Thabatshweu

HOUSING COMPANY (PTY) LTD

t/a POLOKWANE HOUSING ASSOCIATION

"A Promise Delivered"

Thabatshweu Housing Association (Pty) Ltd
(Registration number Polokwane Housing Association)
Trading as Polokwane Housing Association
Financial statements
for the year ended 30 June 2018

General Information

Legal form of entity	Municipal entity
Nature of business and principal activities	Provision of low cost rental housing
Accounting Officers	Mr J.T. Maimela Mrs C. Dibete Mr M.J. Gololo Ms M. Kgosana Ms. S.M. Mashabela Mr S.M. Vilakazi Mr O. Galane
Registered office	35 Landdros Mare Street Polokwane 0700
Controlling entity	Polokwane Local Municipality
Bankers	First National Bank
Auditors	Office of the Auditor General Chartered Accountants (S.A.)
Secretary	Vacant

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

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Director's Report

The accounting officers submit their report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipal entity is engaged in provision of low cost rental housing and operates principally in South Africa.

2. Going concern

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

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Share capital

There were no changes in the authorised or issued share capital of the municipality during the year under review.

5. Secretary

The municipal entity had no secretary during the year.

6. Auditors

Office of the Auditor General will continue in office for the next financial period.

The financial statements set out on pages 3 to 39, which have been prepared on the going concern basis, were approved by the board on 31 August 2018 and were signed on its behalf by:

Chief Executive Officer

Statement of Financial Position as at 30 June 2018

Figures in Rand		Note(s)	2018	2017 Restated*
Assets				
Current Assets				
Receivables from exchange transactions	31.20	5&6	1 455 347	2 188 894
Prepayments	27.20		12 613	48 075
Cash and cash equivalents	32.20	7	2 483 400	1 732 756
			3 951 360	**3 969 725**
Non-Current Assets				
Property, plant and equipment	20.20	3	99 023 094	103 738 502
Intangible assets	23.22	4	100 835	115 333
			99 123 929	**103 853 835**
Total Assets			**103 075 289**	**107 823 560**
Liabilities				
Current Liabilities				
Payables from exchange transactions	51.20	12	1 871 205	2 100 573
Unclaimed receipts	53.20	13	618 748	618 796
Provisions	52.20	11	749 647	772 428
			3 239 600	**3 491 797**
Non-Current Liabilities				
Finance lease obligation	25.29	10	-	12 649
Total Liabilities			**3 239 600**	**3 504 446**
Net Assets			**99 835 689**	**104 319 114**
Share capital	40.20	8	1 000	1 000
Reserves				
Revaluation reserve	40.22	9	75 653 283	75 653 283
Accumulated surplus	40.24		24 181 406	28 664 831
Total Net Assets			**99 835 689**	**104 319 114**

* See Note 27

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment		1 854 872	1 745 672
Interest received		527	442
Administration and management fees received		9 976 580	10 293 230
Other income		295	-
Total revenue from exchange transactions		**11 832 274**	**12 039 344**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates		-	1 165 143
Transfer revenue			
Government grants & subsidies	15	9 000 000	15 020 000
Total revenue from non-exchange transactions		**9 000 000**	**16 185 143**
Total revenue	14	**20 832 274**	**28 224 487**
Expenditure			
Employee related costs	16	(7 817 223)	(7 360 527)
Depreciation and amortisation	17	(4 710 270)	(4 748 108)
Finance costs	18	(89)	(11 033)
Lease rentals on operating lease		(39 716)	-
Debt Impairment	19	(8 691 459)	(9 081 488)
Contracted services	20	(242 177)	(153 211)
Loss on disposal of assets and liabilities		(19 636)	-
General Expenses	21	(3 795 129)	(3 479 708)
Total expenditure		**(25 315 699)**	**(24 834 075)**
(Deficit) surplus for the year		**(4 483 425)**	**3 390 412**

* See Note 27

Statement of Changes in Net Assets

Figures in Rand	Share capital	Revaluation reserve	Accumulated surplus	Total net assets
Balance at 01 July 2016	**1 000**	**75 653 283**	**25 207 940**	**100 862 223**
Changes in net assets				
Prior year error	-	-	66 478	66 478
Net income (losses) recognised directly in net assets	-	-	66 478	66 478
Surplus for the year	-	-	3 390 412	3 390 412
Total recognised income and expenses for the year	-	-	3 456 890	3 456 890
Total changes	-	-	3 456 890	3 456 890
Restated* Balance at 01 July 2017	**1 000**	**75 653 283**	**28 664 831**	**104 319 114**
Changes in net assets				
Surplus for the year	-	-	(4 483 425)	(4 483 425)
Total changes	-	-	(4 483 425)	(4 483 425)
Balance at 30 June 2018	**1 000**	**75 653 283**	**24 181 406**	**99 835 689**
Note(s)	8	9		

* See Note 27

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Cash received from customers		3 909 821	4 925 864
Government grants received		9 000 000	15 020 000
		12 909 821	19 945 864
Payments			
Employee costs		(7 840 000)	(7 168 503)
Suppliers		(4 306 528)	(3 633 734)
		(12 146 528)	(10 802 237)
Net cash flows from operating activities	23	**763 293**	**9 143 627**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	-	(10 999)
Cash flows from financing activities			
Repayment of NHFC Loan		-	(9 385 362)
Finance lease payments		(12 649)	(46 850)
Net cash flows from financing activities		**(12 649)**	**(9 432 213)**
Net increase/(decrease) in cash and cash equivalents		**750 644**	**(299 585)**
Cash and cash equivalents at the beginning of the year		1 732 756	2 032 341
Cash and cash equivalents at the end of the year	7	**2 483 400**	**1 732 756**

* See Note 27

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Administration and management fees	2 021 600	(11 600)	**2 010 000**	1 854 872	**(155 128)**	1
Interest received	800	(80)	**720**	527	**(193)**	
Rental of facilities and equipment	10 518 480	(661 828)	**9 856 652**	9 976 580	**119 928**	1
Other income	-	-	-	295	**295**	
Total revenue from exchange transactions	**12 540 880**	**(673 508)**	**11 867 372**	**11 832 274**	**(35 098)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	5 000 000	4 000 000	**9 000 000**	9 000 000	-	3
Total revenue	**17 540 880**	**3 326 492**	**20 867 372**	**20 832 274**	**(35 098)**	
Expenditure						
Personnel	(6 312 898)	(2 502 051)	**(8 814 949)**	(7 817 223)	**997 726**	4
Depreciation and amortisation	(5 000 000)	-	**(5 000 000)**	(4 710 270)	**289 730**	5
Finance costs	-	-	-	(89)	**(89)**	
Lease rentals on operating lease	(180 000)	60 000	**(120 000)**	(39 716)	**80 284**	
Debt Impairment	(2 000 000)	-	**(2 000 000)**	(8 691 459)	**(6 691 459)**	6
Contracted Services	(800 000)	350 000	**(450 000)**	(242 177)	**207 823**	7
General Expenses	(7 149 724)	1 322 746	**(5 826 978)**	(3 795 129)	**2 031 849**	8
Total expenditure	**(21 442 622)**	**(769 305)**	**(22 211 927)**	**(25 296 063)**	**(3 084 136)**	
Operating deficit	**(3 901 742)**	**2 557 187**	**(1 344 555)**	**(4 463 789)**	**(3 119 234)**	
Loss on disposal of assets and liabilities	-	-	-	(19 636)	**(19 636)**	
Deficit before taxation	**(3 901 742)**	**2 557 187**	**(1 344 555)**	**(4 483 425)**	**(3 138 870)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(3 901 742)**	**2 557 187**	**(1 344 555)**	**(4 483 425)**	**(3 138 870)**	

Accounting Policies

1. Presentation of Financial Statements

The 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 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 financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

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

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

Item	Depreciation method	Average useful life
Land	Non-depreciable	Infinite
Buildings	Straight line	25 years
Furniture and fixtures	Straight line	14 years
Motor vehicles	Straight line	8 years
Office equipment	Straight line	14 years
IT equipment	Straight line	14 years
Leased assets	Straight line	5 years

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

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

The depreciation 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.

Accounting Policies

1.4 Intangible assets

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

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.

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight line	11 years

Accounting Policies

1.5 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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
Cash and cash equivalents	Financial asset measured at fair value
Trade and other receivables	Financial asset measured at amortised 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
Trade and other payables	Financial liability measured at amortised cost

Accounting Policies

1.5 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Accounting Policies

1.5 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.

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Accounting Policies

1.5 Financial instruments (continued)

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.

Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity 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.

Accounting Policies

1.5 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

Accounting Policies

1.6 Leases

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

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

Finance leases - 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 .

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.

Operating leases - lessor

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

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

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

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

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

1.7 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Accounting Policies

1.8 Share capital

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

1.9 Employee benefits

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

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.

1.10 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.10 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.

Contingent assets and contingent liabilities are not recognised.

1.11 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-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.

1.12 Revenue from exchange transactions

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

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

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

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.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

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.

1.13 Revenue from non-exchange transactions

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

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.

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

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

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

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

1.14 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.

Accounting Policies

1.14 Borrowing costs (continued)

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.

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

1.15 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.

1.16 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.

1.17 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.

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.

1.18 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.

1.19 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.

Accounting Policies

1.19 Budget information (continued)

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

The approved budget covers the fiscal period from 2010/04/01 to 2011/03/31.

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

The 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.

1.20 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.

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.

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.

1.21 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 Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's financial statements.

Notes to the Financial Statements

Figures in Rand	2018	2017

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	32 000 000	-	32 000 000	32 000 000	-	32 000 000
Buildings	115 698 180	(48 954 037)	66 744 143	115 698 180	(44 326 109)	71 372 071
Furniture and fixtures	289 185	(204 849)	84 336	323 485	(204 284)	119 201
Motor vehicles	175 542	(175 542)	-	175 542	(169 975)	5 567
Office equipment	192 783	(93 162)	99 621	212 891	(93 047)	119 844
IT equipment	280 156	(185 162)	94 994	280 492	(167 225)	113 267
Leased asset	171 035	(171 035)	-	171 034	(162 482)	8 552
Total	**148 806 881**	**(49 783 787)**	**99 023 094**	**148 861 624**	**(45 123 122)**	**103 738 502**

Reconciliation of property, plant and equipment - 2018

	Opening balance	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Land	32 000 000	-	-	-	32 000 000
Buildings	71 372 071	-	(4 627 928)	-	66 744 143
Furniture and fixtures	119 201	(12 197)	(22 668)	-	84 336
Motor vehicles	5 567	-	(3 011)	(2 556)	-
Office equipment	119 844	(4 743)	(15 480)	-	99 621
IT equipment	113 267	(138)	(18 135)	-	94 994
Other property, plant and equipment	8 552	-	(8 551)	-	1
	103 738 502	**(17 078)**	**(4 695 773)**	**(2 556)**	**99 023 095**

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Land	32 000 000	-	-	32 000 000
Buildings	75 999 998	-	(4 627 927)	71 372 071
Furniture and fixtures	142 814	-	(23 613)	119 201
Motor vehicles	12 123	-	(6 556)	5 567
Office equipment	136 414	-	(16 570)	119 844
IT equipment	122 892	10 999	(20 624)	113 267
Other property, plant and equipment	42 759	-	(34 207)	8 552
	108 457 000	**10 999**	**(4 729 497)**	**103 738 502**

Revaluations

The effective date of the revaluations was Thursday, 30 June 2016. Revaluations were performed by independent valuers, Messers Eli Stroh (MDP PREPII) and S. van der Spek of Eli Stroh (Pty) Ltd. Eli Stroh (Pty) Ltd are not connected to the municipal entity and have recent experience in location and category of the property being valued.Land and buildings are valued once every three years.

Other information

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

Notes to the Financial Statements

Figures in Rand

4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	201 633	(100 798)	100 835	201 633	(86 300)	115 333

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	115 333	(14 498)	100 835

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	133 944	(18 611)	115 333

5. Receivables from exchange transactions

Trade debtors	818 709	1 552 208
Staff debtors	17 890	17 890
Unclaimed receipts	618 748	618 796
	1 455 347	**2 188 894**

Notes to the Financial Statements

Figures in Rand	2018	2017

5. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	25 937 241	16 855 753
Provision for impairment	8 691 459	9 081 488
	34 628 700	**25 937 241**

6. Receivables from exchange reconciliation

Gross balances		
Receivables from exchange transactions	36 084 048	28 126 135
Less: Provision for debt impairment	(34 628 700)	(25 937 241)
	1 455 348	**2 188 894**
Net balance	**1 455 348**	**2 188 894**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

FNB 32 day Notice Account Number 74372485836	1 578 528	1 505 719
FNB Refundable Deposit Account	274	1 228
FNB Operational Account Number 62078322105	904 538	225 749
Petty cash	60	60
	2 483 400	**1 732 756**

8. Share capital

Authorised		
1000 Ordinary shares of R1 each	1 000	1 000
Issued		
1000 Ordinary shares of R1 each	1 000	1 000

9. Revaluation reserve

Opening balance	75 653 283	75 653 283

10. Finance lease obligation

Minimum lease payments due		
- within one year	-	12 469

It is municipal entity's policy to lease printing equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was (2013: 10%).

Interest rates are linked to prime at the contract date. All leases escalate at 10% p.a and include additional charges for contingent rent based on the number of pages printed..

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

Notes to the Financial Statements

Figures in Rand	2018	2017

11. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Reversed during the year	Total
Provision for leave	508 792	28 102	(80 515)	456 379
Provision for bonus	263 636	275 198	(245 566)	293 268
	772 428	**303 300**	**(326 081)**	**749 647**

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reversed during the year	Total
Provision for leave	348 740	266 684	(106 632)	508 792
Provision for bonus	231 664	263 636	(231 664)	263 636
	580 404	**530 320**	**(338 296)**	**772 428**

12. Payables from exchange transactions

	2018	2017
Trade payables	46 667	343 806
Payments received in advanced - contract in process	100 997	76 417
Salary and wage control	12 476	-
Accrued expense	12 021	115 550
Deposits received	1 633 877	1 503 893
Skills Development Levy	65 168	60 908
CoGHSTA unspent grant	(1)	(1)
	1 871 205	**2 100 573**

13. Unclaimed receipts

	2018	2017
Unclaimed receipts	618 748	618 796

14. Revenue

	2018	2017
Rental of facilities and equipment	1 854 872	1 745 672
Interest received	527	442
Administration and management fees received	9 976 580	10 293 230
Other income	295	-
Waiver of liability	-	1 165 143
Government grants & subsidies	9 000 000	15 020 000
	20 832 274	**28 224 487**

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

	2018	2017
Rental of facilities and equipment	1 854 872	1 745 672
Interest received	527	442
Administration and management fees received	9 976 580	10 293 230
Other income	295	-
	11 832 274	**12 039 344**

Notes to the Financial Statements

Figures in Rand	2018	2017

14. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	-	1 165 143
Transfer revenue		
Government grants & subsidies	9 000 000	15 020 000
	9 000 000	**16 185 143**

15. Government grants and subsidies

Operating grants		
Polokwane Local Municipality	9 000 000	15 020 000

16. Employee related costs

Basic	4 886 499	4 393 115
Bonus	275 198	263 638
UIF	34 313	30 409
SDL	53 991	48 920
Leave pay provision charge	28 102	258 655
Travel, motor car, accommodation, subsistence and other allowances	249 900	214 868
Overtime payments	636	2 033
Acting allowances	30 196	70 669
Car allowance	17 097	-
Housing benefits and allowances	108 000	160 272
Provident Fund	343 271	300 605
B.C. Admin Levy	745	745
Directors fees	1 547 678	1 372 156
Medical expenses	241 597	244 442
	7 817 223	**7 360 527**

17. Depreciation and amortisation

Property, plant and equipment	4 695 772	4 729 496
Intangible assets	14 498	18 611
	4 710 270	**4 748 107**

18. Finance costs

Finance cost	89	11 033

19. Debt impairment

Debt impairment	8 691 459	9 081 488

20. Contracted services

Other Contractors	242 177	153 211

Notes to the Financial Statements

Figures in Rand	2018	2017

21. General expenses

Advertising	58 951	46 804
Auditors remuneration	885 925	732 907
Bank charges	29 579	34 226
Computer expenses	25 068	26 083
Legal fees	131 055	75 775
Staff welfare	5 541	22 457
Insurance	185 749	377 594
Conferences and seminars	-	4 080
IT expenses	-	649
Postage and courier	78	-
Printing and stationery	47 229	25 725
Security	1 561 733	1 438 258
Software expenses	85 412	58 659
Protective clothing	21 250	-
Subscriptions and membership fees	44 535	39 634
Telephone and fax	246 605	244 145
Training	87 119	55 383
Travel - local	333 062	189 499
Internal audit fees	43 140	-
Valuation fees	-	22 800
Penalties	-	82 075
Credit checks	2 798	-
Other	-	2 855
Electricity and water	300	100
	3 795 129	**3 479 708**

22. Auditors' remuneration

Auditor General's fees	885 925	732 907

23. Cash generated from operations

(Deficit) surplus	(4 483 425)	3 390 412
Adjustments for:		
Depreciation and amortisation	4 710 270	4 748 108
Loss on sale of movable assets	19 636	-
Debt impairment	8 691 459	9 081 488
Movements in provisions	(22 781)	192 024
Waiver of liability	-	(1 165 143)
Changes in working capital:		
Receivables from exchange transactions	(7 957 913)	(7 139 472)
Prepayments	35 462	25 993
Payables from exchange transactions	(229 368)	(154 723)
Increase/ (decrease) in unclaimed receipts	(47)	164 940
	763 293	**9 143 627**

Notes to the Financial Statements

Figures in Rand	2018	2017

24. Commitments

Authorised operational expenditure

Emmaculate Security		
• Contract amount	1 089 604	3 898 800
• Expenditure to date	(1 089 604)	(2 809 196)
	-	**1 089 604**

Total operational commitments		
Already contracted for but not provided for	-	1 089 604

This committed expenditure relates to security and will be financed by existing cash resources. The contract has expired and a new one with a different service provider has been entered into.

25. Related parties

Relationships	
Accounting Officers	Refer to accounting officers' report note
Controlling entity	Polokwane Local Municipality

Related party transactions

Operational grant from related party		
Polokwane Municipality	9 000 000	15 020 000
Accounting fees paid for by related party		
Polokwane Municipality	440 000	300 000

Polokwane Municipality exempted Polokwane Housing Association from the liability for rates and taxes incurred by the latter.

Notes to the Financial Statements

Figures in Rand	2018	2017

26. Accounting Officers' emoluments

Executive

2018

	Basic salary	Medical aid	Provident fund	UIF and SDL	Total
Mr J.T. Maimela	980 023	63 102	82 492	12 216	1 137 833

2017

	Basic salary	Medical aid	Provident fund	UIF and SDL	Total
Mr J.T. Maimela	906 074	57 745	75 594	10 499	1 049 912

Non-executive

2018

	Accounting Officers' fees	Travel	Total
Mrs C. Dibete	202 265	7 202	209 467
Mr M.J. Gololo	97 191	3 378	100 569
Ms M. Kgosana	111 837	3 930	115 767
Ms. S.M. Mashabela	106 506	4 666	111 172
Mr S.M. Vilakazi	117 168	889	118 057
Mr O. Galane	97 191	3 087	100 278
Mrs N.A. Baloyi	190 828	6 937	197 765
Adv. T.A. Maake	115 798	8 733	124 531
Mrs P.N. Bosch	98 730	3 834	102 564
Mr S.P. Myeza	144 302	2 875	147 177
Mr T.M. Makofane	87 876	1 951	89 827
Company Secretary	177 171	2 823	179 994
Others	-	199 589	199 589
	1 546 863	**249 894**	**1 796 757**

2017

	Accounting Officers' fees	Committees fees	Total
All Non-Executive Directors	332 804	28 317	361 121
Mrs C. Dibete	138 320	8 581	146 901
Adv. T.C. Maake	207 480	8 015	215 495
Mr T.M. Makofane	144 406	2 596	147 002
Mrs. P.N. Bosch	179 816	7 763	187 579
Mr S.P. Myeza	207 480	9 661	217 141
	1 210 306	**64 933**	**1 275 239**

27. Prior period errors

Property, plant and equipment was duplicated during the prior year

The correction of the error results in adjustments as follows:

Notes to the Financial Statements

Figures in Rand	2018	2017

27. Prior period errors (continued)

Expenses- Depreciation Computer Equipment		
Audited	-	4 749 421
Correction of Error	-	(1 313)
Restated	-	4 748 108
Accumulated Surplus	-	2 017
Audited	-	28 597 040
Correction of Error	-	67 791
Restated	-	28 664 831

Non-Current Assets- Computer Equipment		
Audited	-	103 751 781
Correction of Error	-	(13 278)
Restated	-	103 738 503
South African Revenue Services	-	2 017
Audited	-	397 192
Correction of Error	-	(81 067)
Restated	-	316 125

28. Risk management

Financial risk management

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.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board.

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

Financial instrument	2018	2017
Cash at bank	2 483 485	1 732 756
Receivables from exchange transactions	1 491 839	2 188 894

Market risk

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Notes to the Financial Statements

Figures in Rand	2018	2017

29. Going concern

The municipal entity is experiencing financial difficulty (reported a deficit in the performace of 4 483 425, inability to collect rentals with a collection period of 968 days, stagnant rental rates and rental boycotts) which necessitated a recovery strategy by the board of directors. The situation is also worsened by a poor current ratio of 1.2:1 compared to the industry norm of 2.1.

30. Events after the reporting date

The building that PHA was occupying was demolished in July 2018. As a result the entity had to derecognise some of the assets that were affixed to it. The derecognition affected the fixed asset register. The event is highly unlikely tohave any financial effect on the entity.

31. Fruitless and wasteful expenditure

Opening balance	449 695	359 530
SARS interest and penalties	8 072	90 165
Auditor General interest	1 368	-
Telkom interest	1 516	-
	460 651	**449 695**

32. Irregular expenditure

Opening balance	16 652 340	16 487 753
Add: Irregular Expenditure - current year	299 423	257 864
	16 951 763	**16 745 617**

Details of irregular expenditure – current year

Reason for deviation does not appear justifiable	10 767
Winning supplier not on database	64 403
Evaluation not in terms of criteria	40 580
No MBD forms	183 673
	299 423

Details of irregular expenditure - prior year

Winning supplier not on database	91 152
Decision to accept supply not made by appropriate committee	30 116
Deviation not recorded and approved by a delegated official	49 270
Deviation not reported to board	2 450
Deviation not justifiable	84 876
	257 864

33. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Auditor General's fee	855 925	732 907

PAYE and UIF

Amount paid - current year	1 286 250	794 481

Notes to the Financial Statements

Figures in Rand	2018	2017

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

Pension and Medical Aid Deductions

Amount paid - current year	904 537	897 430

34. Deviation from supply chain management regulations

Deviations a mounting to R119, 427 were noted for the year whch means the process followed in procuring those goods and services deviated from the provisions of municipal SCM regulations. The amount relates to legal fees.

35. Budget differences

Material differences between budget and actual amounts

The reasons for the differences between the budget and actual amounts are hereinunder explained:

1. Variance below 10% thus no explanation required.

2. Ther existing contract expried and a new one was entered into.

3. Less money in the bank negatively affected interest earned.

4. Vacancies of company secretary and revenue officer.

5. Overbudgeting

6. Rental boycotts affected collection thus high provision.

7. New disclosure requirements require such to be classified as contracted services.

8. Budget could not be spent due to the non-collection of rentals.