

**Bela Bela Local Municipality  
(Registration number LIM 366)  
Annual Financial Statements  
for the year ended 30 June 2019**

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 115 (1) of the Constitution of the republic of South Africa (Act No. 108 of 1998)
<b>Nature of business and principal activities</b>	Bela-Bela is a category B Local Municipality performing the functions as set out in the Constitution (Act No 108 of 1998)
<b>Executive Committee</b>	
Mayor	Hon. M.J Ngobeni
Executive councillors	Cllr S.E Maluleka Cllr M.N Ras Cllr R.Z. Moeletsi
Speaker	Cllr M.H Ledwaba
Chief Whip	
Councillors	Cllr M.D. Senosha Cllr F.S Hlungwane Cllr L.R. Modimola Cllr Y.M.S. Maletse Cllr M.A. Shika Cllr M.J. Makhubela Cllr S.D. Seale Cllr P.M. Aphane Cllr K.L. Mothokwa Cllr T.R. Masemola Cllr A.R. Mosweou Cllr Maname
<b>Grading of local authority</b>	Level 3
<b>Accounting Officer</b>	Mr. S.M Makhubela
<b>Chief Finance Officer (CFO)</b>	Mr. R.M Marutha
<b>Registered office</b>	58 Chris Hani Drive Bela Bela
<b>Postal address</b>	Bela Bela Local Municipality Private Bag X1609 Bela Bela 0480
<b>Bankers</b>	Absa Bank Limited
<b>Auditors</b>	Auditor-General of South Africa Registered Auditors
<b>Attorneys</b>	Moloto Attorneys Mohale Incorporated Attorneys

# **Bela Bela Local Municipality**

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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**Level of assurance**

Local Government: Municipal Finance Management Act (Act No. 56 of 2003)  
Local Government: Municipal Systems Act (Act No. 117 of 1998)  
Local Government: Municipal Structures Act (Act No.117 of 1998)  
Constitution of the Republic of South Africa (Act No.108 of 1998)  
Municipal Property Rates Act (Act No. 6 2004)  
Division of Revenue Act (Act no 1 of 2007)

**Published**

31 August 2019

# Bela Bela Local Municipality

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COID	Compensation for Occupational injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
IGRAP	Interpretation of Generally Recognised 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
SA GAAP	South African Statements of Generally Accepted Accounting Practice

## Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

### Accounting Officer's Responsibilities and Approval

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

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

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

I, as 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.

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

I have reviewed the municipality's cash flow forecast for the year to 30 June 2020 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.

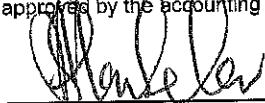
The municipality is wholly dependent on the National Treasury for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the National Treasury has neither the intention nor the need to liquidate or curtail materially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

Although I am primarily responsible for the financial affairs of the municipality, this is supported by the municipality's external auditors.

I would like to bring the following matters under your attention:

I certify that salaries, allowances and benefits of councillors as disclosed in note 31 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998, and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 5 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2019 and were signed on its behalf by:



Mr. S.M Makhubela  
Accounting officer

Bela-Bela

Saturday, 31 August 2019

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	267,725	206,228
Receivables from exchange transactions	10	2,417,418	2,296,087
Receivables from non-exchange transactions	11	6,491,680	9,549,661
VAT receivable	12	11,866,219	14,178,197
Consumer debtors	13	8,505,498	9,875,521
Agreements	8	602,024	140,812
Sundry receivables		1,886,241	1,385,213
Cash and cash equivalents	14	13,086,692	4,175,225
		<b>45,123,497</b>	<b>41,806,944</b>
<b>Non-Current Assets</b>			
Investment property	3	284,835,563	282,015,409
Property, plant and equipment	4	737,497,398	687,794,114
Intangible assets	5	2,178,400	2,495,478
Heritage assets	6	538,950	538,950
Agreements	8	182,470	185,665
		<b>1,025,232,781</b>	<b>973,029,616</b>
<b>Total Assets</b>		<b>1,070,356,278</b>	<b>1,014,836,560</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	15	-	7,669,362
Payables from exchange transactions	19	149,303,167	146,426,096
Consumer deposits	20	5,778,684	5,649,712
Unspent conditional grants and receipts	16	11,289,900	1,002,259
Provisions	17	1,624,205	935,412
Unknown deposits	18	4,499,524	5,845,204
		<b>172,495,480</b>	<b>167,528,045</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	7	33,448,643	41,613,870
Provisions	17	53,760,003	49,996,307
		<b>87,208,646</b>	<b>91,610,177</b>
<b>Total Liabilities</b>		<b>259,704,126</b>	<b>259,138,222</b>
<b>Net Assets</b>		<b>810,652,152</b>	<b>755,698,338</b>
Accumulated surplus		810,652,129	755,698,338

\* See Note 45

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	159,321,887	150,649,448
Sale of goods and rendering of services		276,874	231,792
Rental of facilities and equipment		1,375,575	1,216,348
Agency services		2,496,703	-
Licences and permits		1,241,209	3,925,789
Cemetery Fees		323,554	311,568
Commission received		70,841	56,010
Demand charges		454,263	619,167
Other income	23	7,371,152	3,419,003
Interest received - investment	24	12,787,808	9,845,041
Fair value adjustments		2,820,154	3,592,232
Actuarial gains	25	13,767,173	2,704,246
<b>Total revenue from exchange transactions</b>		<b>202,307,193</b>	<b>176,570,644</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	68,760,593	62,003,315
<b>Transfer revenue</b>			
Government grants & subsidies	27	172,373,407	163,093,099
Fines, Penalties and Forfeits		6,090,600	15,526,100
<b>Total revenue from non-exchange transactions</b>		<b>247,224,600</b>	<b>240,622,514</b>
<b>Total revenue</b>	21	<b>449,531,793</b>	<b>417,193,158</b>
<b>Expenditure</b>			
Employee related costs	28	(130,726,348)	(125,469,241)
Remuneration of councillors	29	(7,363,906)	(6,869,374)
Depreciation and amortisation	30	(29,950,597)	(32,291,196)
Impairment of assets	31	-	(24,776,266)
Finance costs	32	(11,549,753)	(12,306,342)
Debt Impairment	33	(36,879,735)	(33,484,428)
Bulk purchases	34	(97,198,509)	(88,576,610)
Contracted services	35	(2,053,550)	-
Loss on disposal of assets and liabilities		(76,765)	(50,399,271)
General expenses	36	(78,836,806)	(84,064,541)
<b>Total expenditure</b>		<b>(394,635,969)</b>	<b>(458,237,269)</b>
<b>Surplus (deficit) for the year</b>		<b>54,895,824</b>	<b>(41,044,111)</b>

\* See Note 45

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2017</b>	<b>796,742,449</b>	<b>796,742,449</b>
Changes in net assets	(41,044,111)	(41,044,111)
Surplus for the year	(41,044,111)	(41,044,111)
Total changes	<b>755,756,305</b>	<b>755,756,305</b>
<b>Restated* Balance at 01 July 2018</b>		
Changes in net assets	54,895,824	54,895,824
Surplus for the year	54,895,824	54,895,824
Total changes	<b>810,652,129</b>	<b>810,652,129</b>
<b>Balance at 30 June 2019</b>		
Note(s)		

\* See Note 45

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		73,582,697	70,602,131
Sale of goods and services		132,596,130	154,636,483
Grants		182,661,048	138,592,567
Interest income		1,764,101	742,068
Other receipts		11,771,104	13,754,876
		<u>402,375,080</u>	<u>378,328,125</u>
<b>Payments</b>			
Employee costs		(136,783,873)	(129,560,770)
Suppliers		(171,322,566)	(151,595,759)
Finance costs		(4,031,427)	(4,838,697)
		<u>(312,137,866)</u>	<u>(285,995,226)</u>
<b>Net cash flows from operating activities</b>	39	<u><b>90,237,214</b></u>	<u><b>92,332,899</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(73,656,385)	(78,740,331)
Proceeds from sale of investment property	3	-	800,001
Purchase of other intangible assets	5	-	(657,642)
		<u>(73,656,385)</u>	<u>(78,597,972)</u>
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
Finance lease payments		(7,669,362)	(10,860,743)
		<u>(7,669,362)</u>	<u>(10,860,743)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>8,911,467</b></u>	<u><b>2,874,184</b></u>
Cash and cash equivalents at the beginning of the year		4,175,225	1,301,041
<b>Cash and cash equivalents at the end of the year</b>	14	<u><b>13,086,692</b></u>	<u><b>4,175,225</b></u>

\* See Note 45

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## 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
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	192,018,301	-	192,018,301	159,321,887	(32,696,414)	N1
Rendering of services	-	-	-	276,874	276,874	
Rental of facilities and equipment	1,939,182	-	1,939,182	1,375,575	(563,607)	N2
Interest received (trading)	10,604,220	-	10,604,220	-	(10,604,220)	
Agency services	-	-	-	2,496,703	2,496,703	N5
Licences and permits	7,259,000	-	7,259,000	1,241,209	(6,017,791)	N3
Town planning scheme	-	-	-	323,554	323,554	N6
Commission received	-	-	-	70,841	70,841	N4
Demand charges	-	-	-	454,263	454,263	
Other income 1	8,584,828	-	8,584,828	-	(8,584,828)	N7
Other income - (rollup)	-	-	-	7,371,152	7,371,152	
Interest received - investment	4,069,000	-	4,069,000	12,787,808	8,718,808	N8
<b>Total revenue from exchange transactions</b>	<b>224,474,531</b>	<b>-</b>	<b>224,474,531</b>	<b>185,719,866</b>	<b>(38,754,665)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	84,995,541	-	84,995,541	68,760,593	(16,234,948)	N9
<b>Transfer revenue</b>						
Government grants & subsidies	84,840,000	-	84,840,000	172,373,407	87,533,407	N10
Fines, Penalties and Forfeits	19,598,000	-	19,598,000	6,090,600	(13,507,400)	N11
<b>Total revenue from non-exchange transactions</b>	<b>189,433,541</b>	<b>-</b>	<b>189,433,541</b>	<b>247,224,600</b>	<b>57,791,059</b>	
<b>Total revenue</b>	<b>413,908,072</b>	<b>-</b>	<b>413,908,072</b>	<b>432,944,466</b>	<b>19,036,394</b>	
<b>Expenditure</b>						
Personnel	(128,936,085)	-	(128,936,085)	(130,726,348)	(1,790,263)	
Remuneration of councillors	(7,364,169)	-	(7,364,169)	(7,363,906)	263	
Depreciation and amortisation	(48,000,004)	-	(48,000,004)	(29,950,597)	18,049,407	N12
Finance costs	(7,317,130)	-	(7,317,130)	(11,549,753)	(4,232,623)	N13
Debt Impairment	(17,000,000)	7,500,000	(9,500,000)	(36,879,735)	(27,379,735)	N14
Bulk purchases	(103,393,160)	(5,100,000)	(108,493,160)	(97,198,509)	11,294,651	N16
Contracted Services	(24,926,010)	6,967,000	(17,959,010)	(2,053,550)	15,905,460	N17
General Expenses	(39,893,460)	(17,626,000)	(57,519,460)	(78,836,806)	(21,317,346)	
Other materials	(29,796,835)	6,800,000	(22,996,835)	-	22,996,835	
<b>Total expenditure</b>	<b>(406,626,853)</b>	<b>(1,459,000)</b>	<b>(408,085,853)</b>	<b>(394,559,204)</b>	<b>13,526,649</b>	
<b>Operating surplus</b>	<b>7,281,219</b>	<b>(1,459,000)</b>	<b>5,822,219</b>	<b>38,385,262</b>	<b>32,563,043</b>	
Loss on disposal of assets and liabilities	-	-	-	(76,765)	(76,765)	
Fair value adjustments	-	-	-	2,820,154	2,820,154	
Actuarial gains/losses	-	-	-	13,767,173	13,767,173	
	-	-	-	16,510,562	16,510,562	

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## 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
Figures in Rand						
Surplus before taxation	7,281,219	(1,459,000)	5,822,219	54,895,824	49,073,605	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	7,281,219	(1,459,000)	5,822,219	54,895,824	49,073,605	
Reconciliation						

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## 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
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	120,000	-	120,000	267,725	147,725	
Receivables from exchange transactions	-	-	-	2,417,418	2,417,418	
Receivables from non-exchange transactions	-	-	-	6,491,680	6,491,680	
VAT receivable	-	-	-	11,866,219	11,866,219	
Consumer debtors	29,334,526	-	29,334,526	8,505,498	(20,829,028)	
Agreements	-	-	-	602,024	602,024	
Sundry receivables	-	-	-	1,886,241	1,886,241	
Unkown deposits	12,422,487	-	12,422,487	-	(12,422,487)	
Cash and cash equivalents	45,000,000	4,242,000	49,242,000	13,086,692	(36,155,308)	
	<b>86,877,013</b>	<b>4,242,000</b>	<b>91,119,013</b>	<b>45,123,497</b>	<b>(45,995,516)</b>	
<b>Non-Current Assets</b>						
Investment property	181,000,000	-	181,000,000	284,835,563	103,835,563	
Property, plant and equipment	676,758,358	-	676,758,358	737,497,398	60,739,040	
Intangible assets	3,000,000	-	3,000,000	2,178,400	(821,600)	
Heritage assets	-	-	-	538,950	538,950	
Agreements	-	-	-	182,470	182,470	
	<b>860,758,358</b>	<b>-</b>	<b>860,758,358</b>	<b>1,025,232,781</b>	<b>164,474,423</b>	
<b>Total Assets</b>	<b>947,635,371</b>	<b>4,242,000</b>	<b>951,877,371</b>	<b>1,070,356,278</b>	<b>118,478,907</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	67,856,412	-	67,856,412	149,303,167	81,446,755	
Consumer deposits	-	5,700,000	5,700,000	5,778,684	78,684	
Unspent conditional grants and receipts	-	-	-	11,289,900	11,289,900	
Provisions	11,550,327	-	11,550,327	1,624,205	(9,926,122)	
Unknown deposits	-	-	-	4,499,524	4,499,524	
	<b>79,406,739</b>	<b>5,700,000</b>	<b>85,106,739</b>	<b>172,495,480</b>	<b>87,388,741</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	33,448,643	33,448,643	
Provisions	43,426,553	-	43,426,553	53,760,003	10,333,450	
	<b>43,426,553</b>	<b>-</b>	<b>43,426,553</b>	<b>87,208,646</b>	<b>43,782,093</b>	
<b>Total Liabilities</b>	<b>122,833,292</b>	<b>5,700,000</b>	<b>128,533,292</b>	<b>259,704,126</b>	<b>131,170,834</b>	
<b>Net Assets</b>	<b>824,802,079</b>	<b>(1,458,000)</b>	<b>823,344,079</b>	<b>810,652,152</b>	<b>(12,691,927)</b>	

## Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

### 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
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	824,802,079	(1,458,000)	<b>823,344,079</b>	810,652,129	<b>(12,691,950)</b>	
	-	-	-	-	-	
<b>Total Net Assets</b>	<b>824,802,079</b>	<b>(1,458,000)</b>	<b>823,344,079</b>	<b>810,652,129</b>	<b>(12,691,950)</b>	

## Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

### 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
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation	-	-	-	73,582,697	73,582,697	
Sale of goods and services	246,155,000	-	246,155,000	131,410,100	(114,744,900)	
Grants	177,041,000	-	177,041,000	182,661,048	5,620,048	
Interest income	11,819,000	-	11,819,000	12,787,808	968,808	
Other receipts	32,093,000	-	32,093,000	3,993,612	(28,099,388)	
	<b>467,108,000</b>	<b>-</b>	<b>467,108,000</b>	<b>404,435,265</b>	<b>(62,672,735)</b>	
<b>Payments</b>						
Employees and suppliers	(309,001,000)	-	(309,001,000)	(133,659,161)	175,341,839	
Suppliers	-	-	-	(174,155,110)	(174,155,110)	
Finance costs	(7,317,000)	-	(7,317,000)	(3,891,334)	3,425,666	
	<b>(316,318,000)</b>	<b>-</b>	<b>(316,318,000)</b>	<b>(311,705,605)</b>	<b>4,612,395</b>	
<b>Net cash flows from operating activities</b>	<b>150,790,000</b>	<b>-</b>	<b>150,790,000</b>	<b>92,729,660</b>	<b>(58,060,340)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(94,597,000)	16,057,000	(78,540,000)	(76,148,831)	2,391,169	
<b>Net cash flows from investing activities</b>	<b>(94,596,998)</b>	<b>16,057,000</b>	<b>(78,539,998)</b>	<b>(76,148,831)</b>	<b>2,391,167</b>	
<b>Cash flows from financing activities</b>						
Increase in consumer deposits	4,458,000	-	4,458,000	-	(4,458,000)	
Finance lease payments	-	-	-	(7,669,362)	(7,669,362)	
<b>Net cash flows from financing activities</b>	<b>4,458,000</b>	<b>-</b>	<b>4,458,000</b>	<b>(7,669,362)</b>	<b>(12,127,362)</b>	
Net increase/(decrease) in cash and cash equivalents	60,651,002	16,057,000	76,708,002	8,911,467	(67,796,535)	1
Cash and cash equivalents at the beginning of the year	1,301,000	-	1,301,000	4,175,225	2,874,225	
<b>Cash and cash equivalents at the end of the year</b>	<b>61,952,002</b>	<b>16,057,000</b>	<b>78,009,002</b>	<b>13,086,692</b>	<b>(64,922,310)</b>	

## Bela Bela Local Municipality

(Registration number LIM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Financial Performance</b>											
Property rates	84,995,542	-	84,995,542	-	-	84,995,542	68,760,593		(16,234,949)	81 %	81 %
Service charges	190,824,000	-	190,824,000	-	-	190,824,000	159,321,887		(31,502,113)	83 %	83 %
Investment revenue	4,069,000	-	4,069,000	-	-	4,069,000	12,787,808		8,718,808	314 %	314 %
Transfers recognised - operational	84,840,000	-	84,840,000	-	-	84,840,000	85,053,306		213,306	100 %	100 %
Other own revenue	49,179,000	-	49,179,000	-	-	49,179,000	36,288,098		(12,890,902)	74 %	74 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>413,907,542</b>	<b>-</b>	<b>413,907,542</b>	<b>-</b>	<b>-</b>	<b>413,907,542</b>	<b>362,211,692</b>		<b>(51,695,850)</b>	<b>88 %</b>	<b>88 %</b>
Employee costs	(128,936,000)	-	(128,936,000)	-	-	(128,936,000)	(130,726,348)		(1,790,348)	101 %	101 %
Remuneration of councillors	(7,364,000)	-	(7,364,000)	-	-	(7,364,000)	(7,363,906)		94	100 %	100 %
Debt impairment	(17,000,000)	7,500,000	(9,500,000)			(9,500,000)	(36,879,735)		(27,379,735)	388 %	217 %
Depreciation and asset impairment	(48,000,000)	-	(48,000,000)			(48,000,000)	(29,950,597)		18,049,403	62 %	62 %
Finance charges	(7,317,000)	-	(7,317,000)			(7,317,000)	(11,549,753)		(4,232,753)	158 %	158 %
Materials and bulk purchases	(133,190,000)	1,700,000	(131,490,000)			(131,490,000)	(97,198,509)		34,291,491	74 %	73 %
Other expenditure	(64,819,000)	(10,658,000)	(75,477,000)			(75,477,000)	(80,967,121)		(5,490,121)	107 %	125 %
<b>Total expenditure</b>	<b>(406,626,000)</b>	<b>(1,458,000)</b>	<b>(408,084,000)</b>	<b>-</b>	<b>-</b>	<b>(408,084,000)</b>	<b>(394,635,969)</b>		<b>13,448,031</b>	<b>97 %</b>	<b>97 %</b>
<b>Surplus/(Deficit)</b>	<b>7,281,542</b>	<b>(1,458,000)</b>	<b>5,823,542</b>	<b>-</b>	<b>-</b>	<b>5,823,542</b>	<b>(32,424,277)</b>		<b>(38,247,819)</b>	<b>(557)%</b>	<b>(445)%</b>

## Bela Bela Local Municipality

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### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.f.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.f.o. s31 of the MFMA)	Virement (i.f.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	93,110,000	-	93,110,000	-	-	93,110,000	87,320,101		(5,789,899)	94 %	94 %
Surplus (Deficit) after capital transfers and contributions	100,391,542	(1,458,000)	98,933,542	-	-	98,933,542	54,895,824		(44,037,718)	55 %	55 %
Surplus/(Deficit) for the year	100,391,542	(1,458,000)	98,933,542	-	-	98,933,542	54,895,824		(44,037,718)	55 %	55 %
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	50,046,869	-	50,046,869	-	-	50,046,869	216,964,608		166,917,739	434 %	434 %
<b>Cash flows</b>											
Net cash from (used) operating	150,789,000	-	150,789,000	-	-	150,789,000	90,237,214		(60,551,786)	60 %	60 %
Net cash from (used) investing	(94,597,000)	16,057,000	(78,540,000)	-	-	(78,540,000)	(73,656,385)		4,883,615	94 %	78 %
Net cash from (used) financing	4,458,000	-	4,458,000	-	-	4,458,000	(7,669,362)		(12,127,362)	(172)%	(172)%
Net increase/(decrease) in cash and cash equivalents	60,650,000	16,057,000	76,707,000	-	-	76,707,000	8,911,467		(67,795,533)	12 %	15 %
Cash and cash equivalents at the beginning of the year	1,301,000	-	1,301,000	-	-	1,301,000	4,175,225		2,874,225	321 %	321 %
Cash and cash equivalents at year end	61,951,000	16,057,000	78,008,000	-	-	78,008,000	13,086,692		64,921,308	17 %	21 %

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

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

#### 1.2 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.

#### 1.3 Significant judgements and sources of estimation uncertainty

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

##### Loans and receivables

The municipality assesses its loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 first calculated for individually significant loans and receivables and then calculated on a portfolio basis for the remaining balance, including those individually significant loans and receivables for which no indicators of impairment were found. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

For loans and receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the loans and receivables.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Fair value estimation

The fair value of financial instruments traded in active market 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.

#### Impairment testing

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

##### Value in use of cash-generating assets

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

##### Value in use of non-cash-generating assets

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

#### 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 17 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment and other assets. This estimate involves a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

#### Post-retirement benefits

The present value of the post-retirement and long-term obligations 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 and long-term 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 post-retirement and long-term obligations. In determining the appropriate discount rate, the municipality considers the (interest rates of high-quality corporate bonds) market yields at the reporting date on government 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 or other long-term liability. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 7.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Effective interest rate

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

### 1.4 Investment property

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

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

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.

#### Fair value

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

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

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

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 3).

The municipality discloses relevant information relating to assets under construction or development in the notes to the annual financial statements, which include: the cumulative expenditure recognised in the carrying value of investment property; the carrying value of investment property that is taking a significantly longer period of time to complete than expected; and the carrying value of investment property where construction or development has been halted (see note 3).

### 1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Property, plant and equipment are 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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality 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.

Subsequent to initial measurement property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

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:

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Item	Depreciation method	Average/range of useful life
Buildings	Straight-line	15-60 years
Community	Straight-line	10-60 years
Emergency equipment	Straight-line	2-5 years
Furniture and fixtures	Straight line	5 years
Infrastructure	Straight-line	5-100 years
Land	Straight-line	Indefinite
Leased property	Straight-line	5 years
Motor vehicles	Straight-line	3-10 years
Office equipment	Straight-line	5-12 years
Plant and equipment	Straight-line	4-10 years
Recreational facilities	Straight-line	10-100 years

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# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

The municipality assesses at each reporting date whether there is any indication that the municipality's 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 in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Errors.

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development in the notes to the annual financial statements, which include: the cumulative expenditure recognised in the carrying value of an item of property, plant and equipment; the carrying value of an item of property, plant and equipment that is taking a significantly longer period of time to complete than expected; and the carrying value of an item of property, plant and equipment where construction or development has been halted (see note 4).

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software as intangible assets.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality 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.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Intangible assets (continued)

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

An intangible asset is recognised when:

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

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

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

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided on a straight line basis over the expected useful lives of the intangible assets.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Should the estimate change the municipality revises the expected useful life accordingly. The change is accounted for as a change in an accounting estimate in terms of the Standard of GRAP on Accounting Policies, Changes in Estimates and Error.

Amortisation is provided to write down the intangible assets, on a straight-line basis to their residual values as follows: , if any. The amortisation charge for each period is recognised in surplus or deficit.

The useful lives of intangible assets have been assessed as follows:

Item	Depreciation method	Average/range of useful life
Computer software	Straight-line	2-5 years
Servitudes	Straight-line	Indefinite

Intangible assets are derecognised:

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

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

### 1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The municipality has classified historic buildings as heritage assets.

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the annual financial statements (see note 6).

# Bela Bela Local Municipality

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## Accounting Policies

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### 1.8 Heritage assets (continued)

#### 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.

#### Subsequent measurement

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

#### Impairment

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

#### 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. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

### 1.9 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.

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.

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows: the current profitability of the unit, as well as management's assessment of the possibility of a unit becoming profitable.

# Bela Bela Local Municipality

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## Accounting Policies

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

#### 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 the 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.

#### 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.

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use, the municipality:

- bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- bases cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments, where applicable.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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.

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

#### Reversal of impairment loss

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

#### 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.

### 1.10 Impairment of non-cash-generating assets

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

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows: consideration is given to the nature of the assets, whether it is primarily to provide a service to the community, and whether there is any realistic possibility of the asset being used in a commercial and profitable manner.

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### 1.10 Impairment of non-cash-generating assets (continued)

#### 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 the 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.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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 a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy.

#### Identification

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

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### 1.10 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### 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.

#### Redesignation

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

### 1.11 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.

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 municipality.

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 municipality.

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

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## Accounting Policies

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### 1.11 Financial instruments (continued)

#### Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for financial instruments subsequently measured at fair value, which are measured at its fair value.

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

- 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.

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### 1.11 Financial Instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost

All financial assets measured at amortised 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 municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data. 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.

#### Discounting of short-term receivables and payables

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

#### Reclassification

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

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

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

Financial assets measured at amortised cost:

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### 1.11 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 (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable, the government bond rate is used as the risk-free rate and adjusted for any risks specific to the financial assets. 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.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

##### Financial liabilities

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

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

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).

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## Accounting Policies

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### 1.11 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.

### 1.12 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 municipality 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.

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

#### Operating leases - lessee

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

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

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

### 1.13 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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### 1.13 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO). The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.14 Share capital / contributed capital

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

### 1.15 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to two months consumption of electricity and water services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposits.

### 1.16 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Service (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the Value-added Tax Act (Act No. 89 of 1991).

The municipality is registered as a category C Vat vendor. VAT receivable or payable is calculated on a monthly basis. VAT receivable is treated as current assets while VAT payable is treated as current liability.

### 1.17 Employee benefits

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

Termination benefits are employee benefits payable as a result of either:

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

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### 1.17 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 12 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 12 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 12 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 cell phones) for current employees.

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

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

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

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

#### Post-employment benefits

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

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

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### 1.17 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

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 municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

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

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

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

The municipality accounts 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits.

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

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

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

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

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

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### 1.17 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

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

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

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

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

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

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

#### 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.

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### 1.17 Employee benefits (continued)

#### Other long-term employee benefits

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements.

### 1.18 Provisions and contingencies

A provision is a liability of uncertain timing or amount.

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 deficit.

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

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### 1.18 Provisions and contingencies (continued)

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

A contingent liability is:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on Impairment of assets.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.19 Accumulated surplus/(deficit)

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

### 1.20 Revenue from exchange transactions

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.

#### Measurement

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

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

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### 1.20 Revenue from exchange transactions (continued)

#### Rendering of services

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

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

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

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

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

#### Interest

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.

### 1.21 Revenue from non-exchange transactions

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

#### 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.

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

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.

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### 1.21 Revenue from non-exchange transactions (continued)

#### Measurement

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

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

#### Taxes

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

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

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

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

#### Transfers

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. The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

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

#### Gifts and donations, including goods in-kind

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

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### 1.21 Revenue from non-exchange transactions (continued)

#### Services in-kind

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

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

### 1.22 Grants in aid

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

- receive any goods or services directly in return, as would be expected in a purchase of sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the event giving rise to the transfer has occurred.

### 1.23 Investment income

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

### 1.24 Borrowing costs

### 1.25 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the unauthorised expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 50 - Unauthorised expenditure.

### 1.26 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the fruitless and wasteful expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on unauthorised expenditure, refer to note 51 - Fruitless and wasteful expenditure.

### 1.27 Irregular expenditure

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

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### 1.27 Irregular expenditure (continued)

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred and classified in accordance with the nature of the expense. Upon investigation, if a person was found to be liable in law for the irregular expenditure that occurred, a receivable is recognised for the recovery of the monies, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

For details on irregular expenditure, refer to note 52 - Irregular expenditure.

### 1.28 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments, which include future capital commitments relating to property, plant and equipment, investment property, intangible assets and heritage assets, as applicable, operational commitments, as well as future commitments relating to operating leases. Refer to note 41 - 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 municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Commitments consist of expenditure committed but not yet incurred. Commitments are categorised as follows:

- Commitments approved and contracted for,
- Commitments approved but not yet contracted for

### 1.29 Budget information

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

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

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

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

### 1.30 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.

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

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

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

### 1.31 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:

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#### **1.31 Events after reporting date (continued)**

- 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 discloses 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.

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

##### GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

##### GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

##### GRAP 17 (as amended 2016): Property, Plant and Equipment

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

The most significant changes to the Standard are:

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 21 (as amended 2016): Impairment of non-cash-generating assets**

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 26 (as amended 2016): Impairment of cash-generating assets**

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 27 (as amended 2016): Agriculture**

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 31 (as amended 2016): Intangible Assets**

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 103 (as amended 2016): Heritage Assets**

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality has adopted the amendment for the first time in the 2018/2019 annual financial statements.

The impact of the amendment is not material.

### 2.2 Standards and interpretations issued, but not yet effective

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

#### **GRAP 104 (amended): Financial Instruments**

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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

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

The most significant changes to the Standard affect:

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

#### **Guideline: Guideline on Accounting for Landfill Sites**

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

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

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

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

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

#### **Guideline: Guideline on the Application of Materiality to Financial Statements**

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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

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

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

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

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

#### **GRAP 1 (amended): Presentation of Financial Statements**

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

Summary of amendments are:

#### **Materiality and aggregation**

The amendments clarify that:

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

#### **Statement of financial position and statement of financial performance**

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

#### **Notes structure**

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

#### **Disclosure of accounting policies**

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

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

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

The municipality has adopted the interpretation for the first time in the 2017/2020 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

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

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# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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

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

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

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

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

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

#### **Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme**

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2019.

The municipality expects to adopt the guideline for the first time in the 2018/2019 annual financial statements.

The municipality is unable to reliably estimate the impact of the guideline on the annual financial statements.

#### **GRAP 18 (as amended 2016): Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after 01 April 2019

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that 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.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2019.

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

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

#### **GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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

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

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

#### **IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land**

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

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

The municipality is unable to reliably estimate the impact of the interpretation on the annual financial statements.

#### IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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.

The municipality is unable to reliably estimate the impact of the interpretation on the annual financial statements.

## Bela Bela Local Municipality

(Registration number LIM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 3. Investment property

	2019		2018			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	284,835,563	-	284,835,563	282,015,409	-	282,015,409

#### Reconciliation of investment property - 2019

Investment property

Opening balance	282,015,409	Fair value adjustments	2,820,154	Total	284,835,563
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#### Reconciliation of investment property - 2018

Investment property

Opening balance	328,519,381	Derecognition	(49,296,203)	Fair value adjustments	2,792,231	Total	282,015,409
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#### Pledged as security

Carrying value of assets pledged as security:

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

2019

2018

### 3. Investment property (continued)

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

## Bela Bela Local Municipality

(Registration number LIM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Property, plant and equipment

	2019		2018			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	103,763,102	(24,854,159)	78,908,943	103,763,102	(24,854,159)	78,908,943
Buildings	67,868,472	(43,498,807)	24,369,665	67,868,472	(41,960,112)	25,908,360
Plant and machinery	2,221,749	(1,538,939)	682,810	2,243,717	(1,212,307)	1,031,410
Furniture and fixtures	5,034,875	(4,011,187)	1,023,688	4,993,856	(3,713,870)	1,279,986
Motor vehicles	24,557,833	(21,232,293)	3,325,540	24,557,833	(19,685,969)	4,871,864
Office equipment	11,624,362	(10,431,093)	1,193,269	13,085,297	(10,595,207)	2,490,090
Infrastructure	1,038,984,433	(578,665,213)	460,319,220	1,001,971,528	(557,767,671)	444,203,857
Community	75,593,704	(37,853,537)	37,740,167	75,593,704	(34,908,998)	40,684,706
Work-in-progress	108,473,543	-	108,473,543	65,948,273	-	65,948,273
Recreational assets	30,010,210	(8,571,144)	21,439,066	30,010,211	(7,575,785)	22,434,426
Emergency equipment	125,989	(104,502)	21,487	128,329	(96,130)	32,199
<b>Total</b>	<b>1,468,258,272</b>	<b>(730,760,874)</b>	<b>737,497,398</b>	<b>1,390,164,322</b>	<b>(702,370,208)</b>	<b>687,794,114</b>

## Bela Bela Local Municipality

(Registration number LJM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Derecognition	Derecognition accumulated depreciation	Transfers	Depreciation	Total
Land	78,908,943	-	-	-	-	-	78,908,943
Buildings	25,908,360	-	-	-	-	(1,538,695)	24,369,665
Plant and machinery	1,031,410	25,965	(47,934)	47,934	-	(374,565)	682,810
Furniture and fixtures	1,279,986	175,200	(134,181)	134,181	-	(431,496)	1,023,688
Motor vehicles	4,871,864	-	-	-	-	(1,546,324)	3,325,540
Office equipment	2,490,090	408,365	(1,869,300)	1,869,300	-	(1,705,166)	1,193,269
Infrastructure	444,203,857	-	(215,334)	138,569	36,278,247	(20,086,119)	460,319,220
Community	40,684,706	-	-	-	(36,278,247)	(2,944,539)	37,740,167
Work-in-progress	65,948,273	78,803,517	-	-	-	(995,360)	108,473,543
Recreational assets	22,434,426	-	-	-	-	-	21,439,066
Emergency equipment	32,199	-	(2,340)	2,340	-	(10,712)	21,487
	<b>687,794,114</b>	<b>79,413,047</b>	<b>(2,269,089)</b>	<b>2,192,324</b>	<b>-</b>	<b>(29,632,998)</b>	<b>737,497,398</b>

## Bela Bela Local Municipality

(Registration number LIM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand

#### 4. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Derecognition accumulated depreciation	Derecognition	Reclassification Transfers	Correction of error	Depreciation	Impairment loss	Total
Land	103,685,208	-	-	-	-	-	-	(24,776,265)	78,908,943
Buildings	27,447,054	-	-	-	-	-	(1,538,694)	-	25,908,360
Plant and machinery	1,143,889	51,135	324,891	(404,170)	-	291,805	(376,140)	-	1,031,410
Furniture and fixtures	1,422,190	20,774	170,826	(193,209)	-	301,280	(441,875)	-	1,279,986
Motor vehicles	13,400,980	-	552,495	(687,479)	-	-	(8,394,132)	-	4,871,864
Office equipment	1,232,978	500,154	1,933,693	(2,300,038)	-	1,396,625	(273,322)	-	2,490,090
Infrastructure	429,702,183	34,149,640	1,791,007	(2,189,541)	-	-	(19,249,432)	-	444,203,857
Community	34,799,686	8,755,649	250,652	(322,678)	-	-	(2,798,603)	-	40,684,706
Work-in-progress	54,010,052	69,955,768	-	-	(58,017,547)	-	(950,474)	-	65,948,273
Recreational assets	8,632,484	14,752,416	-	-	-	-	(9,483)	-	22,434,426
Emergency equipment	21,047	-	1,821	(2,968)	-	21,782	-	-	32,199
	<b>675,497,751</b>	<b>128,185,536</b>	<b>5,025,385</b>	<b>(6,100,083)</b>	<b>(58,017,547)</b>	<b>2,011,492</b>	<b>(34,032,155)</b>	<b>(24,776,265)</b>	<b>687,794,114</b>

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.

## Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 5. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,506,688	(973,952)	1,532,736	2,584,907	(735,093)	1,849,814
Servitudes	645,664	-	645,664	645,664	-	645,664
<b>Total</b>	<b>3,152,352</b>	<b>(973,952)</b>	<b>2,178,400</b>	<b>3,230,571</b>	<b>(735,093)</b>	<b>2,495,478</b>

#### Reconciliation of intangible assets - 2019

	Opening balance	Derecognition cost	Derecognition accumulated amortisation	Amortisation	Total
Computer software	1,849,814	(78,219)	78,219	(317,078)	1,532,736
Servitudes	645,664	-	-	-	645,664
	<b>2,495,478</b>	<b>(78,219)</b>	<b>78,219</b>	<b>(317,078)</b>	<b>2,178,400</b>

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	1,462,111	657,730	(270,027)	1,849,814
Servitudes	645,664	-	-	645,664
	<b>2,107,775</b>	<b>657,730</b>	<b>(270,027)</b>	<b>2,495,478</b>

## Bela Bela Local Municipality

(Registration number LIM 366)  
Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

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#### 6. Heritage assets

	2019		2018			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical assets	538,950	-	538,950	538,950	-	538,950

#### Reconciliation of heritage assets 2019

Historical assets	Opening balance	Total
	538,950	538,950

#### Reconciliation of heritage assets 2018

Historical assets	Opening balance	Total
	538,950	538,950

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 7. Employee benefit obligations

#### Defined benefit plan

##### Post-retirement Health Care Benefits

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

The most recent actuarial valuations of plan asset and the present value of the defined benefit obligation were carried out at 30 June 2019 by Arch Actuarial Consulting, a fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the Projected Unit Credit Method. An actuarial valuation has been performed of the liability in respect of the post -employment health care benefits to employees and retirees of Bela- Bela Municipality and to their registered dependants.

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

<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	41,613,870	39,188,870
Benefits Paid	(1,289,637)	(1,229,000)
Current service cost	2,328,000	2,266,000
Net actuarial gain and losses	(13,385,590)	(2,659,000)
Interest cost	4,182,000	4,047,000
	<b>33,448,643</b>	<b>41,613,870</b>

#### Net expense recognised in the statement of financial performance

Accrued liability beginning of the year	41,613,870	39,188,870
Current service cost	2,328,000	2,266,000
Interest cost	4,182,000	4,047,000
Actuarial (gains) losses	(13,385,590)	(2,659,000)
Benefits paid	(1,289,637)	(1,229,000)
	<b>33,448,643</b>	<b>41,613,870</b>

#### Post retirement medical aid plan

Current liabilities	19,118,926	29,144,000
Non-current liabilities	14,328,847	12,469,000
	<b>33,447,773</b>	<b>41,613,000</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.33 %Yield curve
Health care cost inflation	6.82 %CPU + 1%
Net effective discount rate	2.35 %Yield curve

During the year the municipality used a different actuary than the prior year. They used different key assumptions, therefore yielding a higher actuarial gain than the prior year. The main key assumptions were, the proportion with a spouse dependant at retirement of 60% (2018: 100%), Continuation of measurement at retirement of 75% (2018: 100%). Part of the gain is due to membership changes which is likely to have resulted from there being more exits than expected since the previous valuation.

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018		
<b>7. Employee benefit obligations (continued)</b>				
<b>Other assumptions</b>				
Amounts for the current and previous four years are as follows:				
	2019	2018	2017	2016
	R	R	R	R
Post retirement medical benefits	33,447,773	41,613,000	39,188,870	37,447,894
<b>8. Agreements</b>				
Agreements consist of consumer debtors payment arrangements. Short term agreements are payment arrangements shorter than 12 months and long term agreements are payment arrangement that are longer than 12 months.				
Current portion			602,024	140,812
Non-current portion			182,470	185,665
			<b>784,494</b>	<b>326,477</b>
<b>9. Inventories</b>				
Water			267,725	206,228
<b>Water inventory</b>				
Opening balance			206,228	203,621
Purchases			17,015,944	13,138,874
Sales			(12,866,829)	(10,705,999)
Distribution losses		34	(4,087,618)	(2,430,268)
<b>Closing balance</b>			<b>267,725</b>	<b>206,228</b>
<b>10. Receivables from exchange transactions</b>				
Other debtors			1,057,348	1,057,348
WDM fire fighting			1,357,583	1,234,112
Sundry debtors			2,487	4,627
			<b>2,417,418</b>	<b>2,296,087</b>
<b>11. Receivables from non-exchange transactions</b>				
Fines			3,159,033	2,428,106
Consumer debtors - Rates			3,332,647	7,121,555
			<b>6,491,680</b>	<b>9,549,661</b>
<b>Gross balances</b>				
Fines			25,029,560	20,358,885
Consumer debtors - Rates			75,353,044	67,570,387
<b>Less: Allowance for impairment</b>				
Fines			(21,870,528)	(17,930,780)
Consumer debtors - Rates			(72,020,396)	(60,448,831)
			<b>6,491,680</b>	<b>9,549,661</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>11. Receivables from non-exchange transactions (continued)</b>		
<b>Consumer debtors - Rates</b>	5,561,858	9,059,028
Current (0-30 days)	2,573,614	3,612,539
31-60 days	2,145,955	1,639,640
61-90 days	1,883,316	1,643,573
91-120 days	11,161,904	8,748,118
121-365 days	52,026,396	42,867,489
> 365 days	(72,020,396)	(60,448,832)
Impairment	<u>3,332,647</u>	<u>7,121,555</u>
<b>12. VAT receivable</b>		
VAT	<u>11,866,219</u>	<u>14,178,197</u>
<b>13. Consumer debtors</b>		
<b>Gross balances</b>	10,830,588	11,660,373
Electricity	20,301,830	18,214,745
Water	40,877,410	33,791,108
Interest	11,170,793	9,561,943
Sewerage	4,754,091	4,295,565
Refuse	9,294,616	9,888,940
VAT	4,146,704	3,304,377
Fees	968,566	763,925
Rental charges	2,777,665	3,171,888
Merchandising and jobbing	<u>105,122,263</u>	<u>94,652,864</u>
<b>Less: Allowance for impairment</b>	(6,446,015)	(6,136,898)
Electricity	(18,836,616)	(16,891,289)
Water	(40,777,904)	(33,705,499)
Interest	(10,412,518)	(8,741,867)
Sewerage	(4,348,732)	(3,897,596)
Refuse	(8,250,841)	(8,715,791)
VAT	(4,012,446)	(3,020,605)
Fees	(833,688)	(697,380)
Rental charges	(2,698,005)	(2,970,418)
Merchandising and jobbing	<u>(96,616,765)</u>	<u>(84,777,343)</u>
<b>Net balance</b>	4,384,573	5,523,475
Electricity	1,465,214	1,323,456
Water	99,506	85,609
Interest	758,275	820,076
Sewerage	405,359	397,969
Refuse	1,043,775	1,173,149
VAT	134,258	283,772
Fees	134,878	66,545
Rental charges	79,660	201,470
Merchandising and jobbing	<u>8,505,498</u>	<u>9,875,521</u>

## Bela Bela Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>Included in above is receivables from exchange transactions</b>		
Electricity	4,384,573	5,523,475
Water	1,465,214	1,323,456
Interest	99,506	85,609
Sewerage	758,275	820,075
Refuse	405,359	397,970
VAT	1,043,775	1,173,149
Fees	134,258	283,772
Rental charges	134,878	66,545
Merchandising and jobbing	79,660	201,470
	<b>8,505,498</b>	<b>9,875,521</b>
<b>Net balance</b>	<b>8,505,498</b>	<b>9,875,521</b>
<b>Electricity</b>		
Current (0 -30 days)	4,645,174	6,552,377
31 - 60 days	1,396,828	724,363
61 - 90 days	401,189	189,485
91 - 120 days	145,489	120,558
121 - 365 days	564,405	547,492
> 365 days	3,677,503	3,526,098
Impairment	(6,446,015)	(6,136,898)
	<b>4,384,573</b>	<b>5,523,475</b>
<b>Water</b>		
Current (0 -30 days)	2,141,040	1,960,727
31 - 60 days	977,711	1,046,893
61 - 90 days	618,010	687,720
91 - 120 days	574,215	379,777
121 - 365 days	3,334,374	3,268,822
> 365 days	12,656,481	10,870,805
Impairment	(18,836,617)	(16,891,288)
	<b>1,465,214</b>	<b>1,323,456</b>
<b>Interest</b>		
Current (0 -30 days)	1,158,859	926,368
31 - 60 days	1,063,094	879,333
61 - 90 days	1,015,756	1,455,403
91 - 120 days	997,451	813,854
121 - 365 days	6,107,291	5,903,156
> 365 days	30,534,959	23,812,993
Impairment	(40,777,904)	(33,705,498)
	<b>99,506</b>	<b>85,609</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>Sewerage</b>		
Current (0 -30 days)	1,220,874	1,223,246
31 - 60 days	546,213	536,736
61 - 90 days	440,939	390,878
91 - 120 days	390,108	341,533
121 - 365 days	2,044,281	1,935,979
> 365 days	6,528,377	5,133,571
Impairment	(10,412,517)	(8,741,867)
	<b>758,275</b>	<b>820,076</b>
<b>Refuse</b>		
Current (0 -30 days)	588,533	551,003
31 - 60 days	221,113	220,420
61 - 90 days	173,944	147,608
91 - 120 days	148,275	128,221
121 - 365 days	725,407	696,606
> 365 days	2,896,818	2,551,708
Impairment	(4,348,731)	(3,897,597)
	<b>405,359</b>	<b>397,969</b>

# Bela Bela Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>VAT</b>		
Current (0 - 30 days)	1,335,165	1,688,572
31 - 60 days	491,562	394,981
61 - 90 days	327,168	256,547
91 - 120 days	202,967	209,542
121 - 365 days	1,308,138	1,085,641
> 365 days	5,629,616	6,253,657
Impairment	(8,250,841)	(8,715,791)
	<b>1,043,775</b>	<b>1,173,149</b>
<b>Fees</b>		
Current (0 - 30 days)	270,915	858,092
31 - 60 days	83,136	173,893
61 - 90 days	379,557	170,845
91 - 120 days	48,520	198,065
121 - 365 days	1,266,613	477,648
> 365 days	2,097,961	1,425,834
Impairment	(4,012,446)	(3,020,605)
	<b>134,256</b>	<b>283,772</b>
<b>Rental charges</b>		
Current (0 - 30 days)	199,673	91,819
31 - 60 days	26,306	27,342
61 - 90 days	21,610	17,368
91 - 120 days	16,811	12,220
121 - 365 days	71,337	38,818
> 365 days	632,829	576,358
Impairment	(833,688)	(697,380)
	<b>134,878</b>	<b>66,545</b>
<b>Merchandising and jobbing</b>		
Current (0 - 30 days)	73,492	239,701
31 - 60 days	25,848	4,593
61 - 90 days	872	1,185
91 - 120 days	1,097	6,226
121 - 365 days	29,394	112,744
> 365 days	2,646,963	2,807,439
Impairment	(2,697,213)	(2,970,418)
	<b>80,453</b>	<b>201,470</b>
<b>Consumer</b>		
Current (0 - 30 days)	7,400,283	7,455,273
31 - 60 days	3,960,836	2,467,927
61 - 90 days	3,037,279	657,822
91 - 120 days	2,382,586	529,777
121 - 365 days	14,512,337	2,998,692
> 365 days	65,984,791	17,199,225
	<b>97,278,112</b>	<b>31,308,716</b>

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Consumer debtors (continued)</b>		
<b>Industrial / commercial</b>		
Current (0 -30 days)	8,474,071	11,084,169
31 - 60 days	2,556,237	2,920,735
61 - 90 days	1,980,805	2,413,595
91 - 120 days	1,579,050	1,753,707
121 - 365 days	9,145,942	10,485,051
> 365 days	8,323,434	51,835,431
	<b>32,059,539</b>	<b>80,492,688</b>
<b>National and provincial government</b>		
Current (0 -30 days)	1,134,231	943,263
31 - 60 days	827,243	625,007
61 - 90 days	367,037	438,215
91 - 120 days	413,901	340,195
121 - 365 days	2,684,262	2,422,451
> 365 days	7,300,154	4,868,421
	<b>12,726,828</b>	<b>9,637,552</b>
<b>Other</b>		
Current (0 -30 days)	186,966	3,668,228
31 - 60 days	61,109	1,607,426
61 - 90 days	139,879	1,501,046
91 - 120 days	32,711	1,229,891
121 - 365 days	270,603	6,908,831
> 365 days	2,735,432	25,868,873
	<b>3,426,700</b>	<b>40,784,295</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(145,226,175)	(130,470,203)
Debt impairment written off against allowance	(23,410,198)	(14,755,972)
	<b>(168,636,373)</b>	<b>(145,226,175)</b>
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	(883)	4,091
Cash balances	12,217,539	2,541,688
Short-term deposits	870,036	1,629,446
	<b>13,086,692</b>	<b>4,175,225</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 14. Cash and cash equivalents (continued)

##### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating	870,035	1,629,447
Investments	10,517,589	1,488,433
Cash and cash equivalents	(11,289,899)	(1,002,259)
Less: Unspent conditional grants		
	<b>97,725</b>	<b>2,115,621</b>

##### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral: Local guarantees	846,299	800,000
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The above guarantee is pledged to INCA Infrastructure Finance Corp Limited by means of a ABSA call account with the number 2066701092. The valuation amount for the current year ended 30 June 2019: R 846 299 (2017:R 800 00).

##### The municipality had the following bank accounts

Account number/Description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Absa BANK - Current account (Primary Bank Account)- 13-3000-0062	10,308,174	754,839	778,159	12,008,123	1,808,093	184,906
ABSA BANK - Call account - 40-7836-0937	209,415	733,594	3,227	209,415	733,594	3,227
ABSA BANK - Call account - 92-9574-5884	22,855	1,852	829	22,855	1,852	829
ABSA BANK - Fixed deposit - 206-670-1092	846,299	800,000	800,000	846,299	800,000	800,000
ABSA BANK - CIBCOR - 407-374-1532	881	2,200	4,062	881	2,200	4,062
<b>Total</b>	<b>11,387,624</b>	<b>2,292,485</b>	<b>1,586,277</b>	<b>13,087,573</b>	<b>3,345,739</b>	<b>993,024</b>

#### 15. Finance lease obligation

Minimum lease payments due - within one year	-	8,099,401
	-	8,099,401
less: future finance charges	-	(430,040)
<b>Present value of minimum lease payments</b>	<b>-</b>	<b>7,669,361</b>
Non-current liabilities	-	-
Current liabilities	-	7,669,362
	<b>-</b>	<b>7,669,362</b>

Bela bela has leased motor vehicle from Bertobite Pty (Ltd) and Telephone Sytem equipment from Intutate for a period of 36 months. Bertobrite (Ltd) lease agreement is effective from 01 February 2016 to 31 January 2019. The Intutate lease agreement is effective from 1 Novemebre 2015 to 31 October 2019.

The average lease term was 36 years and the average effective borrowing rate was 16 (2018: 16%).

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>16. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Integrated national electrification programme	8,718,019	72,065
Municipal water infrastructure grant	2,571,881	930,194
	<b>11,289,900</b>	<b>1,002,259</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	1,002,259	25,502,790
Additions during the year	183,450,000	89,004,000
Income recognition during the year	(173,162,359)	(113,504,531)
	<b>11,289,900</b>	<b>1,002,259</b>

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

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

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

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

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Rehabilitation of landfill site	44,600,307	3,893,291	48,493,598
Long service award provision	5,854,000	354,417	6,208,417
Performance bonus	477,412	204,781	682,193
	<b>50,931,719</b>	<b>4,452,489</b>	<b>55,384,208</b>

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Rehabilitation of landfill site	38,682,172	5,918,135	44,600,307
Long service award provision	5,037,002	816,998	5,854,000
Performance bonus	368,897	108,515	477,412
	<b>44,088,071</b>	<b>6,843,648</b>	<b>50,931,719</b>
Non-current liabilities		53,760,003	49,996,307
Current liabilities		1,624,205	935,412
		<b>55,384,208</b>	<b>50,931,719</b>

#### Rehabilitation of landfill site

The provision for the rehabilitation of landfill site to the legal obligation to rehabilitate landfill sites used for waste disposal. The valuation of the landfill site was performed as at 30 June 2019 by Environmental and Sustainability Solutions CC. Its is calculated as the present value of the future obligation, discounted at prime interest rate. The following key assumption were used: CPI of 4.194% (2018: 4.4805%), discount rate of 7.9447% (2018: 7.4805%) and net effective discount rate 3.75% of (2018: 3%). The remaining estimated life of the landfill site of 5 years is used in the discounted calculation of the provision.

#### Provision for rehabilitation of landfill site

Balance at the beginning of the year	44,600,307	38,682,172
Changes in provision of landfill closure	556,965	2,770,489
Interest charge	3,336,326	3,147,646
	<b>48,493,598</b>	<b>44,600,307</b>

#### Long Service Awards

The municipality operates an an unfunded defined benefit plan for all its employees. Under the plan, a long service award is payables after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019 by Arch Actuarial Consulting, a fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

For the year ended 30 June 2019:391 (2018: 389) employees were eligible for long service awards. The current service cost for the year ending 30 June 2019 is estimated to be R596 000 (2018: R533 000). The average expected remaining working - lifetime of eligible employees is 16.5 years.

**The key financial assumptions used for the purposes of the actuarial valuations were as follows:**

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>17. Provisions (continued)</b>		
Discount rate used	8.15%	8.58%
General salary inflation	5.56%	6.66%
Net effective discount rate	2.45%	1.80%
Average retirement age	62 years	63 years

### Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependant on actual future levels of assumed variables and the demographic profile of the membership. In order to illustrate the sensitivity of our results to change in certain key variables, the liabilities were reclassified using the following assumption: Additions:

- 50% increase / decrease in the assumed level of withdrawal rates;
- 1% increase / decrease in the Normal Salary cost inflation

### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa. We have utilised the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rate by 20%.

### Normal salary inflation

The cost of the long service award is dependant on the increase in the annual salaries paid to employees. The rate at which salaries increase will have a direct effect on the liability of future retirees. We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption.

### Movement in the present value of the long service awards were as follows:

Balance at the beginning of the year	5,854,000	5,037,000
Current service cost	596,000	533,000
Interest cost	598,000	525,000
Benefits paid	(458,000)	(252,000)
Actuarial (gain)/losses	(381,583)	11,000
	<b>6,208,417</b>	<b>5,854,000</b>

### The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	596,000	533,000
Interest cost	598,000	525,000
Actuarial (gain)/losses	(381,583)	11,000
	<b>812,417</b>	<b>1,069,000</b>

### Amounts for the current and previous year are as follows:

	2019	2018	2017	2016
Long service awards	6,208,417	5,854,000	5,037,000	4,671,000

### 18. Unknown deposits

Unknown deposits	4,499,524	5,845,204
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## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>19. Payables from exchange transactions</b>		
Trade payables	74,171,090	79,567,360
Payments received in advanced - contract in process	26,715,212	32,881,414
Year end accruals	3,350,646	862,326
Retentions	18,810,874	13,610,656
Accrued leave pay	7,862,986	8,680,191
Accrued bonus	2,666,643	2,522,021
Deposits on sale of land	417,559	417,559
Other creditors	108,670	108,670
Accrued payroll expenses	15,199,487	7,775,899
	<b>149,303,167</b>	<b>146,426,096</b>
<b>20. Consumer deposits</b>		
Electricity	5,365,143	5,399,774
Water	402,458	248,117
Regional services levies	5,689	1,821
Housing rental	5,394	-
	<b>5,778,684</b>	<b>5,649,712</b>
<b>21. Revenue</b>		
Rendering of services	276,874	231,792
Service charges	159,321,887	150,649,448
Rental of facilities and equipment	1,375,575	1,216,348
Agency services	2,496,703	-
Licences and permits	1,241,209	3,925,789
Town planning scheme	323,554	311,568
Commission received	70,841	56,010
Demand charges	454,263	619,167
Other income - (rollup)	7,371,152	3,419,003
Interest received - investment	12,787,808	9,845,041
Property rates	68,760,593	62,003,315
Government grants & subsidies	172,373,407	163,093,099
Fines, Penalties and Forfeits	6,090,600	15,526,100
	<b>432,944,466</b>	<b>410,896,680</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	159,321,887	150,649,448
Rendering of services	276,874	231,792
Rental of facilities and equipment	1,375,575	1,216,348
Agency services	2,496,703	-
Licences and permits	1,241,209	3,925,789
Town planning scheme	323,554	311,568
Commission received	70,841	56,010
Demand charges	454,263	619,167
Other income - (rollup)	7,371,152	3,419,003
Interest received - investment	12,787,808	9,845,041
	<b>185,719,866</b>	<b>170,274,166</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>21. Revenue (continued)</b>		
The amount included in revenue arising from non-exchange transactions is as follows:		
<b>Taxation revenue</b>	68,760,593	62,003,315
Property rates		
<b>Transfer revenue</b>	172,373,407	163,093,099
Government grants & subsidies	6,090,600	15,526,100
Fines, Penalties and Forfeits	<b>247,224,600</b>	<b>240,622,514</b>
<b>22. Service charges</b>		
Sale of electricity	108,992,105	103,166,813
Sale of water	27,254,761	25,122,231
Solid waste	7,596,470	7,259,742
Sewerage and sanitation charges	15,478,551	15,100,662
	<b>159,321,887</b>	<b>150,649,448</b>
<b>23. Other income</b>		
Advertising	-	3,584
Collection charges	2,507,693	2,329,719
Discount recieved	198,562	204,426
Fire brigade levies	258,789	674
Insurance claims	58,726	80,649
Micellaneous income	49,836	121,455
Staff recoveries	1,624,702	-
Penalties - tampered meters	132,948	84,900
Printing and duplicates	5,516	4,550
Procurement income	374,088	235,532
Surplus cash	2,160,292	353,514
	<b>7,371,152</b>	<b>3,419,003</b>
<b>24. Investment revenue</b>		
Interest revenue	1,764,101	742,068
Interest received - investments	11,023,707	9,102,973
Interest charged on trade and other receivables	<b>12,787,808</b>	<b>9,845,041</b>
<b>25. Actuarial gain</b>		
Long service award	381,583	45,246
Post-retirement medical aid benefit	13,385,590	2,659,000
	<b>13,767,173</b>	<b>2,704,246</b>

Refer to note 7 for more detail on post retirement medical actuarial gain increase.

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Property rates</b>		
<b>Rates received</b>		
Property rates	68,760,592	62,003,315
<b>Valuations</b>		
Residential	3,667,770,000	3,667,770,000
Commercial	738,219,000	738,219,000
Industrial	15,400,000	15,400,000
Accommodation establishment	62,051,000	62,051,000
Public Benefit Activities	54,217,000	54,217,000
Farms Residential	631,632,000	631,632,000
Farms Agricultural	3,818,881,000	3,818,881,000
Farms Business	586,359,000	586,359,000
Farms Vacant Land	528,796,000	528,796,000
Farms Other	45,635,000	45,635,000
Small Holdings Residential	122,903,000	122,903,000
Small Holdings Agricultural	18,803,000	18,803,000
Small Holdings Business	39,994,000	39,994,000
Small Holdings Vancant Land	167,484,000	167,484,000
Small Holdings Other	393,000	393,000
Pubic Service Infrastructure	8,433,000	8,433,000
Private Open Space	15,959,000	15,959,000
Vacant Business	8,616,000	8,616,000
Vacant Residentail	776,268,000	776,268,000
Municipal Poperty	21,078,000	21,078,000
	<b>1,328,891,000</b>	<b>1,328,891,000</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2016. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.006 (2018: R 0.005) is applied to property valuations to determine assessment rates.

The rate randages are as follows:

Farms argricultural is R 0.0074  
 Farms agricultural (bona fide) R 0.0029  
 Residential propoerties R 0.0119  
 Government propoerties R 0.0150  
 Business and industrial R 0.0150  
 Vacant land business R 0.0150  
 Vacant land residential R 0.0150

The new general valuation will be implemented on 01 July 2021.

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>27. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	81,986,259	74,939,000
Local Government Finance Management Grant	1,699,999	1,700,000
Expanded Public Works Programme Integrated Grant for Municipalities	1,154,000	1,000,000
Municipal Systems Improvement Grant	-	152,358
SETA grant	213,048	-
	<b>85,053,306</b>	<b>77,791,358</b>
<b>Capital grants</b>		
Integrated National Electrification Programme	6,861,982	24,927,935
Municipal Infrastructure Grant	37,530,000	26,304,000
Municipal Water Infrastructure Grant	-	34,069,806
Municipal Services Infrastructure Grant	42,928,119	-
	<b>87,320,101</b>	<b>85,301,741</b>
	<b>172,373,407</b>	<b>163,093,099</b>

### Equitable Share

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

All registered indigents receive a monthly subsidy of R - (2018: R -), which is funded from the grant.

### Integrated National Electrification Programme

Balance unspent at beginning of year	72,065	11,993,002
Current-year receipts	15,580,000	25,000,000
Conditions met - transferred to revenue	(6,861,981)	(24,927,935)
Offset against prior year unspent grant	(72,065)	(11,993,002)
	<b>8,718,019</b>	<b>72,065</b>

Conditions still to be met - remain liabilities (see note 16).

The purpose of this grant is to facilitate the planning, funding and implementation of national electrification projects and all related bulk infrastructure

### Local Government Financial management Grant

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

Conditions still to be met - remain liabilities (see note 16).

The purpose of the FMG Grant is to promote and support municipal financial management reforms and assist municipalities with implementation of the MFMA

### The conditions of the grant are as follows:

Appointment of an appropriately skilled municipal manager and CFO

Appointment of at least two interns for purposes of building future financial management capacity

Council resolution committing council to reforms

# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 27. Government grants and subsidies (continued)

#### Expanded Public Works Programme Integrated Grant for Municipalities

Current-year receipts	1,154,000	1,000,000
Conditions met - transferred to revenue	1,154,000	(1,000,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

The grant is to incentivise municipalities to increase labour intensive employment through infrastructure programmes that maximise job creation and skills development in line with the EPWP guidelines

#### Municipal Infrastructure Water Grant

Balance unspent at beginning of year	930,194	-
Current-year receipts	45,500,000	35,000,000
Conditions met - transferred to revenue	(42,928,119)	(34,069,806)
Offset against prior year unspent grant	(930,194)	-
	<u>2,571,881</u>	<u>930,194</u>

Conditions still to be met - remain liabilities (see note 16).

The purpose of this grant is to ensure that the country's water resources are protected, used, developed, conserved, managed and controlled in a sustainable manner for the benefit of all people and the environment, through effective policies, integrated planning, strategies, knowledge base and procedures.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	-	13,509,788
Current-year receipts	37,530,000	26,304,000
Conditions met - transferred to revenue	(37,530,000)	(26,304,000)
Offset against prior year unspent grant	-	(13,509,788)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

The municipal infrastructure Grants complements the equitable share grant for local government, however it is provided conditionally to municipalities.

The key principles underpinning the design of the MIG are outlined below:

a) Focus on infrastructure required for a basic level of service: The MIG programme is aimed at providing only basic infrastructure

c) Maximising economic benefits: The programme will be managed to ensure that the local economic spin -offs through providing infrastructure are maximised

d) Equity in the allocation and use of funds: The mechanism for distributing funds must provide for equitable access to such funds by the poor in order to make uniform progress in closing the infrastructure gap.

# Bela Bela Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>28. Employee related costs</b>		
Acting allowances	2,481,187	2,598,297
Bargaining council	39,889	38,692
Basic	71,115,203	69,433,177
Bonus	6,301,990	5,423,558
Car allowance	7,409,648	6,867,664
Cellphone allowance	988,154	964,662
Current service cost	2,328,000	1,093,246
Fire allowance	27,000	25,350
Housing benefits and allowances	336,492	341,746
Leave pay provision charge	2,307,507	4,438,624
Long-service awards	1,333,248	1,566,838
Medical aid - company contributions	7,074,418	5,450,737
Overtime payments	12,680,572	8,924,307
Post employment benefits	14,043,059	14,470,030
Unemployment insurance fund	632,785	639,190
Workmens compensation	1,361,592	2,140,045
Skills development levy	265,604	1,053,078
	<b>130,726,348</b>	<b>125,469,241</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	791,808	272,212
Car Allowance	311,448	110,328
Contributions to UIF, Medical and Pension Funds	144,310	58,537
Other allowance	23,988	8,260
	<b>1,271,554</b>	<b>454,337</b>
The municipal manager was appointed 1st April 2018.		
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	513,901	598,467
Car Allowance	207,987	207,557
Contributions to UIF, Medical and Pension Funds	116,388	135,455
Cellphone allowance	23,988	29,985
Acting allowance	-	272,388
	<b>862,264</b>	<b>1,243,852</b>
<b>Remuneration of corporate services manager</b>		
Annual Remuneration	563,477	610,965
Car Allowance	237,694	219,968
Contributions to UIF, Medical and Pension Funds	158,754	142,767
Cellphone allowance	23,988	29,985
Acting allowance	-	286,122
	<b>983,913</b>	<b>1,289,807</b>
<b>Remuneration of technical services manager</b>		
Annual Remuneration	476,395	943,960
Car Allowance	198,950	354,286

# Bela Bela Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>28. Employee related costs (continued)</b>		
Contributions to UIF, Medical and Pension Funds	118,414	302,675
Cellphone allowance	19,990	37,488
Acting allowance	-	199,152
	<b>813,749</b>	<b>1,837,561</b>
<b>Remuneration of planning and economic development manager</b>		
Annual Remuneration	503,406	571,496
Car Allowance	174,574	211,026
Contributions to UIF, Medical and Pension Funds	156,694	161,228
Cellphone allowances	23,988	23,991
Acting allowance	74,538	181,143
	<b>933,200</b>	<b>1,150,884</b>
<b>Remuneration of acting manager for social department</b>		
Annual Remuneration	503,406	716,442
Car Allowance	176,818	161,852
Cellphone allowance	23,988	23,988
Contributions to UIF, Medical and Pension Funds	152,104	105,883
Acting allowance	54,556	53,947
	<b>910,871</b>	<b>1,062,162</b>
<b>29. Remuneration of councillors</b>		
Executive Major	872,443	829,813
Mayoral Committee Members	2,653,940	2,443,841
Speaker	706,919	654,570
Councillors	2,443,986	2,303,334
Chief whip	686,618	637,816
	<b>7,363,906</b>	<b>6,869,374</b>
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	29,633,519	32,021,258
Intangible assets	317,078	269,938
	<b>29,950,597</b>	<b>32,291,196</b>
<b>31. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	24,776,266
<b>32. Finance costs</b>		
Non-current borrowings	3,601,386	-
Finance leases	430,041	4,838,696
Land Fill Site	3,336,326	3,147,646
Employee Stated Benefit	4,182,000	4,320,000
	<b>11,549,753</b>	<b>12,306,342</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018		
<b>33. Debt impairment</b>				
Debt impairment allowance - consumer debtors	23,410,989	14,755,180		
Debt impairment allowance - traffic fines	3,939,748	10,093,469		
Bad debts written off	9,142,269	8,635,779		
Bad debts written off - traffic fines	386,730	-		
	<b>36,879,736</b>	<b>33,484,428</b>		
<b>34. Bulk purchases</b>				
Electricity	85,000,383	80,148,694		
Water	12,198,126	8,427,916		
	<b>97,198,509</b>	<b>88,576,610</b>		
<b>Electricity losses</b>				
	Number 2019	Number 2018		
Units purchased	91,028,083	91,580,487	131,562,888	113,990,231
Units sold	(78,977,867)	(80,562,063)	(114,146,712)	(100,275,600)
<b>Total loss</b>	<b>12,050,216</b>	<b>11,018,424</b>	<b>17,416,176</b>	<b>13,714,631</b>
Comprising of:				
Technical losses	1,205,021	1,101,842	1,741,617	1,371,463
Non-technical losses	10,845,194	9,916,582	15,674,559	12,343,168
<b>Total</b>	<b>12,050,215</b>	<b>11,018,424</b>	<b>17,416,176</b>	<b>13,714,631</b>
Percentage Loss:				
Technical losses			10 %	10 %
Non-technical losses			3 %	2 %
<b>Total</b>			<b>13 %</b>	<b>12 %</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018	
<b>34. Bulk purchases (continued)</b>			
<b>Water losses</b>			
	Number 2019	Number 2018	
Units purchased	2,908,957	2,554,960	16,954,447
Units sold	(2,199,646)	(2,081,868)	(12,866,829)
<b>Total</b>	<b>709,311</b>	<b>473,092</b>	<b>4,087,618</b>
Comprising of:			
Technical losses	120,583	94,618	705,349
Non-technical losses	588,728	378,474	3,382,269
<b>Total</b>	<b>709,311</b>	<b>473,092</b>	<b>4,087,618</b>
Percentage Loss:			
Technical losses			9 %
Non-technical losses			15 %
<b>Total</b>			<b>24 %</b>

The distribution loss on water for the prior year was restated to correctly align it to the current year disclosure. Change in rate used to arrive at distribution loss on water was changed from R11.69 to an average of R5.85 which is the average rate between cost to purchase at Magalies and internal water treatment cost.

#### 35. Contracted services

<b>Outsourced Services</b>		
Connection/Dis-connection	315	-
Transport Services	27,300	-
<b>Consultants and Professional Services</b>		
Business and Advisory	71,149	-
<b>Contractors</b>		
Aerial Photography	4,000	-
Maintenance of Unspecified Assets	1,950,786	-
	<b>2,053,550</b>	<b>-</b>

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>36. General expenses</b>		
Advertising	455,247	883,540
Auditors remuneration	4,243,371	4,500,127
Bank charges	1,170,864	1,171,916
Cleaning	294,183	253,652
Commission paid	3,550,851	5,268,087
Consulting and professional fees	9,775,352	12,887,599
Debt collection	3,415,039	3,886,886
Entertainment	-	4,709
Hire	6,816,564	7,832,915
Insurance	903,856	699,764
IT expenses	6,851,983	4,201,273
Fuel and oil	3,540,310	3,560,301
Placement fees	-	69,828
Postage and courier	371,701	380,694
Printing and stationery	759,353	535,541
Protective clothing	1,017,635	1,642,724
Repairs and maintenance	16,457,488	6,214,625
Subscriptions and membership fees	1,062,053	3,359,272
Telephone and fax	3,487,596	1,896,376
Training	586,439	-
Travel - local	968,482	1,587,160
Community outreach programme	397,874	1,397,580
Chemicals	23,714	69,901
Internal audit	71,106	3,615
Contracted services	7,219,117	21,180,665
Capacity building	1,265,116	575,791
Material Losses	4,106,017	-
Other expenses	25,495	-
	<b>78,836,806</b>	<b>84,064,541</b>

See note 53 for additional disclosure on material loss

#### 37. Fair value adjustments

Investment property (Fair value model)	2,820,154	3,592,232
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#### 38. Auditors' remuneration

Fees	4,243,371	4,500,127
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# Bela Bela Local Municipality

(Registration number LIM 366)

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>39. Cash generated from operations</b>		
Surplus (deficit)	54,895,824	(41,044,111)
<b>Adjustments for:</b>		
Depreciation	29,633,519	32,021,258
Amortisation	317,078	269,938
Impairment PPE	-	24,776,265
Fair value adjustments	(2,820,154)	(3,592,232)
Debt impairment	36,879,735	33,484,428
Loss on disposal of PPE	76,765	1,074,698
Loss on disposal of asset - investment property	-	49,296,203
Movements in retirement benefit assets and liabilities	(8,165,227)	2,425,000
Movements in provisions	(113,565)	5,116,245
Landfill rehabilitation provision	3,336,326	-
<b>Changes in working capital:</b>		
Inventories	(61,497)	(2,607)
Receivables from exchange transactions	(121,331)	(482,285)
Consumer debtors	(31,183,235)	(20,520,374)
Other receivables from non-exchange transactions	(1,268,496)	(6,927,284)
Agreements	(458,017)	92,534
Sundry receivables	(501,028)	4,257,904
Unknow deposits	(1,345,680)	930,772
Payables from exchange transactions	(1,650,384)	31,475,755
VAT	2,311,978	3,981,744
Unspent conditional grants and receipts	10,287,641	(24,500,532)
Consumer deposits	128,972	199,580
Other	57,990	-
	<b>90,237,214</b>	<b>92,332,899</b>

## 40. Financial instruments disclosure

### Categories of financial instruments

#### 2019

#### Financial assets

	At amortised cost	Total
Trade receivables from exchange transactions	2,417,418	2,417,418
Trade receivables from non-exchange transactions	6,491,680	6,491,680
Consumer debtors	8,505,498	8,505,498
Cash and cash equivalents	13,086,692	13,086,692
Sundry receivables	1,886,241	1,886,241
Agreements	784,494	784,494
	<b>33,172,023</b>	<b>33,172,023</b>

#### Financial liabilities

	At amortised cost	Total
Trade payables from exchange transactions	149,303,167	149,303,167
Consumer deposits	5,778,684	5,778,684
Unspent conditional grants	11,289,900	11,289,900
	<b>166,371,751</b>	<b>166,371,751</b>

#### 2018

## Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 40. Financial instruments disclosure (continued)

##### Financial assets

	At amortised cost	Total
Trade receivables from exchange transactions	2,296,087	2,296,087
Trade receivables from non-exchange transactions	9,549,661	9,549,661
Consumer debtors	9,875,521	9,875,521
Cash and cash equivalents	4,175,225	4,175,225
Sundry receivables	1,385,213	1,385,213
Agreements	326,477	326,477
	<b>27,608,184</b>	<b>27,608,184</b>

##### Financial liabilities

	At amortised cost	Total
Trade payables from exchange transactions	146,426,096	146,426,096
Consumer deposits	5,649,712	5,649,712
Unspent conditional grants	1,002,259	1,002,259
	<b>153,078,067</b>	<b>153,078,067</b>

# Bela Bela Local Municipality

(Registration number LIM 366)

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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>41. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	29,874,357	66,879,611
<b>Not yet contracted for and authorised by accounting officer</b>	237,490,350	148,567,917
• Property, plant and equipment		
<b>Total capital commitments</b>	29,874,357	66,879,611
Already contracted for but not provided for	237,490,350	148,567,917
Not yet contracted for and authorised by accounting officer	<b>267,364,707</b>	<b>215,447,528</b>
<b>Authorised operational expenditure</b>		
<b>Operating expenditure approved and contracted</b>	23,327,335	22,576,652
• Operating commitments		
<b>Total operational commitments</b>	23,327,335	22,576,652
Already contracted for but not provided for		
This committed expenditure relates to plant and equipment as required by GRAP 19 and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.		
The Municipality owns properties that are leased out to employees for the period not exceeding 12 months. The Municipality leases land to various entities for the purposes of farming and network equipment transmission. Lease periods range from five to ten years.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	323,943	565,592
- in second to fifth year inclusive	13,554	385,665
- later than five years	-	7,998
	<b>337,497</b>	<b>959,255</b>

Operating lease payments represent rentals payable by the municipality to the following service providers. No contingent rent is payable.

**Nashua** - The Municipality leased printers from Nashua for a period of 36 months, effective from 24 July 2014. There were no defaults or breaches and no terms or condition were negotiated during the reporting period.

**Fedeliity** -The Municipality has a lease with Fedeliity Cash Solutions for a period of 3 years, effective from 1 August 2017. The lease payment is R11 408 .56(VAT excl.)per month with an annual escalation of 9.5%. The lease agreement is not renewable at the end of the lease term. There were no defaults or breaches and no terms or conditions were renegotiated during the reporting period.

**Bertobrite Fleet Management** - The Municipality leases vehicles from Bertobrite Fleet Management for a period of 36 months ,effective from 01 February 2016. There were no defaults or breaches and no terms or conditions were renegotiated during the reporting period.

# Bela Bela Local Municipality

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Annual Financial Statements for the year ended 30 June 2019

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Figures in Rand	2019	2018
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### 42. Contingencies

#### [Malebye Business Enterprises CC t/a Malebye Petroleum // NTK Limpopo Agric Limited and 5 Others

##### Nature of the issue - Civil application

On 12 July 2018, the Municipality was served with an application by Malebye Business Enterprises CC for the High Court in Polokwane to grant an order directing NTK Limpopo Agric Limited to cease all retailing activities on their property situated at Pienaarsrivier in the ordinary course of events. They further requested the Municipality to provide them with a report setting out the legislative framework for issuing of approval of building plans, zoning requirements, compliance with servitudes amongst others.

They contend that the Municipality in approving the building plans did not comply with the Town Planning Scheme and the title conditions applicable to the property. That the Municipality did not properly consider the restrictive title condition, the fuel tanks that had to be placed underground nor the servitude that formed a natural boundary between the applicant's property and NTK. Therefore leaving their rights being infringed by all the Respondents including the Municipality.

The Application has a three (3) part Notice of Motion and the Municipality is the First Respondent, whilst our Building Control Officers are cited as the Seventh and Ninth Respondent in the proceedings.

The Municipality has now filed reasons for the approval of the Building Plans, however, the applicants have now re-issued the same application despite the response of the Municipality in an attempt to review the Municipality's decision to approve NTK's building plans. NTK (2ND Respondent) has filed a notice of exception against Malebye Business Enterprises CC, the said exception has been set down for hearing on August 2019. Our Attorneys will attend to hear the outcome.

**Status:** The Municipality has filed reasons for the approval and awaits the Applicant to take the matter further.

**Claimed amount:** No monetary claim

Estimated potential expenditure on fees, R800 000

##### Nature of claim: Civil-Action :Summons for damages claim

The Municipality was served with Summons on 4 October 2018.

The Plaintiff is suing for damages in the amount of R12 738.47, following an alleged collision between the Plaintiff's vehicle with a pothole. We confirm that the Plaintiff alleges that the pothole in question falls within the jurisdiction of the Bela-Bela Local Municipality and that the Municipality failed to maintain the road and/or to repair the damages on the road.

The Municipality has filed a notice to defend and plea. A pre-trial conference was concluded on 5 April 2019, pleadings have closed. We now await for the Plaintiff's to set the matter down for trial

**Status:**The Municipality has filed a notice to defend and plea. The Municipality awaits further action by the Plaintiff.

**Claimed amount:** R12 738.47

Estimated potential expenditure on fees, R120 000

### 43. Related parties

Relationships  
Accounting Officer

The municipality does not have related party transactions for the 2019 financial year.

Members of key management

Refer to note 28 and 29.

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### 44. Change in estimate

#### Property, plant and equipment

The Municipality reviews the remaining useful life of every movable asset on an annual basis. All asset class's remaining useful life was reviewed and the effect on depreciation is indicated in the table below:

Asset class		
Plant and Machinery	117,410	41,612
Furniture and fixtures	168,193	102,749
Motor vehicles	8,164,971	1,546,324
Office equipment	163,856	175,041
Emergency equipment	7,298	3,637
	<b>8,621,728</b>	<b>1,869,363</b>

### 45. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

2017

	Note	As previously reported	Correction of error	Restated
Property Plant and Equipment		690,180,563	(4,397,841)	685,782,722
Payables from Exchange		(145,709,046)	388,946	(145,320,100)
Accumulated Surplus		(759,306,234)	4,008,895	(755,297,339)
		<b>(214,834,717)</b>	<b>-</b>	<b>(214,834,717)</b>

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### Notes to the Annual Financial Statements

Figures in Rand	2019	2018			
<b>45. Prior-year adjustments (continued)</b>					
<b>2018</b>					
	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories		206,228	-	-	206,228
Receivables from exchange		2,296,087	-	-	2,296,087
Receivables from non-exchange transactions		2,428,105	-	7,121,555	9,549,660
VAT		14,178,197	-	-	14,178,197
Consumer debtors from non-exchange transactions		7,121,555	-	(7,121,555)	-
Consumer debtors from exchange transactions		9,875,522	-	-	9,875,522
Sundry debtors		1,385,213	-	-	1,385,213
Agreements		140,812	-	-	140,812
Cash and cash equivalents		4,175,224	-	-	4,175,224
Investment property		282,015,409	-	-	282,015,409
Property, plant and equipment		685,782,722	2,011,392	-	687,794,114
Intangible assets		2,495,478	-	-	2,495,478
Heritage assets		538,950	-	-	538,950
Sundry debtors		185,664	-	-	185,664
Finance lease obligation (current)		(7,164,963)	(504,399)	-	(7,669,362)
Payables from exchange transactions		(145,320,100)	(1,105,996)	-	(146,426,096)
Consumer deposits		(5,649,712)	-	-	(5,649,712)
Unspent conditional grants and receipts		(1,002,259)	-	-	(1,002,259)
Provision (current)		(6,331,412)	-	5,396,000	(935,412)
Unknown deposits		(5,845,204)	-	-	(5,845,204)
Employee benefit obligation		(41,613,870)	-	-	(41,613,870)
Provision (non-current)		(44,600,307)	-	(5,396,000)	(49,996,307)
Accumulated surplus		(755,297,339)	(400,997)	-	(755,698,336)
		-	-	-	-

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### 45. Prior-year adjustments (continued)

#### Statement of financial performance

2018

	Note	As previously reported	Correction of error	Restated
Service charges		150,649,448	-	150,649,448
Rental of facilities and equipment		1,216,348	-	1,216,348
Interest received		9,845,041	-	9,845,041
Licences and permits		3,925,789	-	3,925,789
Administration and management fees received		231,792	-	231,792
Commissions received		56,010	-	56,010
Demand charges		619,167	-	619,167
Other income		3,419,003	-	3,419,003
Town planning scheme		311,568	-	311,568
Fair value adjustments		3,592,232	-	3,592,232
Actuarial gains		2,704,246	-	2,704,246
Property rates		62,003,315	-	62,003,315
Government grants and subsidies		163,093,099	-	163,093,099
Fines		15,526,100	-	15,526,100
Employee related costs		(125,469,240)	-	(125,469,240)
Remuneration of councillors		(6,869,374)	-	(6,869,374)
Depreciation and amortisation		(34,302,689)	2,011,493	(32,291,196)
Impairment loss / reversal of impairments		(24,776,266)	-	(24,776,266)
Finance costs		(12,295,197)	(11,145)	(12,306,342)
Debt impairment		(33,484,430)	-	(33,484,430)
Bulk purchases		(88,087,686)	(488,924)	(88,576,610)
Loss on disposal of assets		(50,399,271)	-	(50,399,271)
General expenses		(82,954,217)	(1,110,324)	(84,064,541)
<b>Surplus for the year</b>		<b>(41,445,212)</b>	<b>401,100</b>	<b>(41,044,112)</b>

#### Errors

The following prior period errors adjustments occurred:

##### Error 1

Correction of property, plant and equipment incorrectly stated in the previous financial year.

#### Statement of financial position

<b>Property, plant and equipment</b>	-	291,805
Plant and machinery carrying amount	-	301,280
Furniture and fittings carrying amount	-	1,396,626
Office equipment carrying amount	-	21,782
Emergency equipment carrying amount	-	21,782
	-	<b>2,011,493</b>

#### Statement of financial performance

Depreciation	-	2,011,493
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## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>45. Prior-year adjustments (continued)</b>		
<b>Error 2</b>		
Expense incorrectly recognised in the current financial year instead of the previous financial year.		
<b>Statement of financial position</b>		
Trade payables from exchange transactions	-	(488,924)
<b>Statement of financial performance</b>		
Bulk purchases: Water	-	488,924
<b>Error 3</b>		
The finance lease liability was incorrectly stated in 2018 according to the finance lease register.		
<b>Statement of financial position</b>		
Current Liabilities: Finance lease obligation	-	(504,399)
<b>Statement of financial performance</b>		
Finance Cost	-	11,145
General Expense: Hire Charges	-	493,253
	-	<b>504,398</b>
<b>Error 4</b>		
Expenditure was accrued in 2018/2019 financial year but relate to 2017/2018 financial year.		
<b>Statement of financial position</b>		
Current Liabilities: Trade Payables: Accruals	-	(617,071)
<b>Statement of financial performance</b>		
General Expenditure	-	617,071
<b>Error 5 - 2017</b>		
Prior 2017 work in progress assets were capitilized which relate to repairs and maintenance. An adjustment was made to the opening balance of work in progress assets.t		
<b>Statement of financial position</b>		
Property plant and equipment	-	(4,397,841)
Accumulated surplus	-	4,397,841
	-	-
<b>Error 6 - 2017</b>		
The opening balance for trade payables was overstated in 2017 due to incorrect regonition of creditors		
<b>Statement of financial position</b>		
Current Liabilities: Trade Payables	-	478,651
Accumulated Surplus	-	(478,651)
	-	-
<b>Error 7 - 2017</b>		

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### 45. Prior-year adjustments (continued)

Trade accruals was incorrectly raised in 2018/2019 which relate to an invoice in 2016/2017 financial year.

Statement of financial position	-	(89,705)
Current Liabilities: Trade Payables and Accruals	-	89,705
Accumulated Surplus	-	-

### Error 8 - Disclosure

Distribution loss on water for prior year was restated to correctly align it to current year disclosure. Change in rate use to arrive at distribution loss on water was changed from R11.69 to an average of R5.85. This is the average rate between cost to purchase water from Magalies and internal water treatment cost. The rate of R11.69 used last year was incorrect and resulted to adjusted disclosure on water losses. t

Water Distribution Loss	-	473,092
Purchases (kl)	-	(473,092)
Sales (kl)	-	(843,056)
Amount of Losses	-	(843,056)

Distribution Losses	-	(23,654)
Non-Technical Losses (kl)	-	23,654
Technical Losses (kl)	-	(838,632)
Amount of non-technical losses	-	(4,424)
Amount of technical losses	-	(843,056)

### Reclassifications

The following reclassifications adjustment occurred:

#### Reclassification 1

Reclassification of amounts relating to consumer debtors exchange and non-exchange.

Statement of Financial Position	-	7,121,555
Receivables from non-exchange transactions	-	(7,121,555)
Consumer debtors from non-exchange transactions	-	-

#### Reclassification 2

Reclassification of the current and non-current portion in relation to provisions

Statement of financial performance	-	5,396,000
Provision (current)	-	(5,396,000)
Provision (non-current)	-	-

### 46. Comparative figures

Certain comparative figures have been reclassified.

Please refer to note 47.

# Bela Bela Local Municipality

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### 47. 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 (refer to note 41 for commitments) and credit facilities. Cash flow forecasts are prepared.

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management 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 municipality. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

#### 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.

### 48. Going concern

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

### 49. Events after the reporting date

Dikala Plant Hire CC institute a claim against the municipality for outstanding monies to the value of R 8 673 358.88. Bela Bela municipality defend the case against the claimant on the basis that the tender award was made to joint venture. During October 2019 the Council resolve that the amount of R8 673 358.88 be paid to Dikala Plant Hire cc as per the High Court Ruling in monthly installments

### 50. Unauthorised expenditure

Opening balance as previously reported	15,130,663	40,046,173
<b>Opening balance as restated</b>	<b>15,130,663</b>	<b>40,046,173</b>
Add: Unauthorised expenditure - current period	14,255,228	15,130,663
Less: Amount written off - prior period	(15,005,084)	(40,046,173)
<b>Closing balance</b>	<b>14,380,807</b>	<b>15,130,663</b>

Assessment between approved budget and actual spent was performed relating to vote structure (Department functions). Employee cost was identified to have been not properly allocated per department on the financial system when compared to budget tables which resulted to material unauthorised per vote or per department. However the overall approved budget is higher than actual spent. Included on unauthorised is an additional R4 462 600.72 unauthorised based on CAPEX when compared between budget per vote structure/department.

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Figures in Rand	2019	2018
<b>51. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	2,191,338	2,029,986
<b>Opening balance as restated</b>	<b>2,191,338</b>	<b>2,029,986</b>
Add: Fruitless and wasteful expenditure - current period	3,822,678	2,191,338
Less: Amount written off - current	-	(2,029,986)
Less: Amount written off - prior period	(2,191,338)	-
<b>Closing balance</b>	<b>3,822,678</b>	<b>2,191,338</b>

The current year fruitless and wasteful expenditure amounting to R3 822 678 is largely impacted by interest on late payment of Eskom invoices to the amount of R3 371 790.68, Magalies R43 581.77 and interest on late payment on VAT of R263 029.35t

### 52. Irregular expenditure

Opening balance as previously reported	6,439,851	959,425
<b>Opening balance as restated</b>	<b>6,439,851</b>	<b>959,425</b>
Add: Irregular Expenditure - current period	11,126,964	5,730,436
Add: Irregular Expenditure - prior period after audit	-	25,433,415
Add: irregular Expenditure - current period after audit	-	709,415
Less: Amount written off - current	(11,126,964)	(26,392,840)
Less: Amount written off - prior period	(6,439,851)	-
<b>Closing balance</b>	<b>-</b>	<b>6,439,851</b>

#### Details of irregular expenditure incurred

Included in the current year irregular is an amount of R6 439 851, an opening balance from the 2017/18 financial year. A further amount of R11 126 964.52 which is the irregular expenditure for the 2018/19 financial year (R12 796 009.2, VAT inclusive). The R11 126 965 is from continuing contracts which were found to be in contravention of the Municipality's Supply Chain Management Policy from the previous years audit. A Detailed management report explaining each irregular expense raised is available.

The classification, validation, and recoverability of all irregular expenditure was submitted to Council in terms of section 32 of MFMA for determination. The resulting action was the approval of the write-off of the R6 439 851 brought forward from the 2017/18 financial year and the current year irregular expenditure of R11 126 964 as it was found that irregular amount as identified was not recoverable.

### 53. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	1,356,426	1,269,370
Amount paid - current year	(1,356,426)	(1,269,370)
	-	-

#### Material losses through criminal conduct

Opening balance	1,104,721	991,148
Amount incurred - current year	5,706,017	806,679
Amount recovered - current year	(326,880)	(693,106)
	<b>6,483,858</b>	<b>1,104,721</b>

The material losses is debit orders which went fraudulent through the bank account. The matter is investigated. See note 36 for disclosure

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### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>53. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Opening balance	3,777,820	2,522,206
Current year subscription / fee	4,241,887	2,846,515
Amount paid - current year	(4,874,725)	(1,590,901)
	<b>3,144,982</b>	<b>3,777,820</b>
<b>PAYE and UIF</b>		
Opening balance	2,628,474	1,224,374
Current year subscription / fee	18,635,805	17,679,919
Amount paid - current year	(18,635,805)	(16,275,819)
	<b>2,628,474</b>	<b>2,628,474</b>
<b>Pension and Medical Aid Deductions</b>		
Opening balance	3,371,240	775,170
Current year subscription / fee	29,745,986	30,611,919
Amount paid - current year	(29,668,479)	(28,015,849)
	<b>3,448,747</b>	<b>3,371,240</b>
<b>VAT</b>		
VAT receivable	11,866,219	14,178,197

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

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### Notes to the Annual Financial Statements

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#### 53. 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 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. Ledwaba MH	3,135	13,959	17,094
Cllr. Malete YMS	2,056	-	2,056
Cllr. Moeletsi RZ	1,277	-	1,277
Cllr. Senosha MD	201	-	201
Cllr. Seale SD	3,783	7,084	10,867
Cllr. Masemola TR	1,611	-	1,611
Cllr. Modimola LR	582	-	582
Cllr. Hlungwane FS	181	-	181
Cllr. Shika MA	2,083	-	2,083
Cllr. Maluleka SE	1,122	-	1,122
Cllr. Makhubela MJ	275	-	275
Cllr. Mothokwa KF	407	-	407
	<b>16,713</b>	<b>21,043</b>	<b>37,756</b>

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. Ledwaba MH	1,237	5,488	6,725
Cllr. Malete YMS	769	60	829
Cllr. Moeletsi RZ	1,222	-	1,222
Cllr. Moswae AR	33	-	33
Cllr. Seale SD	920	-	920
Cllr. Masemola TR	1,646	-	1,646
Cllr. Modimola LR	569	-	569
Cllr. Hlungwane FS	474	-	474
Cllr. Shika MA	474	-	474
Cllr. Maluleka SE	836	-	836
Cllr. Makhubela MJ	997	-	997
Cllr. Mothokwa KF	434	-	434
Cllr. Ledwaba MH	2,153	-	2,153
Cllr. Ras MN	2,067	-	2,067
	<b>13,831</b>	<b>5,548</b>	<b>19,379</b>

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

30 June 2019	Highest outstanding amount	Aging (in days)
Cllr. Ledwaba MH	13,959	210
Cllr. Seale SD	7,084	210
	<b>21,043</b>	<b>420</b>

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### 54. Deviation from supply chain management regulations

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

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

Edge Forensic and Risk consultants was appointed during the financial year under review (28 May 2019) and the process followed in procuring those services deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for the deviation was documented and reported to the accounting officer on the 27 May 2019 who then considered the reason and subsequently approved the deviation from the normal supply chain management regulations.

Deviation from SCM regulation	164,556	943,893
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### 55. Budget differences

#### Material differences between budget and actual amounts

N1: Service charges - Result of lower assumption and increased water and electricity losses

N2: Rental of facilities and equipment - Vacant unit and resulted decrease in rental

N3: License and permits - Decrease due to technical interruption during the year which led to customers utilising Modimolle licensing department together with reclassification to meet mSCOA standard

N4: Commissions received - Reclassification to meet mSCOA standard from license and permit segment

N5: Agency fee - Reclassification to meet mSCOA standard from license and permit segment

N6: Town planning scheme - the variance is due to realignment of the segment to meet mSCOA reporting standard

N7: Other income - No material variance other than reclassification of the line item to align segment to meet mSCOA reporting requirement

N8: Interest received - Investment: In respond to poor cash flow. Surplus cash was invested to yield additional income

N9: Property rates - Budget process took into account new valuation roll without considering subsequent objections to the valuation roll

N10 : Government grants and subsidies - Additional allocation was received during the financial year ad per DoRA

N11: Fines, penalties and forfeits - Decreases is as a result of reduced number of offences

N12: Depreciation and amortisation - The projected depreciation took into account project which were expected to have been completed during 2019 financial year which are still in progress as at financial year end

N13: - Finance cost - The variance is attributable to finance lease contract which come to an end during the first half of the 2019 financial year

N14: Debt impairment - The variance is as a result of increased write off were identified irrecoverable

N15: Repairs and maintenance - Municipality incurred more than that of previous year as part of the plan in the renewal programme of infrastructure

N16: Bulk purchases - The decrease was of a result of lower spending / consumption on water and electricity services

N17: Contracted services, general expenses and other materials - Realignment on contracted service, general expenses and other materials was done to align line item to meet mSCOA reporting