardless of whether market participants would consider potential renewals of the contract or other binding arrangement in determining its fair value.

Assets held for sale:

The municipality as acquirer measures an acquired non-current asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with the Standard of GRAP on Non-current assets held for sale and Discontinued operations at fair value less costs to sell.

Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred (if any)

The municipality as acquirer recognises the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. This difference is measured as the excess of (a) over (b) below:
(a) the aggregate of:
(i) the consideration transferred (if any) measured in accordance with this Standard, which generally requires acquisition-date fair value;
(ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and
(iii) in a transfer of functions achieved in stages, the acquisition-date fair value of the entity as acquirer’s previously held equity interest in the acquiree.
(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

Subsequent measurement and accounting

Accounting Policies

1.4 Transfer of functions between entities not under common control (continued)

In general, a municipality as acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.

1.5 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

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

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 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.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

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 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.

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.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 21 - Provisions.

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Inventories

Unsold properties are taken at fair value on the date when the intention to dispose land has arisen to the inventory from investment property on initial recognition.

Water inventory is measured on average cost basis per kilolitre.

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 22.

Effective interest rate

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

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 of assets

The municipality's management determines the estimated useful lives and related depreciation charges. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Residual value

The estimated value of an asset at the end of its useful life, or the value that remains at the end of the analysis period where the asset useful life exceed the analysis period. The residual value is considered as a benefit (cash inflow) in the final year of the analysis period.

Revenue-estimation meter readings

Where meter readings are not available meter readings are estimated as follows:

i) where the readings are not available other than as a result of a meter fault, estimations are done by using the consumption of the reading of the same period of the preceding year, or an average of any consecutive two months.

ii) where Council or the owner are of the opinion that the meter is faulty, such a meter must be replaced and sent for testing. The results of the testing of a meter will determine the correction of the account as prescribed in the respective year's Tariff of Charges Policy.

1.6 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

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

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

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

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

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

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

1.7 Investment property

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

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

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

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

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

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

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

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

Transfers are made to and or from investment property only when there is a change in use. For a transfer from invesment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.7 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value. This entails determining the fair value of the investment property on a regular basis. To the extent that the fair value model is applied investment property is not depreciated.

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.

Derecognition

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

1.8 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.

1.8 Property, plant and equipment (continued)

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

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

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

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.

Land and Infrastructure assets are carried at fair value less accumulated depreciation and accumulated impairments.

Movable assets and finance lease assets under property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated and is deemed to have indefinite useful life.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset. If a revaluation is necessary, all assets of that class are revalued.

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Office equipment	Straight line	3 - 10 years
IT equipment	Straight line	3 - 7 years
Infrastructure	Straight line	3 - 100 years
Community	Straight line	5 - 100 years
Other property, plant and equipment	Straight line	2 - 15 years

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

1.8 Property, plant and equipment (continued)

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

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

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

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

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

In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications
- The composition of as asset has changed during the reporting period, that is, the significant components of the asset changed.

1.9 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.

Intangible assets are initially recognised at cost

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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.

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

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

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

1.9 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	3 - 5 years
Computer software, other	Straight line	3 - 5 years

Amortisation begins when the asset is available for use.

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

1.10 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the audited annual financial statements.

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.

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

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.

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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

1.10 Heritage assets (continued)

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

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.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Derecognition

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

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

1.11 Investments in controlled entities

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

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

1.12 Investments in associates

1.13 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.

1.13 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.

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

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

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

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

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

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

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

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.

Accounting Policies

1.13 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- 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.

1.13 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	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at cost
Investments	Financial asset measured at fair value

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
Borrowings	Financial liability measured at amortised cost
Payables	Financial liability measured at cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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.

1.13 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.13 Financial instruments (continued)

Derecognition

Financial assets

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.

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

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality 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 continues 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).

Accounting Policies

1.13 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.

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

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

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

1.14 Consumer Deposits

The municipality recognises consumer deposits as a current liability when the municipality becomes a party to the contract i.e. when the deposit is made. The consumer deposit is recognised as a liability as the municipality has an obligation to pay the money back to the consumer once the consumer account is closed. As the timing of when a consumer will close their account is unknown, the consumer deposits are classified as a current liability.

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.

1.15 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 - 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.

1.15 Leases (continued)

Operating leases - lessor

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. The liability is not discounted.

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

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

Operating leases - lessee

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

1.16 Inventories

Initial measurement:

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.

Subsequent measurement:

Land and water inventory:

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

Consumables:

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.

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.

1.17 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

Accounting Policies

1.17 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the statement of financial performance in the period the impairment is recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the statement of financial performance.

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

1.17 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

Redesignation

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

1.18 Impairment of non-cash-generating assets

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.19 Employee benefits

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

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

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

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

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

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

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

1.19 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

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.

1.19 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 recognises the contribution payable to a defined contribution plan in exchange for that service:

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

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

Accounting Policies

1.19 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises 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 recognises past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

The 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 measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

1.19 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the audited 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, a 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, a 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).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The 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.

1.19 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.20 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

1.20 Provisions and contingencies (continued)

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 an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 53.
- 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.

1.21 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.

1.22 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.

1.22 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by a variety of methods. Depending on the nature of the transaction, the methods may include:
- surveys of work performed;
- services performed to date as a percentage of total services to be performed;
- the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

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.

1.23 Revenue from non-exchange transactions

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

Accounting Policies

1.23 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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.

1.23 Revenue from non-exchange transactions (continued)

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.

Bequests

Bequests that satisfy the definition of an asset 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.

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.

1.24 Unspent Conditional Grants

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 where the obligations have not been met, a liability is recognised.

1.25 Investment income

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

1.26 Borrowing costs

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

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

1.26 Borrowing costs (continued)

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.18, 1.16 and 1.17. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.27 Comparative figures

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

1.28 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.

1.29 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.

1.30 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

1.30 Irregular expenditure (continued)

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

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

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

1.31 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.32 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.33 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.33 Segment information (continued)

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.34 Budget information

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

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

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

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

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

The audited 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.

1.35 Related parties

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

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

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

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

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

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

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

Accounting Policies

1.35 Related parties (continued)

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

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

1.36 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.

Notes to the Audited 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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	The impact is not material.
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	The impact is not material.
• GRAP 20: Related parties	01 April 2019	The impact is not material.
• GRAP 108: Statutory Receivables	01 April 2019	The impact is not material.
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The impact is not material.
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The impact is not material.

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 2020 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	15 153	15 152
Bank balances	420 279 096	64 834 193
Other cash and cash equivalents	-	66 410 787
	420 294 249	**131 260 132**

	2020 R	2019 R

3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2020	30 June 2019	30 June 2018	Cash book balances 30 June 2020	30 June 2019	30 June 2018
Standard Bank - Business current account - 030172349	438 137 581	118 889 404	27 496 735	419 745 656	59 976 086	615 658
Standard Bank - Business current account (DBSA) - 80472818	-	656 753	75	-	656 753	75
Standard Bank - Business current account (Grant account) - 251753846	-	478 828	921 231	-	478 828	921 231
Standard Bank - Business current account (Housing account) - 330535269	534 013	508 262	480 840	534 013	508 262	480 840
Total	**438 671 594**	**120 533 247**	**28 898 881**	**420 279 669**	**61 619 929**	**2 017 804**

4. Investments

	2020	2019
Designated at fair value		
Liberty Life	-	57 829 129
Current assets		
Designated at fair value	-	57 829 129

Financial assets at fair value

Redemption terms

The Liberty investment was redeemed during July 2019.

5. Receivables from exchange

	2020	2019
Gross balances		
Electricity	219 798 053	219 591 575
Water	315 281 111	308 794 740
Waste water	87 943 450	76 193 819
Refuse	106 791 623	87 074 600
Other sundry receivables	225 911 478	205 177 003
Housing rental	1 308 801	241 286
Housing selling schemes	289 174	271 395
	957 323 690	**897 344 418**
Less: Allowance for impairment		
Provision for bad debts & RD cheques	(845 950 865)	(767 505 474)

	2020 R	2019 R

5. Receivables from exchange (continued)

Net balance

	2020 R	2019 R
Provision for bad debts & RD cheques	(845 950 865)	(767 505 474)
Electricity	219 798 053	219 591 575
Water	315 281 111	308 794 740
Waste water	87 943 450	76 193 819
Refuse	106 791 623	87 074 600
Other sundry receivables	225 911 478	205 177 003
Housing rental	1 308 801	241 286
Housing selling schemes	289 174	271 395
	111 372 825	**129 838 944**

Allowance for impairment & RD cheques

	2020 R	2019 R
Total provision at year end	(847 400 606)	(768 947 261)
RD cheques	1 449 741	1 441 787
	(845 950 865)	**(767 505 474)**

Electricity

	2020 R	2019 R
Current (0 -30 days)	51 111 356	55 440 176
31 - 60 days	14 802 438	24 073 897
61 - 90 days	11 652 043	18 529 076
91 - 120 days	8 730 041	6 971 201
>120 days	133 502 175	114 577 225
	219 798 053	**219 591 575**

Water

	2020 R	2019 R
Current (0 -30 days)	27 182 690	26 711 976
31 - 60 days	14 561 070	21 485 825
61 - 90 days	10 163 544	14 960 858
91 - 120 days	15 485 484	7 093 580
>120 days	247 888 323	238 542 501
	315 281 111	**308 794 740**

Waste water

	2020 R	2019 R
Current (0 -30 days)	10 330 663	9 380 332
31 - 60 days	5 653 473	5 246 914
61 - 90 days	4 164 085	4 633 586
91 - 120 days	3 583 832	3 331 921
>120 days	64 211 397	53 601 066
	87 943 450	**76 193 819**

Refuse

	2020 R	2019 R
Current (0 -30 days)	11 554 915	7 763 120
31 - 60 days	6 531 058	5 562 579
61 - 90 days	5 250 507	4 900 804
91 - 120 days	4 731 077	3 301 805
>120 days	78 724 066	65 546 292
	106 791 623	**87 074 600**

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

5. Receivables from exchange (continued)

Other sundry debtors

	2020 R	2019 R
Current (0 -30 days)	10 261 895	784 653
31 - 60 days	2 972 417	2 346 614
61 - 90 days	2 554 624	2 123 542
91 - 120 days	6 506 294	5 151 648
>120 days	203 616 248	194 770 546
	225 911 478	**205 177 003**

Housing rental

	2020 R	2019 R
Current (0 -30 days)	86 176	81 064
31 - 60 days	86 176	80 429
61 - 90 days	86 176	79 793
91 - 120 days	86 176	-
121 - 365 days	964 097	-
	1 308 801	**241 286**

Housing selling scheme

	2020 R	2019 R
Current (0 -30 days)	3 137	3 200
31 - 60 days	3 037	3 077
61 - 90 days	2 814	2 883
91 - 120 days	2 481	625
>120 days	277 705	261 610
	289 174	**271 395**

Reconciliation of allowance for impairment

	2020 R	2019 R
Balance at beginning of the year	(769 371 066)	(673 637 070)
RD cheques opening balance	1 865 591	1 441 786
Debt impairment written off against provision	-	20 733 000
RD cheques recognised during the year	(415 849)	423 806
Contributions to provision for consumer debtors	(78 029 541)	(116 466 996)
	(845 950 865)	**(767 505 474)**

Consumer debtors pledged as security

No consumer debtors are pledged as security.

6. Other receivables from exchange transactions

	2020 R	2019 R
Deposits - Eskom	800 724	800 724
Baroka Football Club	759 166	759 166
Rental smoothing receivable	2 447 972	2 447 972
Current portion of housing selling scheme loans	3 891	3 891
Housing selling scheme loans	144 352	144 352
Prepaid expenses	9 900 530	-
Over and under banking	5 129	2 931
Leelyn Management Parking	164 113	164 113
Standard bank - Interest receivable	2 280 192	1 249 327
Other debtors	-	591 722
Sundry debtors - auctioneer	3 185 394	3 160 360
Debtor suspense account	977 498	977 498
Sundry balances - duplicate payments	-	25 034
	20 668 961	**10 327 090**

	2020 R	2019 R

6. Other receivables from exchange transactions (continued)

Non-current assets	144 352	144 352
Current assets	20 524 609	10 182 738
	20 668 961	**10 327 090**

Lease rental receivable

Minimum rental receipts		
Within a year	2 764 943	4 486 150
Between 1 and 5 years	10 801 360	20 616 878
After 5 years	5 194 538	67 994 026
	18 760 841	**93 097 054**

The municipality leases out certain land and buildings under operating leases. The inflation rate differs from contract to contract.
There are unguaranteed residual values accruing to the benefit of the lessor or lessee.
There are no accumulated allowances for uncollectible minimum lease payments receivable.

7. Receivables from non-exchange transactions

Fines	53 821 931	43 197 248
CDM	3 401 857	3 401 857
Consumer debtors - Rates	437 715 029	346 077 373
	494 938 817	**392 676 478**

Receivables from non-exchange transactions pledged as security

No non-exchange transactions are pledged as security.

Age analysis - Rates		
Current (0-30 days)	42 731 080	35 029 403
31 - 60 days	23 395 865	19 373 198
61 - 90 days	19 728 628	15 066 956
91 - 120 days	16 955 463	10 761 705
>120 days	337 097 977	258 816 432
	439 909 013	**339 047 694**

Reconciliation of provision for impairment of traffic fines receivable

Opening balance	37 762 666	37 844 178
Provision for impairment	7 165 401	(81 512)
	44 928 067	**37 762 666**

Reconciliation of traffic fines receivable net amount

Traffic fines receivable: Gross amount	98 749 999	80 959 915
Less: Provision for impairment	(44 928 067)	(37 762 667)
	53 821 932	**43 197 248**

		2020 R	2019 R

8. Inventories

		2020 R	2019 R
Water for distribution		312 112	497 354
Consumables stores - at cost		147 890 602	136 117 676
Land inventory		6 648 360	6 648 360
		154 851 074	**143 263 390**

Water for distribution

		2020 R	2019 R
Opening balance		497 354	368 062
Purchases		164 283 635	176 250 288
Issued		(127 815 300)	(144 315 725)
Water losses	39	(36 653 577)	(31 805 271)
Closing balance		**312 112**	**497 354**

9. VAT receivable

	2020 R	2019 R
VAT receivable	70 686 817	56 014 460

The VAT payable should be netted off against the VAT receivable resulting in a net amount of R70 686 817 receivable from SARS. For the breakdown of the balance, please refer to the table below:

	2020 R	2019 R
VAT claimable (not due - accrued)	107 097 563	93 491 920
VAT payable (output - accrued)	(90 420 435)	(84 315 456)
Net VAT refundable by SARS	54 009 689	46 837 996
	70 686 817	**56 014 460**

10. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 115 883 515	-	1 115 883 515	737 261 262	-	737 261 262

Reconciliation of investment property - 2020

	Opening balance	Additions	Disposals	Fair value adjustments	Total
Investment property	737 261 262	675 812	(192 484)	378 138 925	1 115 883 515

Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	724 131 490	(13 114 286)	26 244 058	737 261 262

Pledged as security

No investment property assets are pledged as security.

	2020 R	2019 R

10. Investment property (continued)

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

Details of valuation

The values were determined by an external Professional Valuer registered with the South African Council for the Property Valuers Profession, Registration number 6934/1. The value of investment property, comprising of land and building was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions. The preferred valuation methodology applied to vacant land was that of comparable market related sales, based on use, location and extent. In cases where no reasonable comparable sales were available, the discounted cash flow methodology was used based on market related rentals for similar properties. Investment Properties were fair valued by Eliah Ganja, a registered professional valuer, registration number: (SACPVP) - Valuer: 6934.

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.

There are no restrictions on investment properties.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Amounts recognised in surplus or deficit

	2020 R	2019 R
Rental revenue from Investment property	9 045 883	14 721 734

11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	186 091 991	-	186 091 991	181 873 118	-	181 873 118
Infrastructure	28 783 730 876	(15 904 698 496)	12 879 032 380	23 610 575 823	(13 047 991 909)	10 562 583 914
Community	4 702 756 040	(2 455 101 905)	2 247 654 135	4 066 409 976	(2 013 538 920)	2 052 871 056
Movable assets and other	400 543 756	(167 392 966)	233 150 790	388 889 373	(132 610 698)	256 278 675
Leased assets	43 533 111	(19 618 458)	23 914 653	43 298 162	(9 895 187)	33 402 975
Total	**34 116 655 774**	**(18 546 811 825)**	**15 569 843 949**	**28 291 046 452**	**(15 204 036 714)**	**13 087 009 738**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
Land	181 873 118	-	-	4 218 873	-	-	-	186 091 991
Infrastructure	10 562 583 914	989 496 278	(4 098 981)	1 769 834 278	(438 046 323)	(1 964 025)	1 227 239	12 879 032 380
Community	2 052 871 056	41 906 804	(6 892)	257 762 664	(104 919 866)	(622 722)	663 091	2 247 654 135
Movable assets and other	256 278 675	11 641 312	-	-	(34 769 197)	-	-	233 150 790
Leased assets	33 402 975	529 940	(260 851)	-	(9 757 411)	-	-	23 914 653
	13 087 009 738	**1 043 574 334**	**(4 366 724)**	**2 031 815 815**	**(587 492 797)**	**(2 586 747)**	**1 890 330**	**15 569 843 949**

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals at carrying value	Transfers received	Depreciation	Impairment loss	Total
Land	181 873 379	-	(261)	-	-	-	181 873 118
Infrastructure	10 171 760 412	899 380 240	(46 819 206)	64 507 769	(522 704 834)	(3 540 467)	10 562 583 914
Community	2 127 879 582	50 834 941	(2 680 076)	-	(123 163 391)	-	2 052 871 056
Movable assets and other	151 916 160	125 578 296	-	-	(21 215 781)	-	256 278 675
Leased assets	6 693 213	35 023 715	(88 839)	-	(8 225 114)	-	33 402 975
	12 640 122 746	**1 110 817 192**	**(49 588 382)**	**64 507 769**	**(675 309 120)**	**(3 540 467)**	**13 087 009 738**

Pledged as security

No assets have been pledged as security.

The contractual commitment for the acquisition of property, plant and equipment is as follows:
Infrastructure: 1 181 357 717
Community assets:25 314 198

Borrowing costs capitalised

There are no borrowing costs that have been capitalised to the property, plant and equipment.

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

11. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2020 R	2019 R
Leased assets	23 914 653	33 402 975

Revaluations

The effective date of the revaluations was Tuesday, 30 June 2020. Revaluations were performed by MMB Consulting. MMB Consulting and its directors are not connected to the municipality. (The valuations are performed by Mr Zack van der Merwe [National Diploma Real Estate - Unisa (Property Valuation) RSA 2005].

Land and infrastructure are re-valued independently every three years.

The valuation for Public Service Infrastructure were valued through a calculated nominal value.

The valuation for land is based on the market rate per square metre, taking into account the extent of the property.

All assumptions were based on current market conditions at the time of the valuation.

Other information

Carrying value of delayed projects	2020 R	2019 R
Projects terminated due to poor performance by contractors	153 366 582	85 875 529
Delay in servitude negotiation and payment agreements	2 407 018	-
Delay in electrification of feeder boreholes	30 201 730	-
Snag list still in progress	-	8 567 675
Community protest/unrest	-	89 094 831
Delay due to supply of material	-	49 839 999
	185 975 330	**233 378 034**

Carrying value of halted projects	2020 R	2019 R
Projects terminated due to poor performance by contractors	78 893 115	-

An impairment loss of Rnil (2019: Rnil) has been recognised on the above capital project. Condition assessment were performed for consideration of impairment in all the delayed projects.Reduction in budget due to Covid 19 did not have any impact relating to the WIP and delayed or halted projects.

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	1 642 550 872	291 876 659	1 411 146	1 935 838 677
Additions/capital expenditure	970 291 466	41 906 806	5 977 817	1 018 176 089
Transferred to completed items	(170 784 653)	(13 720 577)	-	(184 505 230)
	2 442 057 685	**320 062 888**	**7 388 963**	**2 769 509 536**

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	1 163 551 931	275 036 589	-	1 438 588 520
Additions/capital expenditure	900 430 110	50 834 998	1 411 146	952 676 254
Transferred to completed items	(239 060 992)	-	-	(239 060 992)
Correction of prior year	(154 980 522)	(33 984 601)	-	(188 965 123)
Capex expensed	(26 329 918)	(10 327)	-	(26 340 245)
Allocation correction	(1 059 737)	-	-	(1 059 737)
	1 642 550 872	**291 876 659**	**1 411 146**	**1 935 838 677**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance	2020	2019
Contracted services	253 525 297	101 969 249
Employee costs	64 337 185	-
Inventory consumed	35 810 988	-
Operational cost	13 289 870	-
	366 963 340	**101 969 249**

Change in estimated remaining useful lives
Property, plant and equipment
Depreciable assets - During the year, the useful life of property, plant and equipment had been re-estimated at the beginning of the current period to refect the actual pattern of service potential derived from the assets.

The effect on the current and future periods will be a decrease in the depreciation charge of R80 096 585 in the current period and an equal decrease in the depreciation charge of R80 096 585 over the remaining period/s.

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.

12. Biological assets that form part of an agricultural activity

	2020			2019		
	Cost / Valuation	Fair value adjustments	Fair value	Cost / Valuation	Fair value adjustments	Fair value
Other bearer biological assets	4 732 398	(282 046)	4 450 352	11 833 140	(7 100 742)	4 732 398

Reconciliation of biological assets that form part of an agricultural activity - 2020

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	4 732 398	(282 046)	4 450 352

12. Biological assets that form part of an agricultural activity (continued)

Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Disposals	Gains or losses arising from changes in fair value	Total
Other bearer biological assets	11 833 140	(2 962 215)	(4 138 527)	4 732 398

Non-financial information

All biological assets relate to game. There were 983 game at year end. (2019: 844 game)

All biological assets held by the municipality are bearer biological assets. These assets are used for more than one financial year.

The Municipality does not have consumable biological assets.

The Municipality does not have any biological held for sale or held for distribution at no charge or for nominal value.

The municipality holds biological assets at the game reserve which are held for more than one financial year.

A commercial pilot who has experience in game counts is hired to perform an aerial count of the animals using a helicopter.

The fair value of the animals is determined with reference to recent auction prices for the biological assets in the market.

There are no biological assets whose title is restricted and the municipality does not have restrictions regarding the sale of the biological assets.

There is no commitment for the development or acquisition of biological assets.

There are no financial management risks related to agricultural activity in the municipality.

13. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art works	17 897 171	-	17 897 171	17 897 171	-	17 897 171
Heritage sites	144 000	-	144 000	144 000	-	144 000
Memorials and statues	3 858 647	-	3 858 647	3 858 647	-	3 858 647
Total	**21 899 818**	**-**	**21 899 818**	**21 899 818**	**-**	**21 899 818**

Reconciliation of heritage assets 2020

	Opening balance	Total
Art works	17 897 171	17 897 171
Heritage sites	144 000	144 000
Memorials and statues	3 858 647	3 858 647
	21 899 818	**21 899 818**

Reconciliation of heritage assets 2019

	Opening balance	Total
Art works	17 897 171	17 897 171
Heritage sites	144 000	144 000
Memorials and statues	3 858 647	3 858 647
	21 899 818	**21 899 818**

Age and/or condition of heritage assets

All the heritage assets have a condition grading of 3 which translates to fair as per the municipality's generic condition assessment methodology.

	2020	2019
	R	R

13. **Heritage assets (continued)**

Heritage assets borrowed from other entities

No heritage assets are borrowed from other entities.

Heritage assets on loan to other entities

No heritage assets are loaned to other entities.

Restrictions on heritage assets

There are no restrictions on any class of heritage assets owned by the municipality.

Pledged as security

No heritage assets are pledged as security.

Contractual commitments for the acquisition, maintenance and restoration of heritage assets

No amount included in the commitments amount as reflected in Note 50 relate to heritage assets.

Compensation from third parties

No compensation from third parties were received as no items of heritage assets were impaired, lost or given up.

Heritage assets used for more than one purpose

The assets are only used for heritage use and no other purpose.

Fair value of heritage assets (measured at cost less accumulated impairment losses)

As the fair values are not materially different from the cost of the heritage assets together with the fact that are no fluctuation in the carrying values of both years, the fair values are not seperately disclosed.

Heritage assets which fair values cannot be reliably measured

There are no heritage assets within the municipality that could not be reliably measured, or could not be reliably measured in previous years.

Expenditure incurred to repair and maintain heritage assets

There were no expenditure incurred relating to repairs and maintenance of heritage assets during the year.

14. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	1 466 508	(38 566)	1 427 942	1 304 768	(38 566)	1 266 202
Computer software, other	43 370 676	(14 641 986)	28 728 690	43 370 676	(9 235 411)	34 135 265
Total	**44 837 184**	**(14 680 552)**	**30 156 632**	**44 675 444**	**(9 273 977)**	**35 401 467**

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Patents, trademarks and other rights	1 266 202	161 740	-	1 427 942
Computer software, other	34 135 265	-	(5 406 575)	28 728 690
	35 401 467	**161 740**	**(5 406 575)**	**30 156 632**

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Other changes, movements	Impairment loss	Total
Patents, trademarks and other rights	1 304 768	-	(38 566)	-	1 266 202
Computer software, other	10 105 869	25 667 422	66 150	(1 704 176)	34 135 265
	11 410 637	**25 667 422**	**27 584**	**(1 704 176)**	**35 401 467**

The 2020 opening balance of R34 135 265 Computer software and other opening balance, is an amount of R9 049 615 that relates to Work in progress. There were no movements in the Work in progress balance during the current year.

	2020 R	2019 R

14. Intangible assets (continued)

Pledged as security

No intangible assets are pledged as security.

Other information

Intangible assets with indefinite lives:

Intangible assets with indefinite useful lives	1 304 768	1 304 768

Polokwane Municipality has servitudes as part of their intangible assets as contained within their records. These servitudes are assessed as having an indefinite useful life. The reason supporting this assessment is as follows:
The right of way/servitude merely exists because the asset exists and the need of service exists. Therefore, the servitude will continue to exist until such time as the need for the service (addressed through the associated infrastructure asset itself) no longer exists. In fact, the ability to operate and maintain this asset is dependent on the existence of this right, this need is confirmed through the inclusion of section 101 of the Municipal Systems Act which governs municipal rights to access premises.

15. Investments in controlled entities

Name of company	Held by	% holding 2020	% holding 2019	Carrying amount 2020	Carrying amount 2019
Polokwane Housing Association		100.00 %	100.00 %	1 000	1 000

Polokwane Municipality has a 100% controlling interest in PHA. The subsidiary provides social housing to the community. The carrying amounts of controlled entities are shown at cost.

Consolidated Annual Financial Statements are prepared reflecting the combined statements of both Polokwane Municipality and Polokwane Housing Association.

16. Consumer deposits

Electricity	50 123 272	51 383 278
Water	11 144 862	11 298 466
Housing rental	9 931 328	10 419 890
	71 199 462	**73 101 634**

17. Payables from exchange transactions

Trade payables	517 797 504	550 713 231
Payments received in advanced - contract in process	71 579 441	58 132 086
Retentions withheld	133 459 072	119 298 480
Accrued leave pay	151 927 624	114 936 242
Deferred income - prepaid electricity and water	39 980 945	53 583 849
Unidentified receipts	55 652 417	36 104 764
Provision for bonus	18 561 746	17 275 280
Other minor payables	1 854 362	545 052
	990 813 111	**950 588 984**

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

18. Long term loans

At amortised cost		
Long term loans	466 051 060	522 578 598

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in February 2011 to borrow R320 million at a interest rate of 8.875% over 10 years. The last instalment is repayable on 30 June 2021.

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in February 2011 to borrow R50 million at a interest rate of 11.52% over 10 years. The last instalment is repayable on 30 June 2020.

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in March 2017 to borrow R235 million at a interest rate of 10.756% over 14.92 years. The last instalment is repayable on 31 January 2032.

The Municipality had entered into a loan agreement with Standard Bank in January 2018 to borrow R205 million at a interest rate of 10.98% over 15years. The last instalment is repayable on 31 January 2032.

As per clause 13.6.1 of the Standard Bank contract which states that if the municipality does not obtain an unqualified audit opinion, the bank has the right to request early payment on demand. However, the municipality has subsequently engaged with the bank and obtained confirmation that the bank does not have an intention to apply the clause as their financial assessment on the municipality is still favourable.

Non-current liabilities		
At amortised cost	415 509 507	466 051 071
Current liabilities		
At amortised cost	50 541 553	56 527 527

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Public transport infrastructure grant	89 374 288	55 985 461
Neighbourhood Development Partnership Grant	22 255 922	6 415 024
Local Government - housing accreditation grant	534 013	508 262
Municipal Infrastructure Grant	-	25 334 371
Limpopo Provincial Government	2 949 710	2 949 710
Capricorn District Municipality	17 589	17 589
Energy Efficiency and Demand Side Management Grant	653 891	4 191 084
Municipal Systems Improvement Grant	-	376 454
Water Services Infrastructure Grant	8 067 286	3 796
Intergrated National Electrification Programme	7 337 771	21 125 511
Regional Bulk Infrastructure Grant	16 726 837	333 783
	147 917 307	**117 241 045**

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

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

	2020 R	2019 R

20. Finance lease obligation

Minimum lease payments due		
- within one year	9 494 476	14 702 466
- in second to fifth year inclusive	14 048 434	23 452 272
	23 542 910	38 154 738
less: future finance charges	(11 278 852)	(16 737 852)
Present value of minimum lease payments	**12 264 058**	**21 416 886**
Present value of minimum lease payments due		
- within one year	5 171 541	9 259 421
- in second to fifth year inclusive	7 092 517	12 157 466
	12 264 058	**21 416 887**
Non-current liabilities	7 092 516	12 157 465
Current liabilities	5 171 543	9 259 421
	12 264 059	**21 416 886**

It is municipality policy to lease certain motor vehicles, cellphones and photocopiers under finance leases.

The vehicle lease contracts were signed with ABSA over a period of 5 years.

The cellphone lease contracts were signed with Telkom over a period of 2 years.

The photocopier contracts were signed with DIDO over a period of 3 years.

	2020 R	2019 R

21. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Reduction due to re-measurement or settlement without cost to entity	Total
Provision for rehabilitation of landfill sites	118 135 431	12 113 600	-	130 249 031
Provision for Fleet Africa	8 177 041	(1)	-	8 177 040
Provision for ex-gratia benefits	10 697 000	1 184 708	(2 090 708)	9 791 000
Provisions for Taxi Association Compensation	-	155 125 000	-	155 125 000
Provision for long service awards	45 452 000	8 018 898	(6 812 898)	46 658 000
	182 461 472	**176 442 205**	**(8 903 606)**	**350 000 071**

Reconciliation of provisions - 2019

	Opening Balance	Increase due to change in provision	Total
Provision for rehabilitation of landfill sites	76 229 764	41 905 667	118 135 431
Provision for Fleet Africa	8 177 041	-	8 177 041
Provision for ex-gratia benefits	10 648 000	49 000	10 697 000
Provision for long service awards	40 654 000	4 798 000	45 452 000
	135 708 805	**46 752 667**	**182 461 472**

	2020	2019
Non-current liabilities	186 698 031	174 284 431
Current liabilities	163 302 040	8 177 041
	350 000 071	**182 461 472**

Provision for rehabilitation of landfill sites

The landfill rehabilitation provision is created for the rehabilitation of Weltevreden landfill site which is evaluated at each year-end to reflect the best estimate at reporting date. The valuation for the landfill site was performed by a team from **Environmental and Sustainability Solutions CC** consisting of Mr Seakle Godschalk MSc(Zoology) with the following qualifications: MCom(Accounting), SAIEES, CIGFARO, SACNASP and Maryna Mohr with the following qualifications: DTech (Environmental Management), MBA.The warranty provision represents management's best estimate of the liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

Key financial assumptions used in this calculation were as follows:

Weltevreden landfill

CPI - 3,0507%
Discount rate - 6,5507%
Net effective discount rate - 3,5%
Approximate size used until June 2020 - 310,128 square metres
Remaining useful lives - 1 year

The disclosed amount of R130,249,031 represents an increase of R12 113 600 over the provision of R118 135 431 in the previous financial year. This comprises of changes in the CPI, discount rate and unit costs which resulted in the change in the closure provision of R3 023 433. The interest charge relating to the assessment amounts to R9 090 167.

	2020 R	2019 R

21. Provisions (continued)

Provision for Fleet Africa

This provision is due to a dispute on the invoices raised by Fleet Africa to the municipality for services rendered. Fleet Africa therefore took the matter to court .The timing of the outflow is uncertain on this matter.

Provision for ex gratia benefits

Reconciliation of provision for ex gratia benefits		
Opening balance	(10 697 000)	(10 648 000)
Current service cost	(963 000)	(1 034 000)
Interest	(1 022 000)	(999 000)
Benefits paid	800 292	938 223
Actuarial loss/(gain)	2 090 708	1 045 777
	(9 791 000)	**(10 697 000)**

Provision for long service awards

Reconciliation of provision for long service awards		
Opening balance	(45 452 000)	(40 654 000)
Current service cost	(4 377 000)	(4 130 000)
Interest cost	(3 785 000)	(3 716 000)
Benefits paid	143 102	150 579
Actuarial (loss)/gain	6 812 898	2 897 421
	(46 658 000)	**(45 452 000)**

Key assumptions

The basis on which the discount rate has been determined is as follows:

Long service awards: The nominal and real zero curves as at 29 June 2019 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period is used. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The expected rates of salary increases is equal to CPI+1%. The assumed increase on 1 July 2019 was 7.36%.

The CPI and discount rates are the same as the post employment medical obligation as reflected below.

Ex- gratia: To obtain the applicable discount rate, the implied duration of the liability to obtain an appropriate interest rate on the yield curve is used. The nominal and real zero curves as at 29 June 2019 supplied by the JSE to determine our discounted rates and CPI assumptions is used.

The discount rate used is 9.55%. (Net effective discount rate: 3.14%)

The expected rates of salary increases is equal to CPI+1%.

The consumer price inflation value used is 6.21%

The average retirment age used is 63 years in order to implicitly allow for ill health and early retirements.

Mortality rate used has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

22. Employee benefit obligations

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

Carrying value		
Accrued liability at the beginning of the year	(193 906 000)	(163 547 000)
Current service cost	(6 757 000)	(5 956 000)
Interest cost	(19 141 000)	(16 175 000)
Benefit paid	7 595 030	6 770 366
Actuarial (loss)/gain	14 873 970	(14 998 366)
	(197 335 000)	**(193 906 000)**

The municipality operates on 7 accredited medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and Samwumed, Resolution Health, and Government Employees Medical Scheme. Pensioners may continue on the option they belonged to on the day of their retirement.
The last post-employment health care benefits actuarial valuation in terms of GRAP 25 was done by ZAQ Consultants and Actuaries for the period ending 30 June 2019.

Key assumptions used

The basis on which the discount rate has been determined is as follows
:
The nominal and real zero curves as at 29 June 2019 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period was used. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The discount rate used is yield curve based.

Medical cost trends: It is assumed that 100% of all active members on medical aid will remain on medical aid once they retire and that all active members will remain on the same medical aid option at retirement. It was assumed that 22.5% of in-service members not currently on a medical aid would join the Key-Health Silver medical aid scheme by retirement. The medical aid contribution inflation value used is equal to the CPI+1%

The consumer price inflation value used is the difference between nominal and yield curves.

The average retirment age used is 63 years in order to implicitly allow for ill health and early retirements.

Mortality rate used has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Effect on defined benefit obligation	-	208 314 000

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

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	-	193 906 000	163 547 000	160 479 000	162 094 000

Notes to the Audited Annual Financial Statements

23. Revaluation reserve

	2020 R	2019 R
Opening balance	7 424 537 335	7 426 020 555
Revaluation for the year	2 172 429 921	(1 483 220)
Revaluation reversal of asset disposal	(2 865 009)	-
	9 594 102 247	**7 424 537 335**

24. Service charges

	2020 R	2019 R
Sale of electricity	1 014 136 512	865 215 050
Sale of water	249 554 045	244 151 677
Solid waste	110 759 130	102 467 923
Sewerage and sanitation charges	115 680 664	109 796 236
	1 490 130 351	**1 321 630 886**

25. Rental of facilities and equipment

	2020 R	2019 R
Facilities and equipment		
Rental of facilities	9 045 882	14 879 613

26. Agency services

	2020 R	2019 R
Management Fees	21 214 389	25 145 487

27. Licences and permits (exchange)

	2020 R	2019 R
Trading & other	(4 720)	109 029
Road and Transport	5 472 422	7 565 183
	5 467 702	**7 674 212**

28. Other income

	2020 R	2019 R
Administrative handling fees	665	222 211
Burial fees	1 133 614	1 048 737
Sale of erven	47	7 522 282
Building plan fees	8 766 966	7 031 550
Admission fees	708 235	541 940
Tender deposits	250	13 248
Municipal information & statistics	565	79 563
Insurance claims & related income	1 187 006	1 594 210
Refund Seta levy	103	817 271
Other minor income	4 187 016	(304 288)
	15 984 467	**18 566 724**

29. Interest received - Investments

	2020 R	2019 R
Interest revenue		
Bank	19 871 721	13 123 882

	2020 R	2019 R

30. Property rates

Rates received

Residential	185 654 983	132 845 938
Commercial	237 696 476	135 835 799
State	14 058 890	30 784 932
Municipal	46 736 220	14 270 709
Other	20 621 422	106 575 398
	504 767 991	**420 312 776**

Valuations - (R'000)

Residential	37 155 508	34 273 989
Commercial	26 674 587	17 400 140
State	1 287 080	3 529 330
Municipal	2 083 095	1 322 057
Other	11 009 831	6 377 864
	78 210 101	**62 903 380**

31. Interest earned on outstanding debtors

Interest - Property rates	35 251 713	-
Receivables	73 744 846	64 961 794
	108 996 559	**64 961 794**

	2020 R	2019 R

32. Government grants and subsidies

Operating grants		
Equitable share	922 585 688	831 436 000
Finance Management Grant	2 500 000	3 048 000
Municipal Infrastructure Grant	-	45 278 526
Integrated National Electrification Programme Grant	15 208 943	17 831 489
Energy Efficiency and Demand Side Management Grant	7 346 109	3 808 915
Public Transport Network Grant	222 495 474	53 158 667
Infrastructure Skills Development Grant	5 111 000	6 500 000
Water Service Infrastructure Grant	-	1 370 886
Expanded Public Works Programme Incentive Grant	4 201 000	5 742 000
Municipal systems improvement grant	-	678 546
CDM Grant	-	882 411
Integrated Urban Development Grant	110 963 142	-
Municipal Disaster Grant	596 000	-
	1 291 007 356	**969 735 440**
Capital grants		
Municipal Infrastructure Grant	-	260 264 610
Public transport infrastructrure grant	20 563 238	312 832 699
Neighbourhood Development Grant	20 557 078	38 585 002
Regional Bulk Infrastructure Grant	614 271 163	370 171 243
Water Services Infrastructure Grant	88 586 510	88 625 318
Intergrated National Electrification Programme	15 571 286	-
Integrated Urban Development Grant	267 326 858	-
	1 026 876 133	**1 070 478 872**
	2 317 883 489	**2 040 214 312**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

32.1 Public transport network grant

Balance unspent at beginning of year	55 985 461	131 535 827
Current-year receipts	332 433 000	330 107 000
Conditions met - transferred to revenue	(243 058 712)	(365 991 365)
Paid back to National Treasury	(55 985 461)	(39 666 001)
	89 374 288	**55 985 461**

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

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

32. Government grants and subsidies (continued)

32.2 Neighbourhood development partnership grant

Balance unspent at beginning of year	6 415 024	7 242 025
Current-year receipts	42 813 000	45 000 000
Conditions met - transferred to revenue	(20 557 078)	(38 585 001)
Paid back to National Treasury	(6 415 024)	(7 242 000)
	22 255 922	**6 415 024**

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

The grant was used to fund projects in order to provide community infrastructure to improve quality of life of residents in townships.

32.3 Local government - Housing accreditation grant

Balance unspent at beginning of year	508 262	480 840
Current-year receipts	25 751	27 422
	534 013	**508 262**

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

The grant was used to fund the housing accreditation process.

32.4 Municipal infrastructure grant

Balance unspent at beginning of year	25 334 371	10 363 501
Current-year receipts	-	330 877 000
Conditions met - transferred to revenue	-	(305 543 130)
Paid back to National Treasury	(25 334 371)	(10 363 000)
	-	**25 334 371**

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

This grant was phased out during the financial year 2019/20 and upgraded to Integrated Urban Development Settlement.

32.5 Limpopo Provincial Government - Dept Local government and housing

Balance unspent at beginning of year	2 949 710	2 949 710

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

The grant was utilised in the planning phase of the Convention Centre.

32.6 Capricorn District Municipality

Balance unspent at beginning of year	17 589	900 000
Current-year receipts	-	(882 411)
	17 589	**17 589**

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

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

32. Government grants and subsidies (continued)

32.7 Energy efficiency and demand side management grant

Balance unspent at beginning of year	4 191 084	-
Current-year receipts	8 000 000	8 000 000
Conditions met - transferred to revenue	(7 346 109)	(3 808 916)
Paid back to National Treasury	(4 191 084)	-
	653 891	**4 191 084**

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

The grant was used to reduce electricity consumption and improve energy efficiency.

32.8 Equitable Share

Current-year receipts	922 585 688	831 436 000
Conditions met - transferred to revenue	(922 585 688)	(831 436 000)
	-	**-**

This grant is an unconditional grant and is partially utilized for the provision of indigent support through free basic services.

32.9 Finance Management Grant

Current-year receipts	2 500 000	3 048 000
Conditions met - transferred to revenue	(2 500 000)	(3 048 000)
	-	**-**

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

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003.

32.10 Municipal Systems Improvement grant

Balance unspent at beginning of year	376 454	-
Current-year receipts	-	1 055 000
Conditions met - transferred to revenue	-	(678 546)
Paid back to National Treasury	(376 454)	-
	-	**376 454**

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

The purpose of the grant is for institutional systems.

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

32. Government grants and subsidies (continued)

32.11 Water Services Infrastructure Grant

Balance unspent at beginning of year	3 796	-
Current-year receipts	96 650 000	90 000 000
Conditions met - transferred to revenue	(88 586 510)	(89 996 204)
	8 067 286	**3 796**

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

Facilitate the planning and implementation of various water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in the rural municipalities.

32.12 Expanded Public Works Programme Integrated Grant

Current-year receipts	4 201 000	5 742 000
Conditions met - transferred to revenue	(4 201 000)	(5 742 000)
	-	**-**

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

The grant was used to fund projects in order to maximise job creation and skills development.

32.13 Integrated National Electrification Programme

Balance unspent at beginning of year	21 125 511	-
Current-year receipts	38 118 000	38 957 000
Conditions met - transferred to revenue	(30 780 229)	(17 831 489)
Paid back to National Treasury	(21 125 511)	-
	7 337 771	**21 125 511**

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

The grant was used to fund projects to address electrification backlogs in rural and urban areas.

32.14 Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	333 783	-
Current-year receipts	630 998 000	370 505 000
Conditions met - transferred to revenue	(614 271 162)	(370 171 217)
Paid back to National Treasury	(333 784)	-
	16 726 837	**333 783**

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

The grant was used to fund projects in order to provide Bulk infrastructure to improve quality of life of residents.

32.15 Integrated Urban Development grant

Current-year receipts	378 290 000	-
Conditions met - transferred to revenue	(378 290 000)	-
	-	**-**

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

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

32. Government grants and subsidies (continued)

The grant was used to fund basic infrastructure for rural and urban areas for water, sanitation, roads and waste management.

32.16 Municipal Disaster Grant

Current-year receipts	596 000	-
Conditions met - transferred to revenue	(596 000)	-
	-	-

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

This grant was utilised to susidise expenses under disaster management - COVID-19.

32.17 Infrastructure Skills Development Grant

Current-year receipts	5 111 000	6 500 000
Conditions met - transferred to revenue	(5 111 000)	(6 500 000)
	-	-

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

The grant was paid over to Lepelle Northern Water Board accordance a three party agreement with National Treasury.

33. Public contributions and donations

Public contributions and donations	1 043 000	561 287
CDM - Water supply project	-	29 842 060
	1 043 000	**30 403 347**

34. Fines, Penalties and Forfeits

Illegal Connections Fines	1 940 074	(33 583)
Law Enforcement Fines	104 346	134 726
Overdue Books Fines	10 479	29 202
Pound Fees Fines	2 973	167 110
Municipal Traffic Fines	29 505 597	30 929 782
Retentions Forfeits	20 970	70 884
	31 584 439	**31 298 121**

	2020 R	2019 R

35. Employee related costs

Basic salaries and wages	509 036 346	484 488 743
Bonus	39 532 022	37 745 150
Medical aid - company contributions	35 738 414	32 216 191
UIF	3 817 190	3 468 631
Leave pay provision charge	57 332 191	18 632 514
Defined contribution plans	95 464 778	88 153 208
Travel, motor car, accommodation, subsistence and other allowances	64 556 502	62 765 460
Overtime payments	95 045 986	75 069 851
Long-service awards	55 957	(1)
Housing benefits and allowances	9 924 591	8 811 555
Interest cost - employee benefit plans	23 948 000	20 890 000
Actuarial gain/losses - employee benefit plans	(23 777 576)	11 055 168
Current cost - employee benefit plans	12 097 000	11 120 000
Bargaining council levy	210 622	191 240
	922 982 023	**854 607 710**

Remuneration of Municipal Manager

The Municipal Manager was appointed in May 2017.

Annual remuneration	1 523 145	1 524 940
Housing allowance	278 507	278 507
Motor car allowance	267 885	267 885
Council contributions	275 683	273 889
	2 345 220	**2 345 221**

Remuneration of Chief Finance Officer

Annual remuneration	1 121 983	1 127 318
Motor car allowance	130 000	146 829
Council contributions	49 650	44 315
Housing allowance	574 543	557 714
	1 876 176	**1 876 176**

Director Planning and Economic Development

Annual remuneration	1 216 323	1 221 127
Motor car allowance	225 141	225 141
Council contributions	251 747	246 942
Housing allowance	182 966	182 966
	1 876 177	**1 876 176**

Director Engineering Services

Annual remuneration	-	572 755
Motor car allowance	-	85 686
Council contributions	-	81 870
	-	**740 311**

Director Community Services

Annual remuneration	1 219 515	1 219 514
Motor car allowance	281 426	281 426

	2020 R	2019 R
35. Employee related costs (continued)		
Council contributions	204 412	204 412
Housing allowance	170 823	170 823
	1 876 176	**1 876 175**

Director Corporate and Shared Services

Annual remuneration	1 219 514	1 219 514
Motor car allowance	281 426	281 426
Council contributions	58 070	58 070
Housing allowance	317 166	317 166
	1 876 176	**1 876 176**

Director Community Development

Motor car allowance	-	-
Acting allowance	-	91 362
	-	**91 362**

Director Strategic Planning, Monitoring and Evaluation

Annual remuneration	1 219 515	1 219 514
Motor car allowance	281 426	281 426
Council contribution	204 412	204 412
Housing allowance	170 823	170 823
	1 876 176	**1 876 175**

Director Transportation Services

Annual remuneration	1 219 515	1 213 878
Motor car allowance	281 427	281 427
Council contributions	204 412	210 047
Housing allowance	170 823	170 823
	1 876 177	**1 876 175**

Director Energy services

Annual remuneration	562 853	-
Motor car allowance	140 713	-
Council contribution	102 206	-
Housing allowance	74 155	-
	879 927	**-**

Director Water and Sanitation

Annual remuneration	656 662	-
Motor car allowance	98 000	-
Council contributions	150 689	-
Acting allowance	134 363	-
	1 039 714	**-**

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

36. Remuneration of councillors

Executive Mayor	1 091 397	1 051 128
Mayoral Committee Members	7 047 320	8 549 647
Speaker	881 997	856 342
Councillors	28 671 379	27 498 139
Chief Whip	829 647	-
	38 521 740	**37 955 256**

37. Depreciation and amortisation

Property, plant and equipment	733 506 713	676 847 021

38. Finance costs

Non-current borrowings	69 673 253	72 228 885

39. Bulk purchases

Electricity - Eskom	725 603 106	626 737 676
Water	195 310 364	184 004 164
	920 913 470	**810 741 840**

Distribution losses

Electricity losses

Distribution loss in KWH	103 514 580	62 294 114
Percentage Loss:		
Through distribution	15 %	9 %
Rand value		
Distribution losses	107 822 221	55 249 012

Water losses

Distribution losses	36 722 548	34 862 765
Distribution loss in KL	6 994 771	6 776 956
Percentage Loss:		
Loss through distribution	22 %	18 %

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

40. Contracted services

Administrative and Support Staff	-	296 876
Animal Care	2 240 148	276 770
Burial Services	1 279 246	1 251 936
Call Centre	12 863 909	1 867 109
Cleaning Services	1 221 045	1 468 741
Clearing and Grass Cutting Services	1 818 868	2 382 939
Fire Services	-	7 625
Hygiene Services	1 313 211	711 312
Meter Management	24 144 145	30 409 005
Organic and Building Refuse Removal	-	800 000
Personnel and Labour	33 642 914	27 545 421
Connection/Dis-connection	1 604 821	6 517 518
Refuse Removal	61 009 381	83 856 819
Security Services	46 589 246	43 773 973
Sewerage Services	49 428 686	32 236 815
Translators, Scribes and Editors	28 800	64 125
Transport Services	27 837 304	20 488 657
Drivers Licence Cards	-	2 840
Water Takers	58 442 346	-
Business and Advisory	245 199 153	251 448 869
Infrastructure and Planning	29 224 365	67 870 592
Laboratory Services	25 247 503	16 906 513
Legal Cost	19 821 340	20 729 906
Catering Services	1 862 249	1 302 416
Electrical	32 366 324	16 025 589
Employee Wellness	189 617	301 947
Event Promoters	434 081	108 921
Fire Protection	1 829 888	1 734 638
Gardening Services	2 776 832	2 232 446
Grading of Sport Fields	1 123 597	1 026 811
Maintenance of Buildings and Facilities	25 505 703	29 529 532
Maintenance of Equipment	22 541 988	26 878 316
Maintenance of Unspecified Assets	22 974 296	31 852 698
Management of Informal Settlements	451 096	433 492
Transportation	4 916 836	5 996 205
	759 928 938	**728 337 372**

41. Transfers and subsidies

Other subsidies		
SPCA	480 000	480 000
Taxi Association	155 125 000	-
Polokwane Housing Association	24 245 619	24 184 032
	179 850 619	**24 664 032**

42. Inventory consumed

Standard rated	3 874 999	8 106 839
Zero rated	355 851	608 826
Materials and supplies	42 833 010	114 799 605
	47 063 860	**123 515 270**

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

43. General expenses

Advertising	15 546 165	21 144 635
Auditors remuneration	14 340 032	9 960 322
Bank charges	4 022 157	4 871 370
Entertainment	-	274 142
Hire	3 212 304	3 298 204
Insurance	21 848 494	14 108 884
IT expenses	8 629 076	9 344 557
Levies	7 805 755	6 663 383
Fuel and oil	35 054 789	36 373 794
Postage and courier	3 910 572	6 475 265
Printing and stationery	-	73 015
Protective clothing	24 883 941	16 336 972
Subscriptions and membership fees	9 116 259	7 837 097
Telephone and fax	8 574 088	12 480 379
Travel - local	1 006 733	2 316 428
Title deed search fees	23 604	43 266
Municipal services	17 859 865	14 460 737
Management fees	-	4 023 756
Other expenses	32 349 303	76 818 203
	208 183 137	**246 904 409**

44. Fair value adjustments

Investment property (Fair value model)	378 138 926	(411 444)
Biological assets - (Fair value model)	(282 046)	(7 100 742)
Investment property	-	25 296 748
Other financial assets		
• Investments (Designated as at FV through P&L	(3 469 804)	(2 461 186)
	374 387 076	**15 323 376**

45. Impairment loss

Impairments		
Property, plant and equipment	696 417	3 540 467

46. Auditors' remuneration

Fees	14 340 032	9 960 322

47. Gain/(Loss) on disposal of assets and liabilities

Disposal of fixed and intangible - Infrastructure	(1 242 318)	(6 543 458)
Disposal of fixed and intangible - Leased assets	-	(88 839)
Disposal of fixed and intangible - Community assets	1 896	(41 949)
Disposal of fixed and intangible - Land	-	26 200
Disposal of fixed and intangible - Investment property	(192 484)	(1 958 550)
	(1 432 906)	**(8 606 596)**

48. Inventory losses/write-downs

Inventory losses	-	42 214

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

49. Cash generated from operations

Surplus	857 704 532	192 405 537
Adjustments for:		
Depreciation and amortisation	733 506 713	676 847 021
Gain on sale of assets and liabilities	1 432 906	8 606 596
Donated assets	-	(29 842 060)
Fair value adjustments	(374 387 076)	(15 323 376)
Impairment deficit	696 417	3 540 467
Bad debts written off	159 919 458	216 987 976
Movements in retirement benefit assets and liabilities	3 429 000	30 359 000
Movements in provisions	167 538 599	46 752 667
Inventory losses/write downs	-	6 192 159
Interest income	(19 871 721)	(13 123 882)
Finance cost	69 673 253	72 228 885
Changes in working capital:		
Inventories	(11 587 684)	14 878 554
Other receivables from exchange transactions	(10 341 871)	6 849 862
Consumer debtors	(141 453 339)	(122 336 032)
Other receivables from non-exchange transactions	(102 262 339)	(90 461 249)
Prepayments	5 977 817	(31 224 132)
Unidentified receipts	19 547 653	24 983 738
Payments received in advance	13 447 355	4 120 312
Deferred income	(13 602 904)	45 042 166
VAT receivable	(14 672 357)	13 956 625
Payables from exchange transactions	20 832 023	268 449 868
Unspent conditional grants and receipts	30 676 262	(36 230 858)
Consumer deposits	(1 902 172)	694 530
Interest received	19 871 721	13 123 882
Finance cost paid	(69 673 253)	(72 228 885)
	1 344 498 993	**1 235 249 371**

	2020 R	2019 R

50. Prior period errors

Statement of Financial Position

Assets

Current assets

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Cash and cash equivalents	128 045 871	3 214 261	-	131 260 132
Receivables from exchange transactions	291 303 193	(161 464 248)	-	129 838 945
Receivables from non exchange transactions	388 505 989	4 170 490	-	392 676 479
Inventories	149 654 529	(6 391 139)	-	143 263 390
VAT receivable	33 379 556	22 634 904	-	56 014 460
	990 889 138	**(137 835 732)**	**-**	**853 053 406**

Non current assets

Investment property	749 428 236	(12 166 975)	-	737 261 261
Property, Plant & Equipment	13 094 801 866	(7 792 128)	-	13 087 009 738
	13 844 230 102	**(19 959 103)**	**-**	**13 824 270 999**

Liabilities

Current Liabilities

	2020 R	2019 R

50. Prior period errors (continued)

Payables from exchange transactions	952 791 871	(2 202 888)	-	950 588 983
Finance lease obligation	10 254 164	(994 743)	-	9 259 421
	963 046 035	**(3 197 631)**	**-**	**959 848 404**

Non current liabilities

Finance lease obligation	24 508 643	(12 351 178)	-	12 157 465

Net Assets

Accumulated surplus	5 495 153 507	(142 246 027)	-	5 352 907 480

Cash and cash equivalents

Balance as previously reported	128 045 871
Correction of invalid long outstanding bank reconciling items from previous financial years	2 003 953
Agency fees receipted in the incorrect accounting period	1 170 233
Licences and permits receipted in the incorrect accounting period	40 075
	131 260 132

Receivables from exchange transactions

Balance as previously reported	291 303 193
Prior period errors relating to Mankweng consumers	(118 528 561)
Prior period errors relating to 15 day split	12 214 352
Prior period error relating to estimates	(20 854 676)
Prior period errors rectified	(34 295 363)
	129 838 945

Receivables from non exchange transactions

Balance as previously reported	388 505 989
A property rates receivable transaction was erroneously passed against property revenue in the prior year	4 170 490
	392 676 479

Inventories

Balance as previously reported	149 654 529
Reversal of entries captured twice in the prior year	(6 149 945)
Aganang inventory issues erroneously not expensed	(241 194)
	143 263 390

VAT receivable

Balance as previously reported	33 379 556
VAT effect on reversal of invoices erroneously captured twice	(260 082)
Correction of SARS penalties and interest that was incorrectly levied in previous financial years	11 718 067
VAT effect on correction of revenue relating to Mankweng consumers	11 176 919
	56 014 460

Investment property

	2020 R	2019 R
50. Prior period errors (continued)		
Balance as previously reported	-	749 428 236
Derecognition of property that was already transferred out in the prior year was erroneously omitted	-	(12 166 975)
	-	**737 261 261**

Property, Plant and Equipment

	2020 R	2019 R
Balance as previously reported		13 094 801 866
Correction of depreciation relating to infrastructure assets		109 582 168
Correction of depreciation relating to community assets		10 465 956
Correction of depreciation relating to work in progress - infrastructure assets		(131 667 142)
Correction of invoices recorded twice - work in progress		(1 059 737)
Operating expenditure was erroneously capitalised in the prior year		(26 240 991)
Recognition of delayed projects that had to be capitalised as well as CDM donated assets that were erroneously ommitted in the prior year		31 127 617
		13 087 009 737

Payables from exchange transactions

	2020 R	2019 R
Balance as previously reported		952 791 871
Reversal of invoices erroneously duplicated		(2 000 256)
Write off of previous years retentions		(202 632)
		950 588 983

Finance lease obligation - current portion

	2020 R	2019 R
Balance as previously reported		10 254 164
Prior year calculation errors on schedules		(994 743)
		9 259 421

Finance lease obligation - non current portion

	2020 R	2019 R
Balance as previously reported		24 508 643
Prior year calculation errors on schedules		(12 351 178)
		12 157 465

Accumulated surplus

	2020 R	2019 R
Balance as previously reported		5 495 153 507
Correction of long outstanding invalid reconciling bank items prior to the 2018-2019 financial year		2 003 953
Correction of SARS penalties relating to periods prior to 2018-2019 financial year		11 718 067
Revenue errors relating to 2017-18 financial year		(10 491 603)
Revenue errors emanating from Mankweng consumers for periods prior to the 2019 financial year		(75 135 492)
Errors affecting profit or loss from investment property adjustments		(12 166 975)
Errors affecting profit or loss from property, plant and equipment		7 075 801
Retentions forfeited relating to 2017-2018 financial year		131 748
Prior period error: Service charges		(64 660 234)
Prior period error: Agency fees		1 170 233
Prior period error: Licences and permits		40 075
Prior period error: Property rates		4 170 490
Prior period error: retentions forfeited		70 884
Prior period error: Contracted services		13 969 838
Prior period error: Inventory consumed		(241 194)
Prior period error: Inventory losses/write-downs		(6 149 945)
Prior period error: General expenses		56 520
Prior period error: Depreciation on Infrastructure and community assets		(11 438 197)
Prior period error: Gain/loss on disposal of assets and liablities		(1 958 550)
Prior period error: Fair value adjustments		(411 444)

	2020 R	2019 R

50. Prior period errors (continued)

		5 352 907 482

Statement of Financial Performance

Revenue

Revenue from exchange transactions

50. Prior period errors (continued)

	Audited	Prior year adjustments	Reclassification adjustments	Restated
Service charges	1 386 291 118	(64 660 234)	-	1 321 630 884
Licences and permits	7 634 137	40 075	-	7 674 212
Agency fees	23 975 254	1 170 233	-	25 145 487
Total revenue from exchange trasactions	**1 417 900 509**	**(63 449 926)**	**-**	**1 354 450 583**
Revenue from non exchange transactions				
Property rates	416 142 286	4 170 490	-	420 312 776
Fines, penalties and forfeits	31 227 237	70 884	-	31 298 121
Total revenue from non exchange transactions	**447 369 523**	**4 241 374**	**-**	**451 610 897**
Expenditure				
Depreciation and amortisation	(677 042 225)	195 204	-	(676 847 021)
Contracted services	(742 307 211)	13 969 838	-	(728 337 373)
General expenses	(246 960 929)	56 520	-	(246 904 409)
Inventory consumed	(123 274 076)	(241 194)	-	(123 515 270)
	(1 789 584 441)	**13 980 368**	**-**	**(1 775 604 073)**
(Loss)/gain on disposal of assets and liabilities	(6 648 046)	(1 958 550)	-	(8 606 596)
Fair value adjustments	15 734 820	(411 444)	-	15 323 376
Inventory losses/write-downs	(42 214)	(6 149 945)	-	(6 192 159)
	9 044 560	**(8 519 939)**	**-**	**524 621**

Service charges	
Balance as previously reported	1 386 291 118
Prior period error rectified	(64 660 234)
	1 321 630 884

Licences and permits	
Balance as previously reported	7 634 137
Correction of licence fees, recognised in the incorrect period	40 075
	7 674 212

Agency fees	
Balance as previously reported	23 975 254
Correction of agency fees, recognised in the incorrect period	1 170 233
	25 145 487

Property rates	
Balance as previously reported	416 142 286
Correction of property rates receivable journal incorrectly passed against property revenue in the prior year	4 170 490
	420 312 776

Fines and penalties	
Balance as previously reported	31 227 237

Notes to the Audited Annual Financial Statements

	2020 R	2019 R
50. Prior period errors (continued)		
Retentions forfeited not previously recognised		70 884
		31 298 121

Depreciation and amortisation		
Balance as previously reported		(677 042 225)
Depreciation correction after correction of property, plant and equipment amount		195 204
		(676 847 021)

Contracted services		
Balance as previously reported		(742 307 211)
Expense portion relating to the reversal of invoices erroneously duplicated		623 917
Effect on contracted services though finance lease correction		13 345 921
		(728 337 373)

Inventory consumed		
Balance as previously reported		(123 274 076)
Aganang inventory issued not expensed		(241 194)
		(123 515 270)

General expenses		
Balance as previously reported		(246 960 929)
Expense portion relating to the reversal of invoices erroneously duplicated		56 520
		(246 904 409)

(Loss)/gain on disposal of assets and liabilities		
Balance as previously reported		(6 648 046)
Recognition of losses relating to property, plant and equipment that was erroneously ommitted in the prior year		(1 958 550)
		(8 606 596)

Fair value adjustments		
Balance as previously reported		15 734 820
Reversal of fair value adjustments passed in the prior year that related to assets that shoud have been derecognised		(411 444)
		15 323 376

Inventory losses/write-downs		
Balance as previously reported		(42 214)
Reversal of entries captured twice in the prior year		(6 149 945)
		(6 192 159)

Notes to the Financial Statements

Note 36 - Long service awards		
Balance as previously reported		5 163 999
Amount that should have been recognised as current service cost		(5 164 000)
		(1)

Note 36 - Current cost - employee benefit plans		
Balance as previously reported		5 956 000
Amount that was incorrectly recorded as leave awards instead of current service cost		5 164 000

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

50. Prior period errors (continued)

		11 120 000

Commitments

The amounts within commitments were restated. The commitment amount under "infrastructure" was changed to R860 775 837 (previously R987 815 541) and "other" was changed to R132 113 484 (previously R5 073 780). The restatements however, had no effect on the total commitments amount.

51. Additional disclosure in terms of Municipal Finance Management Act

	2020 R	2019 R
Contributions to SALGA		
Current year subscription / fee	9 107 719	7 780 110
Amount paid - current year	(9 107 719)	(7 780 110)
	-	-
Audit fees		
Current year subscription / fee	14 340 032	12 763 678
Amount paid - current year	(14 340 032)	(12 763 678)
	-	-
PAYE and UIF		
Current year subscription / fee	148 276 610	135 408 623
Amount paid - current year	(148 276 610)	(135 408 623)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	200 992 311	185 177 700
Amount paid - current year	(200 992 311)	(185 177 700)
	-	-
VAT		
VAT receivable	70 686 817	56 014 460

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

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

	2020 R	2019 R

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
C Coetzee	-	14	14
TSP Mojapelo	2 136	7 623	9 759
MJ Ralefatane	2 979	923	3 902
MF Ramaphakela	2 985	1 072	4 057
	8 100	**9 632**	**17 732**

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TSP Mojapelo	1 673	10 452	12 125
MF Ramaphakela	4 416	5 157	9 573
	6 089	**15 609**	**21 698**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2020	Highest outstanding amount	Aging (in days)
Councillor A	14	90
TSP Mojapelo	8 087	90
MF Ramaphakela	1 693	90
MJ Ramaphakela	923	90
C Coetzee	14	90
	10 731	**-**

30 June 2019	Highest outstanding amount	Aging (in days)
TSP Mojapelo	12 125	90
MF Ramaphakela	9 574	90
	21 699	**-**

52. Commitments

Authorised capital expenditure

	2020 R	2019 R
Capital commitments - approved and contracted for		
• Infrastructure	1 181 175 988	860 775 837
• Community	25 314 198	42 016 895
• Other	66 568 800	132 113 484
	1 273 058 986	**1 034 906 216**
Total capital commitments		
Already contracted for but not provided for	1 273 058 986	1 034 906 216

	2020 R	2019 R

53. Contingencies

Contingent liabilities	153 531 624	153 341 727

The above legal matters are ongoing and have not yet been finalised.

54. Unauthorised expenditure

Opening balance as previously reported	511 542 519	485 512 864
Opening balance as restated	**511 542 519**	**485 512 864**
Add: unauthorised expenditure - current year	462 089 517	437 080 272
Less: authorised by council	(437 080 272)	(411 050 617)
Closing balance	**536 551 764**	**511 542 519**

Current year unauthorised expenditure analysed as follows: non-cash

Depreciation and amortisation	449 879 394	437 080 272
Employee related cost - leave provision	12 210 123	-
	462 089 517	**437 080 272**

Current year unauthorised expenditure analysed as follows: cash

Council approved unauthorized expenditure of R489 207 492 based on preaudit outcome. The amount of unauthorized expenditure for the 2018/19 financial year declined to R437 080 272 as a result of audit adjustments. Consequently,R 437 080 272 is disclosed as amount authorised by council instead of R489 207 492 that is in the council resolution.

55. Fruitless and wasteful expenditure

Opening balance as previously reported	8 629	8 629
Opening balance as restated	**8 629**	**8 629**
Less: Amount written off by council	(8 629)	-
Closing balance	**-**	**8 629**

56. Irregular expenditure

Opening balance as previously reported	566 049 457	562 536 962
Opening balance as restated	**566 049 457**	**562 536 962**
Add: Irregular Expenditure - current	1 459 413	3 512 495
Less: Amount written off by council	(89 400 000)	-
Closing balance	**478 108 870**	**566 049 457**

Other

Included in the opening balance is an amount of R7 101 865 from the former Aganang municipality.

57. Risk management

Fair value

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

57. Risk management (continued)

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair value hierarchy. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments and have been defined as follows:

Level 1
Fair values are bases on quoted market prices in active markets for an identical instrument.

Level 2
Fair values are calculated using valuation techniques based on observable inputs. This category includes instruments valued using quoted market prices in active markets for similar instruments.

Level 3
Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

	2020 R	2019 R
Level 1		
Cash and cash equivalents	420 294 249	131 260 132
Level 2		
Investments	-	57 829 129
Level 3		
Investments	1 000	1 000
Total		
Investments	1 000	57 830 129
Cash and cash equivalents	420 294 249	131 260 132
	420 295 249	**189 090 261**

Financial risk management

	2020 R	2019 R

57. Risk management (continued)

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

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

	2020	2019
Borrowings - Up to 1 year		
Capital repayments	50 541 553	56 527 538
Interest	48 972 717	55 124 086
	99 514 270	**111 651 624**
Borrowings - between 1 and 5 years		
Capital repayments	169 965 388	195 318 236
Interest	213 987 222	223 040 127
	383 952 610	**418 358 363**
Borrowings - greater than 5 years		
Capital repayments	142 118 638	167 307 343
Interest	190 414 895	230 334 707
	332 533 533	**397 642 050**
Borrowings - Total		
Capital repayments	362 625 579	419 153 117
Interest	453 374 834	508 498 920
	816 000 413	**927 652 037**
Trade and other payables - up to 1 year		
Trade and other payables	1 113 398 948	950 588 984
Finance lease - up to 1 year - capital repayments		
Vehicles	2 479 275	2 064 757
Cellphones	1 674 451	4 336 304
Photocopiers	1 017 816	2 858 359
	5 171 542	**9 259 420**
Finance lease - up to 1 year - Interest		
Vehicles	4 219 861	4 679 125
Cellphones	81 781	520 910
Photocopiers	21 293	258 965
	4 322 935	**5 459 000**
Finance lease - between 1 and 5 years - capital repayments		
Vehicles	7 003 786	9 589 613
Cellphones	88 731	1 401 995
Photocopiers	-	1 165 858

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

57. Risk management (continued)

	2020 R	2019 R
	7 092 517	**12 157 466**
Finance lease - between 1 and 5 years - interest		
Vehicles	6 952 749	11 172 610
Cellphones	3 169	84 950
Photocopiers	-	21 292
	6 955 918	**11 278 852**
Finance lease - Total		
Capital repayments	12 264 058	21 416 887
Interest	11 278 852	16 737 852
	23 542 910	**38 154 739**

Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from investments, loans, receivables and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 June 2020 is as follows:

Financial instrument	2020	2019
Investment in financial institutions	-	57 829 129
Cash and cash equivalents	420 294 249	131 260 132
Trade and other receivables	657 331 348	532 698 160

Investments; and cash and cash equivalents:
The Municipality limits its exposure to credit risk by investing only with reputable financial institutions that have a sound credit rating and within guidelines set in accordance with Councils approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

Receivables
Receivables are amounts owing by consumers and are presented net of impairment losses. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Deposits are required for service connections serving as a guarantee. Policies and processes are in place to manage risk.
Refer to Note 5,6 and 7 for additional information relating to the analysis of receivables.

Notes to the Audited Annual Financial Statements

	2020 R	2019 R

58. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Ultimate controlling entity	Polokwane Local Municipality
Controlling entity	Polokwane Local Municipality
Controlled entities	Polokwane Housing Association. Refer to related party transactions note below as well as note 15
Members of key management	No other payments are paid outside the contractual employment payments from employment. Refer to Note 36 for remuneration

Related party balances

	2020 R	2019 R
Commitments with related parties		
Polokwane Housing Association (Social Housing Project)	79 000 000	94 000 000

The commitment is not secured.

No guarantees were given or received.

There were no loans given or taken from Polokwane Housing Assocation during the year.

Related party transactions

Compensation to councillors - Payments to councillors are for allowances as gazetted. No other payments are made to councillors. Refer to Note 37 for remuneration of councillors.

Controlled entities - the municipality has exempted PHA from paying rates though utilities are still payable.

	2020 R	2019 R
Polokwane Housing Association		
Operational grant	24 725 618	24 184 032
Accounting fees paid on behalf of PHA	878 000	480 000
	25 603 618	**24 664 032**

58. Related parties (continued)

Remuneration of management

Management class: Councillors/mayoral committee members

2020

Name	Basic salary	Travel	Medical aid allowance	Pension contribution	Data card	Cellphone	Total
Executive mayor	731 796	120 000	85 432	109 769	3 600	40 800	1 091 397
Speaker	546 259	209 399	-	81 939	3 600	40 800	881 997
Chief Whip	484 465	196 312	31 800	72 670	3 600	40 800	829 647
Mayoral committee members	4 283 351	1 500 662	161 387	641 699	37 315	422 906	7 047 320
Councillors	16 510 403	6 160 351	348 106	2 453 941	275 400	3 332 515	29 080 716
	22 556 274	**8 186 724**	**626 725**	**3 360 018**	**323 515**	**3 877 821**	**38 931 077**

2019

Name	Basic salary	Travel	Medical aid allowance	Pension contribution	Data card	Cellphone	Total
Executive mayor	706 355	120 000	74 420	105 953	3 600	40 800	1 051 128
Speaker	641 971	67 115	-	96 296	3 600	40 800	849 782
Chief Whip	468 006	188 761	28 077	70 201	3 600	40 800	799 445
Mayoral committee members	4 563 399	1 508 091	111 301	683 876	41 827	474 042	7 382 536
Councillors	15 670 038	5 801 877	249 205	2 339 718	268 500	3 043 000	27 372 338
Chief	56 684	-	-	-	-	248 200	304 884
	22 106 453	**7 685 844**	**463 003**	**3 296 044**	**321 127**	**3 887 642**	**37 760 113**

Notes to the Audited Annual Financial Statements

	2020	2019
	R	R

59. Going concern

The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the virus on the operations and measures taken by various governments to contain the virus have negatively affected the group's results in the reporting period. The currently known impacts of COVID-19 on the group are:

- A decline in service charge revenues which resulted in a 13% variance behind budgeted projections.

- A delay in certain capital projects from been implemented

- Unemployment and a drop in salaries within the city had an impact on the collection rates for March, April and May which reduced to an average of 72% during this period as opposed to a 87% collection pre lock down.

Notwithstanding the impact realized above, **no material uncertainty exits** that could otherwise cast significant doubt upon the group's ability to continue as a going concern and therefore the group will realize its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

Management assessment is based on the following key indicators:

- National Treasury has assessed our budget as funded over the MTEF period;

- Cash collections recorded significant improvements since the hard restrictions were lifted around June 2020 which saw average collections rates of just above 100% from June 2020 to the first quarter of the 2020/21 financial year;

- No defaults in our loan book and a major loan taken in 2010 expired in June 2020 with no other new long term loans anticipated in the long term.

- Cost containment measures such as the decrease in contracted services, purchase of water tankers and the installation of pre-paid meters will have a significantly favourable impact on the cash flows of the municipality in the short term.

- Effective credit control and the establishment of revenue protection unit have further proven to have a positive impact on our revenue streams

- Certain resilience is created in the city's economy due to a major contribution of community services (provincial state institutions head quartered in the city) to the local GDP.

Management has therefore determined that the actions that it has taken are sufficient to mitigate the uncertainty and has therefore prepared the financial reporting on a going concern basis.

However, if the national government's economy recovery plans prove to be ineffective (realization of systematic risks) in the long term and the impact thereof is realized into the local economy then it will be necessary to re-assess our budget assumptions in particular our revenue projections and planned expenditures.

60. Events after the reporting date

Unspent grants - The rollover of unspent grants to the amount of R100.2 million was approved by National Treasury. This amount is in respect of projects that had not yet commenced due to National lockdown. The balance of R40 million that remains unapproved will not cause any financial implication for the municipality as all unspent grants are cash backed.

61. Budget differences

Material differences between budget and actual amounts

Notes to the Audited Annual Financial Statements

61. Budget differences (continued)

N1 - Service charges: Service charges have four components, the variance which are explained separately below:
1. Services charges water - The underperformance is attributable to shortage and unauthorized connection of water and faulty meters.
2. Service charges refuse - Refuse revenue underperformance is attributable to over projection on anticipated growth and will require tariff review or zero-based budgeting
3. Service charges sanitation - The underperformance is attributable to possible over projection of growth affected by moratorium on water.
4. Service charges electricity - The underperformance is attributable to decrease in electricity usage as a results of the use of alternative energy, loadshedding and credit control and less commercial usage due to lockdown.

N2 - Rental of facilities: The variance is due to restriction of usage of rental facilities due to lockdown & Covid 19 restrictions

N3 - Interest earned on outstanding debtors: The additional amount above the budget due to an increase in levying of interest on long overdue accounts possibly because customers were affected by government decision to impose lockdown which resulted in closing down the economy. Job losses, scaling down of business operations.

N4 - Agency fees: The variance is due to extension of renewal dates due to lockdown & Covid 19 restrictions. The coronavirus lockdown made it almost impossible for motorists to renew documentation as licensing centres remained closed for weeks and strict social distancing rules were put in place

N5 - Licences and permits: The variance is due to restriction of closure of licensing facilities due to lockdown & Covid 19 restrictions. All motor vehicle license discs, temporary permits and roadworthy certificates that expired between 26 March 2020 up to and including 31 May 2020 are deemed to be valid and their validity period is extended for a further grace period ending on 31 August 2020.

N6 - Interest earned - investments: The money invested in the grant account did not yield sufficient interest due to the decision by the SARB to reduce the REPO rate which has a direct impact on the intest earned.

N7 - Fines, penalties and forfeits: Over performance attributable to reconciliation, possible increase on services and fines issued.

N8 - As the variance is below 10%, the variance is regarded as immaterial and no explanation is provided.

N9 - Public contributions and donations; Gain/loss on disposal of assets and liabilities; Fair value adjustments: The variance for these line items reflect a 100% variance as the budget for these line items were budgeted for under "other revenue".

N10 - Other revenue: Variance is attributable to fair value adjustments due to revaluation on infrastructure assets.

N11 - Employee related costs: Immaterial - Long term provision has increased due to the increased acturial valuation loss as a result of less employees taking leave during the year due to Lockdown.

N12 - Depreciation and amortisation: Due to re-assessment of useful life and revaluation of infrastructure assets.

N13 - Inventory consumed: Less stores requisitions as a result of the reduced activities emanating from the national lockdowns due to the Pandemic Covid 19.

N14 - Contracted services: Roads civil expenditure has been capitalized. Underperformance on transport services, sewerage services, legal services and electrical services due to lockdown restrictions.

N15 - Transfers and subsidies: This is due to the transfer of compensation of PTNG expenditure from capital budget to operational budget as well as movement of transfers made to PHA which were captured on contracted services.

N16 - General expenses: Corporate Municipal activities, training, subsistence and travel underperformed as a result of the national lockdowns due to the Pandemic Covid 19.

N17 - Impairment losses: The variance for impairment loss reflect a 100% variance as the budget for this line items were budgeted for under "depreciation and amortisation".

Notes to the Audited Annual Financial Statements

61. Budget differences (continued)

62. Bad debts

Reconciliation of bad debts expense		
Contributions to provisions for consumer debtors	92 493 899	101 275 649
Contributions to provisions for traffic fines	7 165 401	(81 512)
Traffic fines debtors written off	-	29 541 152
Surcharges written off	-	80 949 535
Other write offs	60 260 158	5 303 150
	159 919 458	**216 987 974**

63. Transfer of functions between entities not under common control

Transfer of water infrastructure assets from Capricorn District Municipality

Additional information

Transfer of functions between entities not under common control occuring during the current reporting period.

Entities involved in the transfer of functions were:
- Polokwane Local Municipality
- Aganang Local Municipality

The transfer was due to the dissolution of Aganang Local Municipality by the Municipal Demarcation Board.
The transfer of function took place during the 2017 financial year.
The transfer was finalized on Wednesday 10 August 2016. The below indicated assets were ommited (refer to Prior period error note).
78% of remaining funds were distributed to Polokwane Municipality.

The follwing components reflect the transfer of functions at their fair values	
Water infrastructure assets	64 507 769

64. Deviation from supply chain management regulations

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

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

Prescribed procurement processes were not followed but was approved by the Municipal Manager in terms of delegated powers and in accordance with Supply Chain Management Regulations and Policy. Valid reasons for deviations were recorded in all instances.

Deviations rand value	5 432 834	10 188 415

* See Note 50