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

General Information

Legal form of entity	Municipality established in terms of Section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with Section 155 of the Constitution of the Republic of South Africa (Act 108 of 1996)
Executive Mayor	TP Nkadimeng
Mayoral committee	MJ Ralefatane - Speaker of Council
	Mk Teffo - Chief Whip
	RC Molepo - MMC Finance and LED
	NW Kganyago - MMC Water and Sanitation
	MF Kubjana - MMC Roads and Stormwater
	H Shaikh - MMC Spatial Planning and Development
	LR Setati - MMC Admin and Governance
	T Nkwe - MMC Housing
	MJ Maja - MMC Sports, Arts, Culture & Special Focus
	MB Malebana - MMC Energy
	SJ Malope - MMC Waste & Enviroment
	ML Mothata - MMC Community Services
Councillors	AR Baloyi
	AH Botha
	TDR Chidi
	C Coetzee
	ME Choshi
	SE Clarke
	SJ Dikgale
	FA Haas
	PJ Hiine
	TE Hopane
	FJ Joubert
	MJ Kaka
	N Khan
	MW Laka
	MV Ledwaba
	NJ Lekgodi
	Z Lekgodi
	LF Lephalala
	RF Lourens
	MG Mabote
	NE Machaba
	MF Maenetja
	ME Makamela
	TP Makgopja
	JF Makwela
	M Makwela
	ME Malatji
	ME Maleka
	RR Malema
	CM Mamabolo
	HS Manaka
	PE Manamela

General Information

	HM Mankga
	TR Manyaka
	HF Marx
	AM Masekela
	TS Mashau
	MC Mashiane
	MV Mathye
	MT Matonzi
	ML Mehlape
	MA Moakamedi
	KW Modiba
	MT Modiba
	MS Modiba
	TF Moeti
	TJ Mogale
	DM Mohlabeng
	MF Mohlasedi
	RP Mohlaona
	TSP Mojapelo
	FJ Molepo
	MB Molope
	PE Moshoeu
	MS Mothapo
	ME Mothapo
	JE Mothapo
	LS Mothata
	MJ Mothiba
	TP Mothiba
	KJ Mphekgwana
	TG Phaka
	MR Phala
	MS Phosoko
	M Pretorius
	MM Ramakgoakgoa
	MF Ramaphakela
	MO Ramaphoko
	PA Rapetswa
	TR Raphela
	MW Sathekge
	MR Sekgobela
	MC Sesera
	RV Shadung
	KB Shibambu
	NA Shivhabu
	KM Skosana
	KG Tsheola
	MM Tsiri
	K Vallabh
Grading of local authority	Grade 10

General Information

Accounting Officer	N.R Selepe
Chief Finance Officer (CFO)	Naazim Essa CA(SA)
Business address	Civic Centre Cnr Landros Mare and Bodenstein Streets Polokwane 0699
Postal address	P O Box 111 Polokwane 0700
Bankers	Standard Bank
Auditors	Auditor General South Africa (AGSA)
Attorneys	Pule Incorporated Mogaswa Attorneys AM Carrim Attorneys Maboku Mangena Attorneys Kgatla Incorporated Matabane Incorporated Noko Maimela Incorporated Rachoene Attorneys Mohale Incorporated Maboku Mangena Attorneys Popela Maake Incorporated
Level of assurance	These draft annual financial statements have been audited in compliance with the applicable requirements of the Municipal Finance Management Act 56 of 2003.
Members of the Audit and Performance Audit Committee	MW Mokwela MF Kekana JM Mabuza MP Ramutsheli

Index

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

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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

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

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

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 33 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 the Act.

The audited annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2021 and were signed on its behalf by:

N.R Selepe
Accounting Officer

Statement of Financial Position as at 30 June 2021

	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	301 154 777	420 294 249
Receivables from exchange transactions	4	439 200 426	434 635 579
Other receivables from exchange transactions	5	19 353 656	19 755 402
Receivables from non-exchange transactions	6	169 825 549	175 949 160
Inventories	7	169 478 150	156 495 361
VAT receivable	8	45 026 798	61 284 236
Prepayments		-	25 246 315
		1 144 039 356	**1 293 660 302**
Non-Current Assets			
Investment property	10	715 040 632	687 388 096
Property, plant and equipment	11	16 213 774 849	16 311 279 963
Biological assets that form part of an agricultural activity	12	9 028 200	9 028 200
Heritage assets	13	21 899 818	21 899 818
Intangible assets	14	170 318 992	174 851 633
Investments in controlled entities	15	1 000	1 000
Other receivables from exchange transactions	5	144 352	144 352
Living resources	9	4 450 352	4 450 352
		17 134 658 195	**17 209 043 414**
Total Assets		**18 278 697 551**	**18 502 703 716**
Liabilities			
Current Liabilities			
Consumer deposits	16	68 565 261	71 199 462
Payables from exchange transactions	17	955 754 416	989 308 699
Long term loans	18	20 076 910	50 541 553
Unspent conditional grants and receipts	19	80 091 377	147 917 307
Finance lease obligation	20	9 663 454	5 171 543
Provisions	21	15 024 333	168 154 159
		1 149 175 751	**1 432 292 723**
Non-Current Liabilities			
Long term loans	18	395 364 727	415 509 507
Finance lease obligation	20	21 873 970	20 268 260
Provisions	21	210 510 394	181 845 912
Employee benefit obligation	22	204 408 000	197 335 000
		832 157 091	**814 958 679**
Total Liabilities		**1 981 332 842**	**2 247 251 402**
Net Assets		**16 297 364 709**	**16 255 452 314**
Reserves			
Revaluation reserve	23	10 302 713 865	10 304 729 342
Accumulated surplus		5 994 650 825	5 950 722 972
Total Net Assets		**16 297 364 690**	**16 255 452 314**

* See Note 51

Statement of Financial Performance

	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	1 538 238 094	1 531 240 199
Rental of facilities and equipment	25	14 887 068	9 045 882
Interest earned on outstanding debtors	26	37 053 432	54 369 048
Agency services	27	20 640 122	21 214 389
Licences and permits	28	6 199 132	5 467 702
Other income	29	18 577 538	15 984 467
Interest received - investment	30	12 333 424	18 822 773
Total revenue from exchange transactions		**1 647 928 810**	**1 656 144 460**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	472 481 861	462 439 368
Interest earned on outstanding debtors	26	29 082 660	33 529 000
Transfer revenue			
Government grants & subsidies	32	2 146 189 200	2 317 883 489
Public contributions and donations	33	5 634 278	2 125 841
Fines, Penalties and Forfeits	34	38 938 653	31 584 439
Total revenue from non-exchange transactions		**2 692 326 652**	**2 847 562 137**
Total revenue		**4 340 255 462**	**4 503 706 597**
Expenditure			
Employee related costs	35	(964 703 765)	(922 982 022)
Remuneration of councillors	36	(38 692 456)	(38 521 740)
Depreciation and amortisation	37	(948 091 275)	(711 651 908)
Finance costs	38	(61 910 286)	(69 673 253)
Bad debts written off	39	(183 203 538)	(159 919 458)
Bulk purchases	40	(956 189 335)	(920 913 470)
Contracted services	41	(808 992 098)	(760 604 750)
Transfers and subsidies	42	(66 558 354)	(27 207 619)
Inventory consumed	43	(69 666 469)	(47 063 860)
General Expenses	44	(226 226 280)	(208 396 982)
Total expenditure		**(4 324 233 856)**	**(3 866 935 062)**
Operating surplus		**16 021 606**	**636 771 535**
(Loss)/gain on disposal of assets and liabilities	45	553 408	(1 432 906)
Fair value adjustments	46	27 373 697	18 436 762
Impairment loss	47	-	(696 417)
Inventories losses/write-downs	48	(20 865)	-
		27 906 240	**16 307 439**
Surplus for the year		**43 927 846**	**653 078 974**

* See Note 51

Statement of Changes in Net Assets

	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	7 424 537 335	5 352 907 477	12 777 444 812
Adjustments			
Prior year adjustments	-	(55 263 479)	(55 263 479)
Balance at 01 July 2019 as restated*	**7 424 537 335**	**5 297 643 998**	**12 722 181 333**
Changes in net assets			
Revaluation of property, plant and equipment	2 883 057 016	-	2 883 057 016
Disposal of assets	(2 865 009)	-	(2 865 009)
Net income (losses) recognised directly in net assets	2 880 192 007	-	2 880 192 007
Surplus for the year	-	653 078 974	653 078 974
Total recognised income and expenses for the year	2 880 192 007	653 078 974	3 533 270 981
Total changes	2 880 192 007	653 078 974	3 533 270 981
Restated* Balance at 01 July 2020	**10 304 729 342**	**5 950 722 979**	**16 255 452 321**
Changes in net assets			
Revaluation of assets	(2 015 477)	-	(2 015 477)
Net income (losses) recognised directly in net assets	(2 015 477)	-	(2 015 477)
Surplus for the year	-	43 927 846	43 927 846
Total recognised income and expenses for the year	(2 015 477)	43 927 846	41 912 369
Total changes	(2 015 477)	43 927 846	41 912 369
Balance at 30 June 2021	**10 302 713 865**	**5 994 650 825**	**16 297 364 690**
Note(s)	23		

* See Note 51

Cash Flow Statement

	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers, government and others		3 989 742 752	4 216 044 935
Interest income		78 469 516	106 720 821
		4 068 212 268	4 322 765 756
Payments			
Cash paid to suppliers and employees		(3 238 769 531)	(2 755 764 603)
Finance costs		(61 910 286)	(69 673 253)
		(3 300 679 817)	(2 825 437 856)
Net cash flows from operating activities	50	**767 532 451**	**1 497 327 900**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(826 924 606)	(1 053 260 653)
Purchase of investment property	10	(278 839)	192 486
Purchase of other intangible assets	14	107 110	(143 374 635)
Purchase of financial assets		-	(3 600 000)
Proceeds from sale of financial assets		-	57 959 325
Net cash flows from investing activities		**(827 096 335)**	**(1 142 083 477)**
Cash flows from financing activities			
Repayment of long term loans		50 609 423	(56 527 538)
Finance lease payments		(8 966 166)	(9 682 767)
Net cash flows from financing activities		**(59 575 589)**	**(66 210 305)**
Net increase/(decrease) in cash and cash equivalents		**(119 139 473)**	**289 034 118**
Cash and cash equivalents at the beginning of the year		420 294 249	131 260 132
Cash and cash equivalents at the end of the year	3	**301 154 776**	**420 294 250**

* See Note 51

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 780 034 500	(43 000 000)	**1 737 034 500**	1 538 238 094	**(198 796 406)**	N1
Rental of facilities and equipment	21 361 950	(7 000 000)	**14 361 950**	14 887 068	**525 118**	N2
Interest received (trading)	97 347 204	-	**97 347 204**	66 276 011	**(31 071 193)**	N3
Agency services	27 798 496	-	**27 798 496**	20 640 122	**(7 158 374)**	N4
Licences and permits	16 557 436	(3 786 000)	**12 771 436**	6 199 132	**(6 572 304)**	N5
Other income - (rollup)	100 596 017	-	**100 596 017**	45 126 843	**(55 469 174)**	N6
Interest received - investment	13 069 489	-	**13 069 489**	12 333 424	**(736 065)**	N7
Total revenue from exchange transactions	**2 056 765 092**	**(53 786 000)**	**2 002 979 092**	**1 703 700 694**	**(299 278 398)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	526 156 799	-	**526 156 799**	472 481 861	**(53 674 938)**	N8
Transfer revenue						
Government grants & subsidies	2 062 983 000	165 806 533	**2 228 789 533**	2 146 189 200	**(82 600 333)**	N9
Public contributions and donations	-	-	**-**	5 634 278	**5 634 278**	N9
Fines, Penalties and Forfeits	36 673 036	-	**36 673 036**	38 938 653	**2 265 617**	N10
Total revenue from non-exchange transactions	**2 625 812 835**	**165 806 533**	**2 791 619 368**	**2 663 243 992**	**(128 375 376)**	
Total revenue	**4 682 577 927**	**112 020 533**	**4 794 598 460**	**4 366 944 686**	**(427 653 774)**	
Expenditure						
Employee Related Costs	(990 053 021)	(17 960 756)	**(1 008 013 777)**	(964 703 765)	**43 310 012**	N11
Remuneration of councillors	(42 510 996)	-	**(42 510 996)**	(38 692 456)	**3 818 540**	N12
Depreciation and amortisation	(255 000 000)	(77 354 525)	**(332 354 525)**	(948 091 275)	**(615 736 750)**	N13
Finance costs	(97 987 467)	27 217 832	**(70 769 635)**	(61 910 286)	**8 859 349**	N14
Bad debts written off	(250 000 000)	93 330 489	**(156 669 511)**	(183 203 538)	**(26 534 027)**	N11
Bulk purchases	(1 051 821 725)	95 565 555	**(956 256 170)**	(956 189 335)	**66 835**	N11
Contracted Services	(682 020 582)	(174 871 519)	**(856 892 101)**	(808 992 098)	**47 900 003**	N15
Transfers and Subsidies	(11 500 008)	(57 300 000)	**(68 800 008)**	(66 558 354)	**2 241 654**	N11
Inventory Consumed	(89 586 798)	(6 631 142)	**(96 217 940)**	(69 666 469)	**26 551 471**	N12
General Expenses	(208 986 543)	(19 261 775)	**(228 248 318)**	(226 226 280)	**2 022 038**	N11
Total expenditure	**(3 679 467 140)**	**(137 265 841)**	**(3 816 732 981)**	**(4 324 233 856)**	**(507 500 875)**	
Surplus before taxation	**1 003 110 787**	**(25 245 308)**	**977 865 479**	**42 710 830**	**(935 154 649)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 003 110 787**	**(25 245 308)**	**977 865 479**	**42 710 830**	**(935 154 649)**	
Reconciliation						

Accounting Policies

1. Presentation of Audited Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Transfer of functions between entities not under common control

Definitions

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

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

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

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

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

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

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

An asset is identifiable if it either:

Accounting Policies

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

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

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

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

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

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

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

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

The acquisition method

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

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

Identifying the acquirer

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

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

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

Determining the acquisition date

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

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

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

Recognition principle

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

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

Recognition conditions:

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

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

Operating leases:

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

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

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

Intangible assets:

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

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

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

Measurement principle

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

Non-controlling interest in an acquiree:

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

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

Assets with uncertain cash flows (valuation allowances):

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

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

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

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

Exceptions to the recognition principles

Contingent liabilities:

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

Exceptions to both the recognition and measurement principles

Employee benefits:

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

Indemnification assets:

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

Exceptions to the measurement principle

Reacquired rights:

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

Assets held for sale:

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

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

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

Subsequent measurement and accounting

Accounting Policies

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

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

1.5 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality has identified all its captial assets excluding Investment Property, as non-cash generating assets as it is the municipality's view that the primary objective of these assets are to provide a service and not to generate a commercial return. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors..

Provisions

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

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Inventories

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

Water inventory is measured on average cost basis per kilolitre.

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 22.

Effective interest rate

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

Allowance for doubtful debts

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

Useful lives of assets

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

Residual value

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

Revenue-estimation meter readings

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

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

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

1.6 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

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

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

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

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

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

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

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

1.7 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

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

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

1.7 Investment property (continued)

Fair value

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

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

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

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

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

Derecognition

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

1.8 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

1.8 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Property, plant and equipment (continued)

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

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

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

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

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

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

1.9 Intangible assets

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

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

Intangible assets are initially recognised at cost

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

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

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

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

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

1.9 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

Amortisation begins when the asset is available for use.

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

1.10 Heritage assets

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

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

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

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

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

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

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

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

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

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

1.10 Heritage assets (continued)

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Derecognition

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

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

1.11 Investments in controlled entities

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

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

1.12 Financial instruments

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

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

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

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

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

1.12 Financial instruments (continued)

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

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

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

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

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

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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

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

1.12 Financial instruments (continued)

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.12 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.12 Financial instruments (continued)

Derecognition

Financial assets

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

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

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

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

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

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

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

Financial liabilities

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

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

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

1.12 Financial instruments (continued)

Presentation

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

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

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

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

1.13 Consumer Deposits

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

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

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

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

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

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

1.14 Leases

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

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

Finance leases - lessee

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

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

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

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

1.14 Leases (continued)

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.15 Inventories

Initial measurement:

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

Subsequent measurement:

Land and water inventory:

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

Consumables:

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

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

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

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

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

1.16 Impairment of cash-generating assets

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

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

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

1.16 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Designation

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

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

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

Identification

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

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

Accounting Policies

1.16 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

Redesignation

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

1.17 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

Designation

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

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

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, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.18 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

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

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

Accounting Policies

1.18 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

1.18 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

Accounting Policies

1.18 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

1.18 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

Accounting Policies

1.18 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.19 Provisions and contingencies

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

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

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

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

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

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

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

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

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

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

1.19 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 54.
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.20 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.21 Revenue from exchange transactions

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

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

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

Measurement

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

1.21 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

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

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

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

1.22 Unspent Conditional Grants

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

Accounting Policies

1.23 Investment income

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

1.24 Borrowing costs

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

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

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.17, 1.15 and 1.16. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

Extended periods are periods that exceed X months.

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

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

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

1.25 Comparative figures

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

1.26 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.27 Fruitless and wasteful expenditure

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

1.27 Fruitless and wasteful expenditure (continued)

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

1.28 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 economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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

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

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

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

1.29 Housing development fund

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

1.30 revaluation reserve

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

1.31 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

1.31 Segment information (continued)

- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

Measurement

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

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

1.32 Budget information

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

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

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

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

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

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

1.33 Related parties

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

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

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

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

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

1.33 Related parties (continued)

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 those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

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

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

1.34 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.35 Statutory receivables

Identification

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

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

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

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

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

1.35 Statutory receivables (continued)

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

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

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

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by customers being hand over to debt collectors.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

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

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:
- the rights to the cash flows from the receivable are settled, expire or are waived;

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

1.36 Tax

Value Added Tax

Revenue, expenses, and assets are recognised net of the amounts of Value Added Tax as per VAT legislation. The net amounts (recoverable or payable) of VAT are submitted to SARS on monthly and are reported as a receivable or a payable on the statement of Financial Position on the Annual Financial Statements. The municipality is registered for VAT with SARS on the payment basis.

1.37 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

1.37 Accounting by principals and agents (continued)

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.38 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

(continued)

Agricultural activity is the management by an municipality of the biological transformation and harvest of biological assets for:

(a) sale;

(b) distribution at no charge or for a nominal charge; or

(c) conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

A bearer plant is a living plant that:

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than one period; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Biological transformation (for purposes of this Standard) comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

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

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

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

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

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

Group of resources means a grouping of living or non-living resources of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the audited annual financial statements.

The residual value of an asset is the estimated amount that an municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Useful life is the period over which an asset is expected to be available for use by an municipality, or the number of production or similar units expected to be obtained from the asset by an municipality.

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the audited annual financial statements.

A living resource is recognised 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.

Where the municipality is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the audited annual financial statements.

Where the municipality holds a living resource that meets the definition of an asset, but which does not meet the recognition criteria, relevant information are disclosed in the notes to the audited annual financial statements. When the information about the cost or fair value of the living resource becomes available, the municipality recognise, from that date, the living resource and apply the measurement principles.

(continued)

Measurement at recognition

A living resource that qualifies for recognition as an asset is measured at its cost.

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

The cost of a living resource comprises its purchase price, including import duties and non-refundable purchase taxes, and any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management.

Measurement after recognition

Revaluation model

After recognition as an asset, a group of living resources, whose fair value can be measured reliably, are carried at a revalued amount, which is its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If a living resource is revalued, the entire group of living resources to which that resource belongs, are revalued.

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

If the carrying amount of a living resource is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that living resource. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

If the fair value of a living resource can no longer be determined because market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the carrying amount of the living resource is its revalued amount as at the date of the last revaluation by reference to market-determined prices or values that were determined based on alternative estimates, less any subsequent depreciation and subsequent impairment losses. The municipality measures the living resource using the cost model until the fair value of the living resource becomes available. The municipality measures from that date the living resource at its fair value.

Depreciation

Living resources are depreciated and the depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset, where appropriate.

The depreciable amount of a living resource is allocated on a systematic basis over its useful life.

The municipality assesses at each reporting date whether there is any indication that the entity’s expectations about the residual value and the useful life of a living resource 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(s) is accounted for as a change in an accounting estimate.

In assessing whether there is any indication that the expected useful life of the living resource has changed, the municipality considers the following indications:

(a) The use of the living resource has changed, because of the following:
- The municipality has changed the manner in which The living resource is used.
- The municipality has made a decision to dispose of the living resource in a future reporting period(s) such that this decision changes the expected period over which the living resource will be used.
- Legislation, government policy or similar means have been amended or implemented during the reporting period that have, or will, change the use of the living resource.
- The living resource was idle or retired from use during the reporting period.

(continued)

(b) The living resource is approaching the end of its previously expected useful life.

(c) There is evidence that the condition of the living resource improved or declined based on assessments undertaken during the reporting period.

(d) The living resource is assessed as being impaired.

In assessing whether there is any indication that the expected residual value of the living resource has changed, the municipality considers whether there has been any change in the expected timing of disposal of the living resource, as well as any relevant indicators as noted above.

The depreciation method used reflects the pattern in which the future economic benefits or service potential of the living resource is expected to be consumed by the entity.

The depreciation method applied to a living resource is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the living resource, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The depreciation methods and useful lives of items of living resources have been assessed as follows:

Item	Depreciation method	Average useful life
Game	Straight-line	20 years

Impairment

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

Compensation from third parties for living resources that have been impaired, lost or given up, is included in surplus or deficit when the compensation becomes receivable.

Transfers

Transfers from living resources are made when the particular asset no longer meets the definition of a living resource and/or is no longer within the scope of this accounting policy.

Transfers to living resources are made when the asset meets the definition of a living resource.

Derecognition

The carrying amount of a living resource is 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 a living resource is included in surplus or deficit when the item is derecognised.

Notes to the Audited Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to revenue	01 April 2020	The impact of the standard is not material.
• GRAP 34: Separate Financial Statements	01 April 2020	The impact of the standard is not material.
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	The impact of the standard is not material.
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	The impact of the standard is not material.
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	The adoption of this standard has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	The impact of the standard is not material.

	2021	2020

3. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Cash on hand	15 153	15 153
Bank balances	301 139 624	420 279 096
	301 154 777	**420 294 249**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Standard Bank - Business current account - 030172349	298 801 209	438 137 581	118 889 404	300 593 492	419 745 083	59 976 086
Standard Bank - Business current account (DBSA) - 80472818	-	-	656 753	-	-	656 753
Standard Bank - Business current account (Grant account) - 251753846	-	-	478 828	-	-	478 828
Standard Bank - Business current account (Housing account) - 330535269	546 132	534 013	508 262	546 132	534 013	508 262
Total	**299 347 341**	**438 671 594**	**120 533 247**	**301 139 624**	**420 279 096**	**61 619 929**

4. Receivables from exchange

	2021	2020
Gross balances		
Electricity	263 294 740	242 029 690
Water	388 489 259	381 559 558
Waste water	108 529 554	91 566 231
Refuse	134 205 105	115 981 499
Other sundry receivables	228 576 288	185 157 303
Housing rental	2 419 301	1 308 801
Housing selling schemes	292 972	289 174
	1 125 807 219	**1 017 892 256**
Less: Allowance for impairment		
Provision for bad debts & RD cheques	(686 606 793)	(583 256 677)
Net balance		
Provision for bad debts & RD cheques	(686 606 793)	(583 256 677)
Electricity	263 294 740	242 029 690
Water	388 489 259	381 559 558
Waste water	108 529 554	91 566 231
Refuse	134 205 105	115 981 499
Other sundry receivables	228 576 288	185 157 303
Housing rental	2 419 301	1 308 801
Housing selling schemes	292 972	289 174
	439 200 426	**434 635 579**

4. Receivables from exchange (continued)

	2021	2020
Allowance for impairment & RD cheques		
Provision for bad debts	(688 056 534)	(584 706 418)
RD cheques	1 449 741	1 449 741
	(686 606 793)	**(583 256 677)**
Electricity		
Current (0 -30 days)	93 253 234	73 342 993
31 - 60 days	13 680 872	14 802 438
61 - 90 days	7 034 417	11 652 043
91 - 120 days	6 087 413	8 730 041
121 - 365 days	143 238 804	133 502 175
	263 294 740	**242 029 690**
Water		
Current (0 -30 days)	101 798 737	93 461 137
31 - 60 days	10 827 286	14 561 070
61 - 90 days	8 637 713	10 163 544
91 - 120 days	6 924 334	15 485 484
121 - 365 days	260 301 189	247 888 323
	388 489 259	**381 559 558**
Waste water		
Current (0 -30 days)	36 709 056	13 953 444
31 - 60 days	4 558 435	5 653 473
61 - 90 days	3 264 082	4 164 085
91 - 120 days	2 838 392	3 583 832
121 - 365 days	61 159 589	64 211 397
	108 529 554	**91 566 231**
Refuse		
Current (0 -30 days)	35 628 249	20 744 791
31 - 60 days	5 169 903	6 531 058
61 - 90 days	3 881 220	5 250 507
91 - 120 days	3 375 390	4 731 077
121 - 365 days	86 150 343	78 724 066
	134 205 105	**115 981 499**
Other sundry debtors		
Current (0 -30 days)	4 905 161	(30 492 280)
31 - 60 days	7 321 743	2 972 417
61 - 90 days	6 700 521	2 554 624
91 - 120 days	4 275 612	6 506 294
121 - 365 days	205 373 251	203 616 248
	228 576 288	**185 157 303**

	2021	2020

4. Receivables from exchange (continued)

Housing rental

	2021	2020
Current (0 -30 days)	100 516	86 176
31 - 60 days	93 070	86 176
61 - 90 days	93 070	86 176
91 - 120 days	93 070	86 176
121 - 365 days	2 039 575	964 097
	2 419 301	**1 308 801**

Housing selling scheme

	2021	2020
Current (0 -30 days)	1 391	3 137
31 - 60 days	1 392	3 037
61 - 90 days	2 381	2 814
91 - 120 days	2 230	2 481
121 - 365 days	285 578	277 705
	292 972	**289 174**

Reconciliation of allowance for impairment

	2021	2020
Balance at beginning of the year	(584 706 419)	(529 305 445)
RD cheques opening balance	1 449 742	1 865 591
RD cheques recognised during the year	-	(415 849)
Contributions to provision for consumer debtors	(103 350 116)	(55 400 974)
	(686 606 793)	**(583 256 677)**

Consumer debtors pledged as security

No consumer debtors are pledged as security.

5. Other receivables from exchange transactions

	2021	2020
Deposits - Eskom	800 724	800 724
Baroka Football Club	759 166	759 166
Rental smoothing receivable	1 031 190	2 447 972
Current portion of housing selling scheme loans	3 891	3 891
Housing selling scheme loans	144 352	144 352
Prepaid expenses	10 293 063	9 900 530
Over and under banking	-	5 129
Leelyn Management Parking	1 562 511	443 855
Standard bank - Interest receivable	740 220	1 231 244
Sundry debtors - auctioneer	3 185 393	3 185 393
Debtor suspense account	977 498	977 498
	19 498 008	**19 899 754**

	2021	2020
Non-current assets	144 352	144 352
Current assets	19 353 656	19 755 402
	19 498 008	**19 899 754**

6. Receivables from non-exchange transactions

	2021	2020
Fines	48 634 141	53 821 931
CDM	-	322 848
Consumer debtors - Rates	121 191 408	121 804 381
	169 825 549	**175 949 160**

	2021	2020

6. **Receivables from non-exchange transactions (continued)**

Receivables from non-exchange transactions pledged as security

No non-exchange transactions are pledged as security.

Reconciliation of provision for impairment of traffic fines receivable

Opening balance	44 928 067	37 762 666
Provision for impairment	33 028 494	7 165 401
	77 956 561	**44 928 067**

Reconciliation of traffic fines receivable net amount

Traffic fines receivable: Gross amount	126 590 702	98 749 999
Less: Provision for impairment	(77 956 561)	(44 928 067)
	48 634 141	**53 821 932**

Consumer debtors - Rates

Age analysis

Current (0-30 days)	4 030 296	42 731 080
31 - 60 days	19 056 691	23 395 865
61 - 90 days	13 350 827	19 728 628
91 - 120 days	12 218 113	16 955 463
>120 days	72 535 481	18 993 346
	121 191 408	**121 804 382**

Reconciliation of consumer debtors - rates net amount

Consumer debtors - rates gross amount	402 228 584	384 498 570
Less: Provision for impairment	(281 037 176)	(262 694 188)
	121 191 408	**121 804 382**

Reconciliations of provision for impairment of consumer debtor - rates

Opening balance	262 694 188	240 065 621
Contributions to provision for consumer debtors - rates	18 342 988	22 628 567
	281 037 176	**262 694 188**

	Note	2021	2020

7. Inventories

		2021	2020
Water for distribution		255 683	312 112
Consumable stores - at cost		162 574 107	149 534 889
Land inventory		6 648 360	6 648 360
		169 478 150	**156 495 361**

Inventory pledged as security

None of the inventories are pledged as security.

Water for distribution

		2021	2020
Opening balance		312 112	497 354
Purchases		163 957 435	164 283 635
Issued		(120 552 992)	(127 815 300)
Water losses	40	(43 460 872)	(36 653 577)
Closing balance		**255 683**	**312 112**

8. VAT receivable

	2021	2020
VAT receivable	45 026 798	61 284 236

The VAT payable should be netted off against the VAT receivable resulting in a net amount of R45 082 874 receivable from SARS. For the breakdown of the balance, please refer to the table below:

	2021	2020
VAT claimable (not due - accrued)	114 967 696	97 658 773
VAT payable (output - accrued)	(91 937 025)	(90 420 435)
Net VAT refundable by SARS	22 052 203	54 009 689
	45 082 874	**61 248 027**

9. Living resources

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	4 450 352	-	4 450 352	4 732 398	(282 046)	4 450 352

Reconciliation of living resources - 2021

	Opening balance	Total
Game	4 450 352	4 450 352

Reconciliation of living resources - 2020

	Opening balance	Impairment loss	Total
Game	4 732 398	(282 046)	4 450 352

The municipality has 837 animals which are managed and protected in terms of National Environmental Management Act as well as the Protected Area Act.

Living resources borrowed from other entities

There are no living resources which are borrowed from or loaned to other entities.

Title restrictions

There are no living resources whose title is restricted.

Restrictions on use or capacity to sell

There are no restrictions with regards to the municipality's ability to sell the animals. Animals are traded during hunting season when the carrying capacity of the game reserve is exceeded, while protecting endangered species.

There is no contractual commitment for acquisition, development or disposal of living and non living resources.

There was no compensation for impairment, losses and resources given up for the financial year.

Revaluations

Living resources are revalued every three financial years, with the latest revaluation done in the 2019-20 financial year. The municipality has not previously experienced any challenges relating to measurement of the fair value of living resources.

The impact of adopting the Standard of GRAP 110 for living and non living resources is immaterial. The impact of the change is the amount reflected in the note above.

10. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	715 040 632	-	715 040 632	687 388 096	-	687 388 096

Reconciliation of investment property - 2021

	Opening balance	Additions	Fair value adjustments	Total
Investment property	687 388 096	278 839	27 373 697	715 040 632

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	665 391 971	(192 487)	22 188 612	687 388 096

Pledged as security

No investment property assets are 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.

	2021	2020

10. Receivables from exchange (continued)

Details of valuation

The values were determined by an external profession valuer registered in terms of the Property Valuers Act No 47 of 2000, Registration number 4761.The value of investment property comprising of land and building was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions. The preferred valuation methodology applied to vacant land was that of comparable market related sales based on use, location and extent. In cases where no reasonable comparable sales were available the discounted cash flow methodology was used based on market related rentals for similar properties. Investment properties were fair valued by Gail Adams, a registered professional associated valuer (SA), registration number: 4761.

There are no restrictions on investment properties.

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

Amounts recognised in surplus or deficit

Rental revenue from Investment property	14 887 068	9 045 883

Property interests

There are no property interests held under operating leases.

Operating expenses

The municipality does not incur any operating expenses (including repairs and maintenance) on investment properties.

11. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	227 402 434	-	227 402 434	227 402 434	-	227 402 434
Infrastructure	29 377 753 748	(16 134 252 861)	13 243 500 887	28 759 369 955	(15 374 262 140)	13 385 107 815
Community	4 850 217 580	(2 423 802 458)	2 426 415 122	4 721 313 796	(2 280 361 284)	2 440 952 512
Movable assets and other	456 665 036	(170 077 696)	286 587 340	401 626 597	(167 724 048)	233 902 549
Leased assets	49 225 370	(19 356 304)	29 869 066	43 533 111	(19 618 458)	23 914 653
Total	**34 961 264 168**	**(18 747 489 319)**	**16 213 774 849**	**34 153 245 893**	**(17 841 965 930)**	**16 311 279 963**

Notes to the Audited Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Impairment reversal	Total
Land	227 402 434	-	-	-	-	227 402 434
Infrastructure	13 385 107 815	623 790 341	(644 122)	(764 797 411)	44 264	13 243 500 887
Community	2 440 952 512	129 311 161	(407 378)	(143 441 173)	-	2 426 415 122
Movable assets and other	233 902 549	84 226 722	(310 197)	(31 231 734)	-	286 587 340
Leased assets	23 914 653	15 063 788	(744 221)	(8 365 154)	-	29 869 066
	16 311 279 963	**852 392 012**	**(2 105 918)**	**(947 835 472)**	**44 264**	**16 213 774 849**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Revaluations	Depreciation	Impairment loss	Impairment reversal	Total
Land	202 259 920	-	-	-	25 142 514	-	-	-	227 402 434
Infrastructure	10 553 084 570	989 436 968	(4 098 981)	-	2 261 161 563	(413 739 519)	(1 964 025)	1 227 239	13 385 107 815
Community	2 049 695 433	41 906 804	(6 892)	-	443 725 962	(94 409 164)	(622 722)	663 091	2 440 952 512
Movable assets and other	256 278 675	11 641 312	-	1 082 841	-	(35 100 279)	-	-	233 902 549
Leased assets	33 402 975	529 940	(260 851)	-	-	(9 757 411)	-	-	23 914 653
	13 094 721 573	**1 043 515 024**	**(4 366 724)**	**1 082 841**	**2 730 030 039**	**(553 006 373)**	**(2 586 747)**	**1 890 330**	**16 311 279 963**

Pledged as security

No assets have been pledged as security.

The contractual commitment for the acquisition of property, plant and equipment is as follows:
Infrastructure: R878 462 097 (2020:R1 181 357 717)
Community assets:R0 (2020: R25 314 198)

Borrowing costs capitalised

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

	2021	2020

11. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2021	2020
Leased assets	29 869 066	23 914 653

Revaluations

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

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

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

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

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

Other information

Carrying value of delayed projects	2021	2020
Projects terminated due to poor performance by contractors	216 947 871	153 366 582
Delay in servitude negotiation and payment agreements	2 407 018	2 407 018
Delay in electrification of feeder boreholes	-	30 201 730
	219 354 889	**185 975 330**

The carrying value of halted projects for the current year is Rnil. (2020: 78 893 115).

An impairment loss of Rnil (2020: Rnil) has been recognised on the above capital project. Condition assessment were performed for consideration of impairment in all the delayed projects. Reduction in budget due to Covid 19 did not have any impact relating to the WIP and delayed or halted projects.

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	2 201 827 338	306 377 549	7 388 963	2 515 593 850
Additions/capital expenditure	606 842 741	129 311 161	25 246 315	761 400 217
Transferred to completed items	(213 723 216)	(22 432 241)	-	(236 155 457)
	2 594 946 863	**413 256 469**	**32 635 278**	**3 040 838 610**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	1 642 550 872	291 876 659	1 411 146	1 935 838 677
Additions/capital expenditure	970 291 466	41 906 806	5 977 817	1 018 176 089
Transferred to completed items	(170 784 653)	(13 720 577)	-	(184 505 230)
Correction of WIP	(240 230 348)	(13 685 340)	-	(253 915 688)
	2 201 827 337	**306 377 548**	**7 388 963**	**2 515 593 848**

	2021	2020

11. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	269 893 742	253 525 297
Employee costs	209 717 966	64 337 185
Inventory consumed	38 918 928	35 810 988
Operational cost	7 509 124	13 289 870
	526 039 760	**366 963 340**

Verification of assets
During the year, assets with a carrying value of R 945 706.57 could not be verified and as a result they have been left in the asset register pending investigation report. The assets were part of the infrastructure and Community assets. Action shall be taken once the asset management unit receives a full report on the respective components.

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

The effect on the current and future periods will be a decrease in the depreciation charge of R77 531 486 in the current period and an equal increase in the depreciation charge of R77 531 486 over the remaining period/s.

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

12. Biological assets that form part of an agricultural activity

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Timber trees	9 028 200	-	9 028 200	9 028 200	-	9 028 200

Reconciliation of biological assets that form part of an agricultural activity - 2021

	Opening balance	Total
Timber trees	9 028 200	9 028 200

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

	Opening balance	Total
Timber trees	9 028 200	9 028 200

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

Non-financial information

All biological assets relate to timber.

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

The Municipality does not have consumable biological assets.

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

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

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

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

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

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

The biological assets are matured and have reached harvest stage.

There was no harvest of biological assets during the financial year.

13. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art works	17 897 171	-	17 897 171	17 897 171	-	17 897 171
Heritage sites	144 000	-	144 000	144 000	-	144 000
Memorials and statues	3 858 647	-	3 858 647	3 858 647	-	3 858 647
Total	**21 899 818**	**-**	**21 899 818**	**21 899 818**	**-**	**21 899 818**

Reconciliation of heritage assets 2021

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

Reconciliation of heritage assets 2020

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

13. Heritage assets (continued)

Age and/or condition of heritage assets

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

Heritage assets borrowed from other entities

No heritage assets are borrowed from other entities.

Heritage assets on loan to other entities

No heritage assets are loaned to other entities.

Restrictions on heritage assets

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

Pledged as security

No heritage assets are pledged as security.

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

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

Compensation from third parties

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

Heritage assets used for more than one purpose

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

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

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

Heritage assets which fair values cannot be reliably measured

There municipality has one heritage asset for which the fair value could not be determined due to the artist not being traced.

Expenditure incurred to repair and maintain heritage assets

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

Heritage assets under construction

There are no heritage assets currently under construction.

Held for disposal

There are no heritage assets currently held for disposal.

14. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	1 304 768	-	1 304 768	1 304 768	-	1 304 768
Computer software, other	34 577 072	(18 205 848)	16 371 224	36 071 061	(15 167 196)	20 903 865
Operating rights	152 643 000	-	152 643 000	152 643 000	-	152 643 000
Total	**188 524 840**	**(18 205 848)**	**170 318 992**	**190 018 829**	**(15 167 196)**	**174 851 633**

Reconciliation of intangible assets - 2021

	Opening balance	Disposals	Amortisation	Total
Patents, trademarks and other rights	1 304 768	-	-	1 304 768
Computer software, other	20 903 865	(107 110)	(4 425 531)	16 371 224
Operating rights	152 643 000	-	-	152 643 000
	174 851 633	**(107 110)**	**(4 425 531)**	**170 318 992**

14. Intangible assets (continued)

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Patents, trademarks and other rights	1 304 768	-	-	1 304 768
Computer software, other	26 529 190	-	(5 625 325)	20 903 865
Operating rights	-	152 643 000	-	152 643 000
	27 833 958	**152 643 000**	**(5 625 325)**	**174 851 633**

The 2020 Opening balance of R9 211 355 has been reversed fully due to:
- an amount of R1 750 000 that should have been capitalised in the years prior to the 2019-20 financial year, and
- the balance of R7 461 355 that related to IT operating expenditure of prior years.

There are no intangible assets work in progress that are halted, delayed or taking a significantly long time to be developed in the 2021 financial year.

Reconciliation of Work in progress

Opening balance	-	9 211 355
Prior period corrections	-	(9 211 355)
	-	**-**

Pledged as security

No intangible assets are pledged as security.

Restricted title

There are no title restrictions for any of the municipal intangible assets.

	2021	2020

14. Intangible assets (continued)

Other information

Intangible assets with indefinite lives:

Other intangible assets	1 304 768	1 304 768

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

Impairment

There is no impairment for intangible assets for the 2021 financial year.

Research and development expenditure

There was no expenditure on research and development of intangible assets in the current financial year.

Review of useful life

In the current year, useful lives were reviewed for intangible assets that are nearing the end of their useful lives. The remaining useful lives were allocated based on the users intention to continue with the use of the assets. The impact is immaterial.

	2021	2020

15. Interests in other entities

Investments in controlled entities

Name	Jurisdiction	Determination of ownership interest	% ownership interest 2021	% ownership interest 2020	Carrying amount 2021	Carrying amount 2020
Polokwane Housing Association		Shares	100.00 %	100.00 %	1 000	1 000
					1 000	1 000
					1 000	1 000

16. Consumer deposits

	2021	2020
Electricity	47 617 447	50 123 272
Water	10 670 078	11 144 862
Housing rental	10 277 736	9 931 328
	68 565 261	**71 199 462**

17. Payables from exchange transactions

	2021	2020
Trade payables	497 112 353	517 713 275
Payments received in advanced - contract in process	69 022 955	71 579 441
Retention withheld	134 582 668	133 396 663
Accrued leave pay	147 403 765	151 927 624
Deferred income - prepaid water and electricity	26 247 856	39 980 945
Unidentified receipts	58 274 340	55 652 417
Capricorn District Municipality	3 311 152	-
Provision for bonus	19 906 425	18 561 746
Other minor payables	(107 098)	496 588
	955 754 416	**989 308 699**

	2021	2020

18. Long term loans

At amortised cost		
Long term loans	415 441 637	466 051 060

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

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

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

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

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

Non-current liabilities		
At amortised cost	395 364 727	415 509 507
Current liabilities		
At amortised cost	20 076 910	50 541 553

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Public transport infrastructure grant	29 730 676	89 374 288
Neighbourhood Development Partnership Grant	882	22 255 922
Local Government - housing accreditation grant	546 282	534 013
Limpopo Provincial Government	2 949 710	2 949 710
Capricorn District Municipality	17 589	17 589
Energy Efficiency and Demand Side Management Grant	-	653 891
Water Services Infrastructure Grant	6 793 122	8 067 286
Intergrated National Electrification Programme	561 112	7 337 771
Regional Bulk Infrastructure Grant	11 802 110	16 726 837
Integrated Urban Development Grant	27 689 894	-
	80 091 377	**147 917 307**

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

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

20. Finance lease obligation

	2021	2020
Minimum lease payments due		
- within one year	14 239 027	9 494 476
- in second to fifth year inclusive	25 338 099	14 048 434
	39 577 126	23 542 910
less: future finance charges	(8 039 703)	(11 278 852)
Present value of minimum lease payments	**31 537 423**	**12 264 058**
Present value of minimum lease payments due		
- within one year	9 663 453	5 171 541
- in second to fifth year inclusive	21 873 970	7 092 517
	31 537 423	**12 264 058**
Non-current liabilities	21 873 970	20 268 260
Current liabilities	9 663 454	5 171 543
	31 537 424	**25 439 803**

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

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

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

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

21. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Provision for rehabilitation of landfill sites	130 249 031	18 484 658	-	-	148 733 689
Provision for Fleet Africa	8 177 040	-	-	-	8 177 040
Provision for ex-gratia benefits	9 791 000	(771 450)	-	2 610 450	11 630 000
Provision for Taxi Association Compensation	155 125 000	-	(152 643 002)	-	2 481 998
Provision for long service awards	46 658 000	(264 062)	-	8 118 062	54 512 000
	350 000 071	**17 449 146**	**(152 643 002)**	**10 728 512**	**225 534 727**

Reconciliation of provisions - 2020

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

	2021	2020
Non-current liabilities	210 510 394	181 845 912
Current liabilities	15 024 333	168 154 159
	225 534 727	**350 000 071**

	2021	2020

21. Provisions (continued)

Provision for rehabilitation of landfill sites

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

Key financial assumptions used in this calculation were as follows:

Weltevreden landfill

CPI - 4,82%
Discount rate - 7,07%
Net effective discount rate - 2,25%
Approximate size used until June 2020 - 378,726 square metres
Remaining useful lives - 0 years

The disclosed amount of R148 733689 represents an increase of R18 484 658 over the provision of R130 249 031 in the previous financial year. This comprises of changes in the CPI, discount rate and unit costs which resulted in the change in the closure provision of R9 952 434. The interest charge relating to the assessment amounts to R8 532 224.

Provision for Fleet Africa

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

Provision for ex gratia benefits

Reconciliation of provision for ex gratia benefits		
Opening balance	(9 791 000)	(10 697 000)
Current service cost	(829 000)	(963 000)
Interest	(1 226 000)	(1 022 000)
Benefits paid	771 450	800 292
Actuarial gain/(loss)	(555 450)	2 090 708
	(11 630 000)	**(9 791 000)**

Provision for long service awards

Reconciliation of provision for long service awards		
Opening balance	(46 658 000)	(45 452 000)
Current service cost	(4 278 000)	(4 377 000)
Interest cost	(4 122 000)	(3 785 000)
Benefits paid	264 062	143 102
Actuarial gain/(loss)	281 938	6 812 898
	(54 512 000)	**(46 658 000)**

Key assumptions

	2021	2020

21. Provisions (continued)

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

Long service awards: The nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period is used. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The expected rates of salary increases is equal to CPI+1%. The assumed increase on 1 July 2021 was 6.25%.

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

Ex- gratia: To obtain the applicable discount rate, the implied duration of the liability to obtain an appropriate interest rate on the yield curve is used. The nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discounted rates and CPI assumptions is used.

The discount rate used is 12.15%. (Net effective discount rate: 3.85%)

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

The consumer price inflation value used is 7.99%

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

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

22. Employee benefit obligations

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

Carrying value	2021	2020
Accrued liability at the beginning of the year	(197 335 000)	(193 906 000)
Current service cost	(8 267 000)	(6 757 000)
Interest cost	(24 146 000)	(19 141 000)
Benefits paid	7 304 954	7 595 030
Actuarial gain/(loss)	18 035 046	14 873 970
	(204 408 000)	**(197 335 000)**

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

	2021	2020

22. Employee benefit obligations (continued)

Key assumptions used

The basis on which the discount rate has been determined is as follows
:
The nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period was used. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The discount rate used is yield curve based.

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

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

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

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

Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	27 213 000	35 817 000

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

	2021	2020	2019	2018	2017
Defined benefit obligation	204 408 000	197 335 000	193 906 000	163 547 000	160 479 000

23. Revaluation reserve

Opening balance	10 304 729 342	7 424 537 335
Revaluation for the year	(2 015 477)	2 883 057 016
Revaluation reserve of asset disposal	-	(2 865 009)
	10 302 713 865	**10 304 729 342**

24. Service charges

Sale of electricity	1 048 937 898	1 036 368 018
Sale of water	236 489 780	261 944 017
Solid waste	127 359 836	114 482 565
Sewerage and sanitation charges	125 450 580	118 445 599
	1 538 238 094	**1 531 240 199**

Notes to the Audited Annual Financial Statements

	2021	2020

25. Rental of facilities and equipment

	2021	2020
Facilities and equipment		
Rental of facilities	14 887 068	9 045 882

26. Interest earned on outstanding debtors

	2021	2020
Interest - Property rates	29 082 660	33 529 000
Interest earned from exchange transactions	37 053 432	54 369 048
	66 136 092	**87 898 048**

27. Agency services

	2021	2020
Management Fees	20 640 122	21 214 389

28. Licences and permits (exchange)

	2021	2020
Trading & other	24 627	(4 720)
Road and Transport	6 174 505	5 472 422
	6 199 132	**5 467 702**

29. Other income

	2021	2020
Administrative handling fees	4 377	665
Burial fees	1 653 299	1 133 614
Sale of erven	469 525	47
Building plan fees	7 849 922	8 766 966
Admission fees	415 571	708 235
Tender deposits	109	250
Municipal information & statistics	382	565
Insurance claims & related income	2 265 373	1 187 006
Refund seta levy	-	103
Other minor income	5 918 980	4 187 016
	18 577 538	**15 984 467**

30. Interest received - Investments

	2021	2020
Interest revenue		
Bank	12 333 424	18 822 773

31. Property rates

Rates received

	2021	2020
Business and commercial	215 206 382	197 746 584
Farm properties	13 171 877	19 983 856
Industrial properties	51 295 806	46 736 220
Municipal properties	(7 086)	151 335
Public Benefit Organisations	206 863	(544 325)
Public Service Infrastructure Properties	329 113	356 527
Residential properties	174 221 080	183 276 253
Small holding	7 871	637 565
State owned properties	18 049 955	14 095 353
	472 481 861	**462 439 368**

	2021	2020

32. Government grants and subsidies

Operating grants		
Equitable share	1 181 769 465	922 585 688
Finance Management Grant	2 500 000	2 500 000
Integrated National Electrification Programme Grant	28 805 306	15 208 943
Energy Efficiency and Demand Side Management Grant	653 891	7 346 109
Public Transport Network Grant	98 244 808	222 495 474
Infrastructure Skills Development Grant	6 203 000	5 111 000
Expanded Public Works Programme Incentive Grant	9 527 000	4 201 000
Integrated Urban Development Grant	53 492 815	110 963 142
Municipal Disaster Grant	-	596 000
	1 381 196 285	**1 291 007 356**
Capital grants		
Municipal Infrastructure Grant	24 700 000	-
Public transport infrastructrure grant	87 988 320	20 563 238
Neighbourhood Development Grant	22 750 119	20 557 078
Regional Bulk Infrastructure Grant	295 843 668	614 271 163
Water Services Infrastructure Grant	51 274 164	88 586 510
Intergrated National Electrification Programme	16 971 353	15 571 286
Intergrated Urban Development Grant	265 465 291	267 326 858
	764 992 915	**1 026 876 133**
	2 146 189 200	**2 317 883 489**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	932 094 269	922 585 688
Unconditional grants received	1 181 769 465	1 531 528 751
	2 113 863 734	**2 454 114 439**

32.1 Public transport network grant

Balance unspent at beginning of year	89 374 288	55 985 461
Current-year receipts	147 323 000	332 433 000
Conditions met - transferred to revenue	(186 233 128)	(243 058 712)
Paid back to National Treasury	(20 733 484)	(55 985 461)
	29 730 676	**89 374 288**

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

	2021	2020

32. Government grants and subsidies (continued)

32.2 Neighbourhood development partnership grant

Balance unspent at beginning of year	22 255 922	6 415 024
Current-year receipts	22 751 000	42 813 000
Conditions met - transferred to revenue	(22 750 118)	(20 557 078)
Paid back to National Treasury	(22 255 922)	(6 415 024)
	882	**22 255 922**

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

32.3 Local government - Housing accreditation grant

Balance unspent at beginning of year	534 013	508 262
Current-year receipts	12 269	25 751
	546 282	**534 013**

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

32.4 Municipal infrastructure grant

Balance unspent at beginning of year	-	25 334 371
Current-year receipts	24 700 000	-
Conditions met - transferred to revenue	(24 700 000)	-
Paid back to National Treasury	-	(25 334 371)
	-	**-**

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

32.5 Limpopo Provincial Government - Dept Local government and housing

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

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

32.6 Capricorn District Municipality

Balance unspent at beginning of year	17 589	17 589

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

Notes to the Audited Annual Financial Statements

	2021	2020

32. Government grants and subsidies (continued)

32.7 Energy efficiency and demand side management grant

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

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

32.8 Equitable Share

Current-year receipts	1 181 769 465	922 585 688
Conditions met - transferred to revenue	(1 181 769 465)	(922 585 688)
	-	-

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

32.9 Finance Management Grant

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

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

Provide explanations of conditions still to be met and other relevant information.

32.10 Municipal Systems Improvement grant

Balance unspent at beginning of year	-	376 454
Paid back to National Treasury	-	(376 454)
	-	-

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

	2021	2020

32. Government grants and subsidies (continued)

32.11 Water Services Infrastructure Grant

	2021	2020
Balance unspent at beginning of year	8 067 286	3 796
Current-year receipts	50 000 000	96 650 000
Conditions met - transferred to revenue	(51 274 164)	(88 586 510)
	6 793 122	**8 067 286**

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

32.12 Expanded Public Works Programme Integrated Grant

	2021	2020
Current-year receipts	9 527 000	4 201 000
Conditions met - transferred to revenue	(9 527 000)	(4 201 000)
	-	**-**

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

32.13 Integrated National Electrification Programme

	2021	2020
Balance unspent at beginning of year	7 337 771	21 125 511
Current-year receipts	39 000 000	38 118 000
Conditions met - transferred to revenue	(45 776 659)	(30 780 229)
Paid back to National Treasury	-	(21 125 511)
	561 112	**7 337 771**

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

32.14 Regional Bulk Infrastructure Grant

	2021	2020
Balance unspent at beginning of year	16 726 837	333 783
Current-year receipts	292 133 000	630 998 000
Conditions met - transferred to revenue	(295 843 668)	(614 271 162)
Paid back to National Treasury	(1 214 059)	(333 784)
	11 802 110	**16 726 837**

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

32.15 Integrated Urban Development grant

	2021	2020
Current-year receipts	346 648 000	378 290 000
Conditions met - transferred to revenue	(318 958 106)	(378 290 000)
	27 689 894	**-**

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

32.16 Municipal Disaster Grant

	2021	2020
Current-year receipts	-	596 000
Conditions met - transferred to revenue	-	(596 000)
	-	**-**

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

	2021	2020

32. Government grants and subsidies (continued)

Provide explanations of conditions still to be met and other relevant information.

32.17 Infrastructure Skills Development Grant

Current-year receipts	6 203 000	5 111 000
Conditions met - transferred to revenue	(6 203 000)	(5 111 000)
	-	-

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

Provide explanations of conditions still to be met and other relevant information.

33. Public contributions and donations

Public contributions and donations	5 634 278	2 125 841

Included in the donations amount that are donations received in kind. Refer to the table below for the respective details:

14000L Water tanker	1 021 800	-
Motor vehicle testing station: Truck tractor	930 888	-
Motor vehicle testing station: Semi trailer	3 432 590	-
	5 385 278	**-**

34. Fines, Penalties and Forfeits

Illegal Connections Fines	8 300 650	1 940 074
Law Enforcement Fines	-	104 346
Overdue Books Fines	-	10 479
Pound Fees Fines	49 153	2 973
Municipal Traffic Fines	30 588 850	29 505 597
Retentions Forfeits	-	20 970
	38 938 653	**31 584 439**

	2021	2020

35. Employee related costs

Basic	556 656 543	508 275 384
Bonus	42 984 671	39 532 022
Medical aid - company contributions	39 803 524	35 738 414
UIF	4 162 129	3 817 190
Leave pay provision charge	21 203 036	57 332 191
Defined contribution plans	103 772 722	95 464 778
Travel, motor car, accommodation, subsistence and other allowances	66 998 975	64 810 896
Overtime payments	92 771 360	95 045 986
Long-service awards	(166 834)	55 957
Housing benefits and allowances	11 177 844	10 431 158
Interest cost - employee benefit plans	29 494 000	23 948 000
Actuarial gain/losses - employee benenefit plans	(17 761 534)	(23 777 576)
Current cost - employee benefit plans	13 374 000	12 097 000
Bargaining council levy	233 329	210 622
	964 703 765	**922 982 022**

Remuneration of Municipal Manager

The Municipal Manager was appointed in May 2017.

Annual remuneration	1 522 677	1 523 145
Housing allowance	278 507	278 507
Motor car allowance	267 898	267 885
Council contributions	276 110	275 683
	2 345 192	**2 345 220**

Remuneration of Chief Finance Officer

Annual remuneration	1 121 398	1 121 983
Housing allowance	574 543	130 000
Motor car allowance	129 523	49 650
Council contributions	50 741	574 543
	1 876 205	**1 876 176**

Director Planning and Economic Development

Annual remuneration	1 218 628	1 216 323
Housing allowance	182 966	225 141
Motor car allowance	221 404	251 747
Council contributions	253 208	182 966
	1 876 206	**1 876 177**

Director Community Services

Annual remuneration	1 219 514	1 219 515
Housing allowance	170 823	170 823
Motor car allowance	281 426	281 426
Council contributions	204 440	204 412
	1 876 203	**1 876 176**

Director Corporate and Shared Services

Annual remuneration	1 219 514	1 219 514

	2021	2020

35. Employee related costs (continued)

Housing allowance	317 166	317 166
Motor car allowance	281 426	281 426
Council contributions	58 098	58 070
	1 876 204	**1 876 176**

Director Strategic Planning, Monitoring and Evaluation

Annual remuneration	1 219 514	1 219 515
Housing allowance	170 823	170 823
Motor car allowance	281 426	281 426
Council contributions	204 440	204 412
	1 876 203	**1 876 176**

Director Transportation Services

Annual remuneration	1 219 514	1 219 515
Housing allowance	170 823	170 823
Motor car allowance	281 427	281 427
Council contributions	204 440	204 412
	1 876 204	**1 876 177**

Director Energy Services

Annual remuneration	1 219 514	562 853
Housing allowance	148 309	74 155
Motor car allowance	281 426	140 713
Council contributions	226 954	102 206
	1 876 203	**879 927**

Director Water and Sanitation

Annual remuneration	1 219 514	656 662
Housing allowance	230 337	-
Motor car allowance	164 911	98 000
Council contributions	261 441	150 689
Acting allowance	-	134 383
	1 876 203	**1 039 734**

36. Remuneration of councillors

Executive Major	1 091 397	1 091 397
Mayoral Committee Members	6 266 275	7 047 320
Speaker	881 998	881 997
Councillors	29 623 139	28 671 379
Chief Whip	829 647	829 647
	38 692 456	**38 521 740**

37. Depreciation and amortisation

Property, plant and equipment	948 091 275	711 651 908

Notes to the Audited Annual Financial Statements

	2021	2020

38. Finance costs

Non-current borrowings	61 910 286	69 673 253

39. Bad debts

Reconciliation of bad debts expense		
Contributions to provisions for consumer debtors	108 212 656	92 493 899
Contributions to provisions for traffic fines	33 028 495	7 165 401
Other write offs	41 962 387	60 260 158
	183 203 538	**159 919 458**

40. Bulk purchases

Electricity - Eskom	765 100 660	725 603 106
Water	191 088 675	195 310 364
	956 189 335	**920 913 470**

Electricity losses

Distribution loss in KWH	-	-	115 503 860	103 514 580

Percentage Loss:		
Through distribution	15 %	15 %

Water losses

Distribution losses	43 461 586	36 722 548
Distribution loss in KL	8 004 392	6 994 771
Percentage Loss:		
Loss through distribution	18 %	22 %

41. Contracted services

Animal Care	1 685 137	2 240 148
Burial Services	4 747 499	1 279 246
Call Centre	9 064 104	12 863 909
Cleaning Services	1 138 728	1 221 045
Clearing and Grass Cutting Services	1 961 388	1 818 868
Hygiene Services	1 093 968	1 313 211
Meter Management	24 424 944	24 144 145
Medical Services [Medical Health Services & Suppor	16 417 009	-
Personnel and Labour	36 375 761	33 642 914
Connection/Dis-connection	3 759	1 604 821
Refuse Removal	62 483 519	61 009 381
Security Services	60 449 517	46 589 246
Sewerage Services	41 815 902	49 428 686
Translators, Scribes and Editors	14 770	28 800
Transport Services	33 095 873	27 837 304
Drivers Licence Cards	980	-
Water Takers	48 378 077	58 442 346

Notes to the Audited Annual Financial Statements

	2021	2020

41. Contracted services (continued)

Business and Advisory	199 915 268	245 199 153
Infrastructure and Planning	79 088 326	29 900 177
Laboratory Services	35 402 629	25 247 503
Legal Cost	24 922 080	19 821 340
Catering Services	959 189	1 862 249
Electrical	25 940 952	32 366 324
Employee Wellness	425 979	189 617
Event Promoters	199 007	434 081
Fire Protection	893 474	1 829 888
Gardening Services	2 057 741	2 776 832
Grading of Sport Fields	91 202	1 123 597
Maintenance of Buildings and Facilities	48 790 421	25 505 703
Maintenance of Equipment	18 893 099	22 541 988
Maintenance of Unspecified Assets	11 104 878	22 974 296
Management of Informal Settlements	134 722	451 096
Transportation	17 022 196	4 916 836
	808 992 098	**760 604 750**

42. Transfers and subsidies

Other subsidies		
SPCA	480 000	480 000
Taxi Association	-	2 482 000
Polokwane Housing Association	66 078 354	24 245 619
	66 558 354	**27 207 619**

43. Inventory consumed

Standard rated	5 759 202	3 874 999
Zero rated	174 331	355 851
Materials and supplies	63 732 936	42 833 010
	69 666 469	**47 063 860**

44. General expenses

Advertising	8 720 574	15 546 165
Auditors remuneration	13 839 086	14 340 032
Bank charges	4 006 902	4 022 157
Hire	5 468 112	3 212 304
Insurance	19 325 094	21 848 494
IT expenses	10 044 633	8 629 076
Levies	11 941 886	6 447 978
Fuel and oil	41 908 455	35 054 789
Postage and courier	4 788 724	3 910 572
Protective clothing	11 781 286	23 239 654
Subscriptions and membership fees	9 551 940	9 116 259
Telephone and fax	19 226 468	8 735 828
Travel - local	178 872	1 006 733
Title deed search fees	17 048	23 604
Municipal services	19 693 188	17 859 865
Management fees	3 728 761	3 079 009
Other expenses	42 005 251	32 324 463
	226 226 280	**208 396 982**

Notes to the Audited Annual Financial Statements

	2021	2020

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

Disposal of fixed and intangible - Infrastructure	1 008 243	(1 242 761)
Disposal of fixed and intangible - Community assets	-	1 896
Disposal of fixed and intangible - Investment property	-	(192 484)
Disposal of fixed and intangible - Movable assets	(454 835)	443
	553 408	**(1 432 906)**

46. Fair value adjustments

Investment property (Fair value model)	27 373 697	22 188 612
Biological assets - (Fair value model)	-	(282 046)
Other financial assets		
• Investments (Designated as at FV through P&L	-	(3 469 804)
	27 373 697	**18 436 762**

47. Impairment loss

Impairments		
Property, plant and equipment	-	696 417

48. Inventories losses/write-downs

Inventories losses/write-downs	(20 865)	-

49. Auditors' remuneration

Fees	13 839 086	14 340 032

	2021	2020

50. Cash generated from operations

Surplus	43 927 846	653 078 974
Adjustments for:		
Depreciation and amortisation	948 091 275	711 651 908
(Loss) gain on sale of assets and liabilities	(553 408)	1 432 906
Donated assets	(5 634 278)	-
Fair value adjustments	(27 373 697)	(18 436 762)
Impairment deficit	-	696 417
Bad debts written off	183 203 538	159 919 458
Movements in retirement benefit assets and liabilities	7 073 000	3 429 000
Movements in provisions	(124 465 344)	167 538 599
Inventory losses/write downs	20 865	-
Interest income	(78 469 516)	(106 720 821)
Finance cost	61 910 287	69 673 253
Changes in working capital:		
Inventories	(13 003 654)	(13 231 971)
Other receivables from exchange transactions	401 746	(9 572 664)
Consumer debtors	(187 768 386)	(427 096 564)
Other receivables from non-exchange transactions	6 123 611	207 562 193
Prepayments	25 246 315	5 977 817
Unidentified receipts	2 621 923	19 547 653
Payments received in advance	(2 556 486)	13 447 355
Deferred income	(14 771 193)	(13 602 904)
Payables from exchange transactions	(18 848 529)	19 390 022
VAT	16 257 438	(13 177 627)
Unspent conditional grants and receipts	(67 825 930)	30 676 262
Consumer deposits	(2 634 201)	(1 902 172)
Interest received	78 469 516	106 720 821
Finance cost paid	(61 910 287)	(69 673 253)
	767 532 451	**1 497 327 900**

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification

Statement of Financial Position

	Note(s)	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Assets					
Current Assets					
Cash and cash equivalents		420 294 249	-	-	420 294 249
Receivables from exchange transactions		111 372 825	323 262 754	-	434 635 579
Other receivables from exchange transactions		20 524 609	(769 207)	-	19 755 402
Receivables from non-exchange transactions		494 938 817	(318 989 657)	-	175 949 160
Inventories		154 851 074	1 644 287	-	156 495 361
VAT receivable		70 686 817	(9 402 581)	-	61 284 236
Prepayments		25 246 315	-	-	25 246 315
		1 297 914 706	**(4 254 404)**	**-**	**1 293 660 302**
Non-Current Assets					
Biological assets that form part of an agricultural activity		4 450 352	9 028 200	(4 450 352)	9 028 200
Investment property		1 115 883 515	(428 495 419)	-	687 388 096
Property, plant and equipment		15 569 843 949	741 436 014	-	16 311 279 963
Intangible assets		30 156 632	144 695 001	-	174 851 633
Heritage assets		21 899 818	-	-	21 899 818
Other receivables from exchange transactions		144 352	-	-	144 352
Investments in controlled entities		1 000	-	-	1 000
Living resources		-	-	4 450 352	4 450 352
		16 742 379 618	**466 663 796**	**-**	**17 209 043 414**
Total Assets		**18 040 294 324**	**462 409 392**	**-**	**18 502 703 716**
Liabilities					
Current Liabilities					
Payables from exchange transactions		990 813 111	(1 504 412)	-	989 308 699
Unspent conditional grants and receipts		147 917 307	-	-	147 917 307
Finance lease obligation		5 171 543	-	-	5 171 543
Consumer deposits		71 199 462	-	-	71 199 462
Long term loans		50 541 553	-	-	50 541 553
Provisions		163 302 040	4 852 119	-	168 154 159
		1 428 945 016	**3 347 707**	**-**	**1 432 292 723**
Non-Current Liabilities					
Finance lease obligation		7 092 516	13 175 744	-	20 268 260
Employee benefit obligation		197 335 000	-	-	197 335 000
Provisions		186 698 031	(4 852 119)	-	181 845 912
Long term loans		415 509 507	-	-	415 509 507
		806 635 054	**8 323 625**	**-**	**814 958 679**
Total Liabilities		**2 235 580 070**	**11 671 332**	**-**	**2 247 251 402**
Net Assets		**15 804 714 254**	**450 738 060**	**-**	**16 255 452 314**

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

Net Assets				
Reserves				
Revaluation reserve	9 594 102 247	710 627 095	-	10 304 729 342
Accumulated surplus	6 210 612 007	(259 889 035)	-	5 950 722 972
Total Net Assets	**15 804 714 254**	**450 738 060**	**-**	**16 255 452 314**

51.1 Receivables from exchange transactions

Balance previosly reported	111 372 826
Correction of Mankweng billing	29 423 584
Correction of provision for impairment relating to the exchange and non exchange receivables split	262 694 188
Recognition of water and electricity receivable apportionment for 15 days	31 144 981
	434 635 579

Comparative amounts for receivables from exchange transactions were restated to correct errors in the billing of Mankweng accounts for water, waste management, waste water management, and sundry debtors (interest) as identified and reported by the Auditor General in the audit report for the financial year 2019/2020.

According to GRAP standards, the municipality should recognise revenue in the period in which it is earned, which is not necessarily when cash is being received. The muncipality therefore is expected to split the water and electricity revenue based on the 15 days at year end to take into account the amount of revenue earned versus the billing date. Management had however ommitted this recognition in the prior year.

51.2 Other receivables from exchange transactions

Balance previously reported	20 524 608
Correction of interest accrual relating to the prior year	(1 048 948)
Correction of third party refunds	279 742
	19 755 402

51.3 Receivables from non-exchange transactions

Balance previously reported	494 938 817
Correction of errors on municipal property incorrectly charged for property rates	(30 678 375)
Correction of interest charged	(1 722 713)
Correction of errors regarding Mankweng properties without title deed incorrectly billed for property rates	(11 543 855)
Correction of CDM receivable for expenses paid on behalf of the municipality	(3 079 009)
Correction of provision for impairment relating to the exchange and non exchange receivables split	(262 694 188)
Correction of duplicate billing for property rates	(9 271 517)
	175 949 160

Comparative amounts for receivable from non-exchange transactions were restated to correct errors regarding municipal property, incorrectly charged, property rates due to incorrect classification on the valuation roll. Furthermore, restatement is due to correction of billing of Mankweng properties which do not have the title deeds.

Expenses relating to pump operators were paid by Capricorn District Municipality on behalf of Polokwane Municipality. The expense was overlooked in the prior year.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.4 Inventories

Balance previosly reported	154 851 074
Reversal of uniforms issued that were not affected in the prior year	1 644 287
	156 495 361

Uniforms were not physically issued. The reversal of the inventory issue had only taken place after year end.

51.5 VAT receivable

Balance previosly reported	70 686 816
VAT effect of correction of Mankweng billing	(9 402 580)
	61 284 236

Comparative amounts for VAT receivable was restated as a result of VAT impact of the journals for correction of Mankweng billing.

51.6 Property, plant and equipment

Balance previosly reported	15 569 843 949
Correction of accumulated depreciation due, useful life assessment and capitalisation of delayed and ommitted projects	10 527 711
Correction of costs due to reversal of revaluation and delayed projects	703 413 989
Reversal of accrual of capital expenditure relating to infrastructure assets	(59 384)
Correction of land reclassified from investment property	41 310 444
Correction of depreciation and fair value	(14 839 587)
Recognition of donated assets	1 082 841
	16 311 279 963

During the current year the municipality corrected the prior period accumulated depreciation as a result of reassessment of useful lives and inclusion of completed projects in the asset register as at prior periods.

Correction of costs due to revaluation on delayed projects capitalised as at prior years, which were subject to re-evaluation in the 2020 financial year; as well as vacant land parcels recognised from opening balance.

Recognition of lancd reclassified from investment property from previous year and timber farm not previously recognised.

51.7 Intangible assets

Balance previosly reported	30 156 632
Correction of valuation of intangible assets	(9 049 615)
Recognition of fleet software	1 750 000
Recognition of intangible asset relating to Taxi Association compensation	152 643 000
Correction of amortisation	(486 644)
Removal of IT expenditure that was erroneously capitalised	(161 740)
	174 851 633

Recognition of Fleet software that is still in use together with its resultant amortisation gave raise to this prior period error.

The compensation to the Taxi Association as a restriction of trade was erroneously recognised as a subsidy payment instead of an intangible asset.

The reintegration of GIS to the financial system was initially capitalised, however this shoudl have been expensed, and hence removed.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.8 Biological assets that form part of an agricultural activity

Balance previously reported	4 450 352
Retrospective reclassification of biological assets to living resources	(4 450 352)
Recognition of timber trees as biological assets	9 028 200
	9 028 200

The municipality adopted GRAP 110, which required the game animals that were presented as biological assets to be presented as living resources instead.

The municipality classified Timber trees as biological assets, as per the AGSA's recommendation.

51.9 Investment property

Balance previously reported	1 115 883 515
Correction of investment property recognition & fair value adjustment	(428 495 419)
	687 388 096

Properties which no longer meet the definition of investment property were removed from the investment property register and the 2020 fair value was also corrected.

51.10 Living resources

Balance previously reported	-
Reclassification of game previously recognised as biological assets	4 450 352
	4 450 352

The municipality adopted GRAP 110, which required the game animals that were presented as biological assets to be presented as living resources instead.

51.11 Payables from exchange transactions

Balance previously reported	990 813 111
Correction of retentions opening balance of the prior period	(62 409)
Reversal of accrual that was erroneously captured twice	(24 840)
Correction of accrual relating to property, plant and equipment	(59 383)
Correction of accrual of SDL affecting salary control accounts	(1 357 780)
	989 308 699

Retention correction was done to reduce the amount accrued in line with the completion certificate from the contractor.

An accrual relating to bursaries was erroneously captured. The reversal was completed in the new financial year thereby resulting in the prior period correction.

Capital expenditure to the value of R59 836 was erronesously accrued.

The municipality had accrued for Skills Development Levy for May and June in the prior year despite SARS granting a tax holiday during the lockdown level 5 period. The accrual was reversed in the current year as a prior period error.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.12 Provisions

Balance previosly reported	163 302 040
Reclassification of landfill provision	4 852 119
	168 154 159

A portion relating to the current provision of the landfill provision was incorrectly presented under non current provisions.

51.13 Finance lease obligation

Balance previosly reported	7 092 516
Correction of long term obligation portion	13 175 744
	20 268 260

During the year, it was noted that the opening finance lease obligation did not reconcile back to the amortisation schedules. This was due to the correction of prior years based on auditors recommendation. The impact was on the finance leased portion.

51.14 Provisions

Balance previosly reported	186 698 031
Reclassification of landfill provision	(4 852 119)
	181 845 912

A portion relating to the current provision of the landfill provision was incorrectly presented under non current provisions.

51.15 Revaluation reserve

Balance as previously reported	9 594 102 247
Correction of revaluation as a result of infrastructure assets	689 703 453
Correction of revaluation of land	20 923 642
	10 304 729 342

The review of useful life correction from the 2020 financial year resulted in a reduction in the revalued accumulated depreciation and ultimately an increase in the carrying amount of the reassessed assets. Delayed projects capitalised from the opening balance were subject to the 2020 revaluation.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.16 Accumulated surplus

Balance previosly reported	6 210 612 007
Correction of service charges relating to periods prior to the 2019-2020 financial year	74 255 530
Correction of property rates relating to periods prior to the 2019-2020 financial year	(9 165 121)
Correction of retention withheld for periods prior to the 2019-2020 financial year	62 409
Adjustments to depreciation charge of infrastructure assets relating to periods prior to 2019-20 financial year	(33 015 441)
Correction of flat rate charges relating to periods prior to 2019-20 financial year	(44 543 854)
Correction of fair value recognised for investment property for periods prior to 2019-20 financial year	(71 869 292)
Correction of fair value of land for periods prior to the 2019-20 financial year	(20 923 640)
Correction of depreciation and amortisation charge relating to periods prior to 2019-20 financial year	48 185 937
Reversal of write off of software program relating to periods prior to the 2019 - 2020 financial year	1 750 000
Correction of service charges	40 912 387
Correction of interest received from investments	(1 048 948)
Correction of interest received from outstanding debtors - non exchange	(1 722 713)
Correction of general expenses	(213 849)
Correction of donations received	1 082 841
Correction of contracted services	(675 812)
Correction of depreciation	21 854 805
Correction of transfers and subsidies paid	152 643 000
Correction of gains and losses relating to fair value of assets	(355 950 313)
Correction of interest earned on outstanding debtors	(19 178 338)
Correction of property rates	(42 328 623)
	5 950 722 972

Refer to the nature of the adjustments in the financial statement line items as indicated above.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

Statement of Financial Performance

	Note(s)	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Revenue					
Revenue from exchange transactions					
Service charges		1 490 130 351	41 109 848	-	1 531 240 199
Rental of facilities and equipment		9 045 882	-	-	9 045 882
Interest received (trading)		73 744 846	(19 375 798)	-	54 369 048
Agency services		21 214 389	-	-	21 214 389
Licences and permits		5 467 702	-	-	5 467 702
Other operating revenue		15 984 467	-	-	15 984 467
Interest received - Investment		19 871 721	(1 048 948)	-	18 822 773
Total revenue from exchange transactions		**1 635 459 358**	**20 685 102**	**-**	**1 656 144 460**
Revenue from non-exchange transactions					
Taxation revenue					
Property rates		504 767 991	(42 328 623)	-	462 439 368
Interest earned on outstanding debtors		35 251 713	(1 722 713)	-	33 529 000
Transfer revenue					
Government grants & subsidies		2 317 883 489	-	-	2 317 883 489
Public contributions and donations		1 043 000	1 082 841	-	2 125 841
Fines, Penalties and Forfeits		31 584 439	-	-	31 584 439
Total revenue from non-exchange transactions		**2 890 530 632**	**(42 968 495)**	**-**	**2 847 562 137**
Total revenue		**4 525 989 990**	**(22 283 393)**	**-**	**4 503 706 597**
Expenditure					
Employee related costs		(922 982 023)	-	-	(922 982 022)
Remuneration of councillors		(38 521 740)	-	-	(38 521 740)
Depreciation and amortisation		(733 506 713)	21 854 805	-	(711 651 908)
Bad debt		(159 919 458)	-	-	(159 919 458)
Finance costs		(69 673 253)	-	-	(69 673 253)
Inventory consumed		(47 063 860)	-	-	(47 063 860)
Bulk purchases		(920 913 470)	-	-	(920 913 470)
Contracted services		(759 928 938)	(675 812)	-	(760 604 750)
Transfers and subsidies		(179 850 619)	152 643 000	-	(27 207 619)
General Expenses		(208 183 137)	(213 845)	-	(208 396 982)
Total expenditure		**(4 040 543 211)**	**173 608 148**	**-**	**(3 866 935 062)**
Operating surplus		**485 446 779**	**151 324 755**	**-**	**636 771 535**
Gain on disposal of assets and liabilities		(1 432 906)	-	-	(1 432 906)
Fair value adjustments		374 387 076	(355 950 314)	-	18 436 762
Impairment loss		(696 417)	-	-	(696 417)
		372 257 753	**(355 950 314)**	**-**	**16 307 439**
Surplus for the year		**857 704 532**	**(204 625 559)**	**-**	**653 078 974**

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.17 Service charges

Balance previously reported	1 490 130 351
Correction of errors on Mankweng billing	9 964 867
Correction of revenue recognised relating to water and electricity	31 144 981
	1 531 240 199

Comparative amounts of service charges were restated to correct errors in the billing of Mankweng accounts for water, waste management and waste water management as identified and reported by the Auditor General in the prior year.

According to GRAP standards, the municipality should recognise revenue in the period in which it is earned, which is not necessarily when cash is being received. The muncipality therefore is expected to split the water and electricity revenue based on the 15 days at year end to take into account the amount of revenue earned versus the billing date. Management had however ommitted this recognition in the prior year.

51.18 Interest received (trading)

Balance previously reported	73 744 846
Correction of interest charges incorrectly billed on Mankweng accounts	(19 375 798)
	54 369 048

Comparative amounts on interest received were restated to correct errors in billing of Mankweng accounts for incorrectly billed interest. Furthermore, restatement is due to correction of interest charged on municipal property incorrectly charged.

51.19 Interest received - investment

Balance previously reported	19 871 721
Correction of interest accrual in the prior period	(1 048 948)
	18 822 773

51.20 Property rates

Balance previosly reported	420 312 776
Correction of billing relating to property rates	42 126 592
	462 439 368

51.21 Interest earned on outstanding debtors - non exchange

Balance as previously reported	35 251 713
Correction of interest charged on property rates	(1 722 713)
	33 529 000

Interest on property rates were incorrectly charged. This was identified during the current year and corrected accordingly.

51.22 Public contribution and donations

Balance as previously reported	1 043 000
Recognition of donated assets erroneously ommitted	1 082 841
	2 125 841

The municipality had overlooked the recording of an asset that was received as a donation in the previous year.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.23 Depreciation and amortisation

Balance previously reported	(733 506 713)
Correction of depreciation charge relating to infrastructure assets	22 404 637
Correction of depreciation charge relating to transport assets	(331 082)
Correction of depreciation charge relating to transport assets	(218 750)
	(711 651 908)

51.24 Contracted services

Balance previously reported	(759 928 938)
Correction of contracted services	(675 812)
	(760 604 750)

Contracted services vote numbers was errounously mapped to the general expenses

51.25 'Grants and subsidies paid

Balance previously reported	(179 850 619)
Correction of compensation paid to the Taxi Association as an intangible asset instead	152 643 000
	(27 207 619)

During the current audit, the Auditor General instructed the municipality to recognise the R152 643 000 payable to the Taxi Association as a restraint of trade, as an intangible asset instead of as a subsidy.

51.26 General Expenses

Balance previosly reported	(208 183 137)
Correction of bursaries invoice incorrectly captured	24 840
Correction of reversal of uniforms and protective clothing issues	1 644 287
Reversal of SDL accrual relating to the prior year	1 357 778
Recognition of expense paid by CDM	(3 079 010)
Recognition of ICT expendinditure that was erroneously capitalised	(161 740)
	(208 396 982)

A bursary invoice was inaccurately captured and only corrected in the current year.

Uniforms were not physically issued. The reversal of the inventory issue had only taken place after year end.

Skills Development Levy were raised for the months of May and June 2020 despite SARS granting a tax holiday. The correction was only effected in the current year.

Capricorn District Municipality had paid for pump operators. This expense was never recognised in the prior year and as such corrected during the current financial year.

Expenditure relating to the IT department was erroneously capitalised in the prior years.

Notes to the Audited Annual Financial Statements

51. Prior period errors/Reclassification (continued)

51.27 Irregular expenditure

Balance previously reported	478 108 870
Correction of amount written off	(51 308)
Correction of irregular expenditure incurred	2 979 262
	481 036 824

The amount approved for write-off of irregular expenditure was erroneously recorded as R89 400 000 instead of R8 451 308, resulting in the misstatement of the balance of irregular expenditure in the prior year.

51.28 Fair value adjustments

Balance previosly reported	374 387 076
Correction of revaluation of investment property	(355 664 646)
Removal of fair value of duplicate land parcel	(285 668)
	18 436 762

52. Additional disclosure in terms of Municipal Finance Management Act

	2021	2020
Contributions to SALGA		
Current year subscription / fee	9 534 740	9 107 719
Amount paid - current year	(9 534 740)	(9 107 719)
	-	-
Audit fees		
Current year subscription / fee	13 839 086	14 340 032
Amount paid - current year	(13 839 086)	(14 340 032)
	-	-
PAYE and UIF		
Current year subscription / fee	162 317 318	148 276 610
Amount paid - current year	(162 317 318)	(148 276 610)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	220 654 503	200 992 311
Amount paid - current year	(220 654 503)	(200 992 311)
	-	-

VAT

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

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

VAT on a cash basis reflects a net VAT refundable amount of R22 052 203 (2020: 54 009 689)

52. 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 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
C Coetzee	-	15	15
TS Mashau	2 365	-	2 365
FA Haas	1 755	-	1 755
ME Makamela	390	-	390
TP Nkadimeng	2 487	-	2 487
MS Sathekge	1 073	-	1 073
MF Mohlabeng	520	-	520
TSP Mojapelo	2 026	620	2 646
TF Moeti	975	-	975
FJ Joubert	1 808	-	1 808
MJ Ralefatane	3 612	-	3 612
MK Teffo	1 818	-	1 818
MF Ramaphakela	2 787	3 507	6 294
	21 616	**4 142**	**25 758**

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

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

30 June 2021	Highest outstanding amount	Aging (in days)
C Coetzee	15	90
TSP Mojapelo	620	90
MF Ramaphakela	3 507	90
	4 142	**-**

30 June 2020	Highest outstanding amount	Aging (in days)
TSP Mojapelo	8 087	90
MF Ramaphakela	1 693	90
MJ Ramaphakela	923	90
C Coetzee	14	-
	10 717	**-**

	2021	2020

53. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	869 108 992	1 181 357 717
• Community	-	25 314 198
• Other	59 162 747	66 568 800
	928 271 739	**1 273 240 715**

Total capital commitments		
Already contracted for but not provided for	928 271 739	1 273 058 986

54. Contingencies

Contingent liabilities	225 439 301	153 531 624

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

See Annexure G for contingent liabilities register.

55. Unauthorised expenditure

Opening balance as previously reported	536 551 764	511 542 519
Opening balance as restated	**536 551 764**	**511 542 519**
Add: unauthorised expenditure - current	614 252 938	462 089 517
Less: authorised by council	-	(437 080 272)
Closing balance	**1 150 804 702**	**536 551 764**

Current year unauthorised expenditure analysed as follows: non-cash

Employee related cost	-	12 210 123
Depreciation and amortisation	614 252 938	449 879 394
	614 252 938	**462 089 517**

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

56. Fruitless and wasteful expenditure

Opening balance as previously reported	-	8 629
Opening balance as restated	**-**	**8 629**
Add: Expenditure identified - current	17 708	-
Less: Amount written off - current	-	(8 629)
Closing balance	**17 708**	**-**

56. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Interest on DBSA loan due to late payment	17 708	-

57. Irregular expenditure

Opening balance as previously reported	480 756 589	566 049 457
Correction of prior period error	(51 308)	-
Opening balance as restated	**480 705 281**	**566 049 457**
Add: Irregular Expenditure - current	72 934 604	4 107 132
Less: Amount written off by council	-	(89 451 308)
Closing balance	**553 639 885**	**480 705 281**

Other

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

58. Risk management

Fair value

58. Risk management (continued)

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

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

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

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

	2021	2020
Level 1		
Cash and cash equivalents	301 154 777	420 294 249
Level 3		
Investments	1 000	1 000
Total		
Investments	1 000	1 000
Cash and cash equivalents	301 154 777	420 294 249
	301 155 777	**420 295 249**

Financial risk management

58. Risk management (continued)

Liquidity risk

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

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

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

	2021	2020
Borrowings - Up to 1 year		
Capital repayments	20 076 910	50 541 553
Interest	44 847 142	48 972 717
	64 924 052	**99 514 270**
Borrowings - between 1 and 5 years		
Capital repayments	99 992 563	144 776 682
Interest	153 163 648	213 987 222
	253 156 211	**358 763 904**
Borrowings - greater than 5 years		
Capital repayments	295 372 167	270 732 825
Interest	117 737 804	190 414 895
	413 109 971	**461 147 720**
Borrowings - Total		
Capital repayments	415 441 639	362 625 579
Interest	315 748 593	453 374 834
	731 190 232	**816 000 413**
Trade and other payables - up to 1 year		
Trade and other payables	955 754 416	989 308 699
Finance lease - up to 1 year - capital repayments		
Vehicles	2 908 985	2 479 275
Cellphones	5 268 051	1 674 451
Photocopiers	1 486 416	1 017 816
	9 663 452	**5 171 542**
Finance lease - up to 1 year - Interest		
Vehicles	3 564 338	4 219 861
Cellphones	676 848	81 781
Photocopiers	334 388	21 293
	4 575 574	**4 322 935**
Finance lease - between 1 and 5 years - capital repayments		
Vehicles	16 590 336	20 179 529
Cellphones	2 757 142	88 731
Photocopiers	2 526 492	-

Notes to the Audited Annual Financial Statements

	2021	2020

58. Risk management (continued)

	21 873 970	**20 268 260**

Finance lease - between 1 and 5 years - interest		
Vehicles	3 154 049	6 952 749
Cellphones	105 366	3 169
Photocopiers	204 715	-
	3 464 130	**6 955 918**

Finance lease - Total		
Capital repayments	31 537 422	12 264 058
Interest	8 039 704	11 278 852
	39 577 126	**23 542 910**

Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 30 June 2021 is as follows:

Financial instrument	2021	2020
Cash and cash equivalents	301 144 777	420 294 249
Trade and other receivables	628 379 631	630 340 141

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

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

	2021	2020

59. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Ultimate controlling entity	Polokwane Local Municipality
Controlling entity	Polokwane Local Municipality
Controlled entities	Polokwane Housing Association. Refer to related party transactions note below as well as to note
Members of key management	No other payments are made outside the contractual employment payments from employment. Refer to Note 35 for remuneration. For councillor names, refer to the General Information page. The remuneration to councillors have been included in this note.

Related party balances

	2021	2020
Commitments with related parties		
Polokwane Housing Association (Social Housing Project)	24 150 000	79 000 000

The commitment is not secured.

No guarantees were given or received.

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

Related party transactions

Compensation to councillors - Payments to councillors are for allowances as gazetted. No other payments are made to councillors. Refer to Note 36 for remuneration of councillors.

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

	2021	2020
Polokwane Housing Association		
Grants	66 078 354	24 725 618
Accounting fees paid on behalf of PHA	582 417	878 000
	66 660 771	**25 603 618**

59. Related parties (continued)

Remuneration of management

Management class: Councillors/mayoral committee members

2021

Name	Basic salary	Travel	Medical aid allowance	Pension contribution	Data card	Cellphone	Total
Executive mayor	730 266	120 000	87 148	109 583	3 600	40 800	1 091 397
Speaker	546 259	209 399	-	81 939	3 600	40 800	881 997
Chief Whip	483 838	196 312	32 504	72 593	3 600	40 800	829 647
Mayoral committee members	3 614 838	1 450 362	229 678	542 195	34 800	394 400	6 266 273
Councillors	17 110 475	6 003 577	361 507	2 581 596	275 902	3 290 085	29 623 142
	22 485 676	**7 979 650**	**710 837**	**3 387 906**	**321 502**	**3 806 885**	**38 692 456**

2020

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

60. Going concern

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

60. Going concern (continued)

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

- A delay in certain capital projects from been implemented

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

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

Management assessment is based on the following key indicators:

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

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

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

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

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

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

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

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

61. Events after the reporting date

The South African government declared a level 4 lockdown restriction in terms of the Disaster Management Act from the 28th June 2021 to 25th July 2021. The lockdown restrictions during this period had no material impact on the municipality.

62. Budget differences

Material differences between budget and actual amounts

Notes to the Audited Annual Financial Statements

62. Budget differences (continued)

N1 - Service charges: Service charges have four components, the variance which are explained separately below:
1. Services charges water - The underperformance is attributable to shortage and unauthorized connection of water and faulty meters.
2. Service charges refuse - Refuse revenue overperformance is attributable to adjustments and improvements of fixed basic charge relating to Mankweng revenue.
3. Service charges sanitation - The underperformance is attributable to possible over projection of growth affected by moratorium on water.
4. Service charges electricity - The underperformance is attributable to decrease in electricity usage as a results of the use of alternative energy, loadshedding and credit control and less commercial usage due to lockdown.

N2 - Rental of facilities: The immaterial variance is due to restriction of usage of facilities due to lockdown and Covid 19 restrictions.

N3 - Interest earned on outstanding debtors: The underperformance is attributable to the stagnant debt book and the payment rate improvement and indigent write-offs. The write-off and Mankweng reversals resulted in interest reduction..

N4 - Agency fees: The variance is due to extension of renewal dates due to lockdown & Covid 19 restrictions. The coronavirus lockdown made it almost impossible for motorists to renew documentation as licensing centres were often closed due to disinfection.

N5 - Licences and permits: The variance is due to restriction of closure of licensing facilities due to lockdown & Covid 19 restrictions. All motor vehicle license discs, temporary permits and roadworthy certificates that expired between 26 March 2020 up to and including 31 December 2021 are deemed to be valid and their validity period is extended for a further grace period ending on 31 August 2021.

N6 - Other revenue: The fair value adjustments were anticipated to be high taking into consideration the previous year's audit outcome.

N7 - Interest earned - investments: The money invested in the grant account did not yield sufficient interest due to the decision by the SARB to reduce the REPO rate which has a direct impact on the intest earned.

N8 - Property rates: A new valuation roll has been implemented during the previous financial year. The resultant regular adjustments are sanctioned by Section 78 of the Municipal Property Rates Act. These adjustments have been taking place throughout the year. The expected increase is anticapted in future years.

N9 - Government grants and subsidies; Public contributions: This is due to the delay on appointment of contractors for PTNG and IUDG (Roads concession projects). The adjustments budget to include the roads concession funded by IUDG was approved in March 2021. PTNG, the largest contributor to the unspending is due to Covid 19 lockdown. PTNG - given that construction is the largest expenditure driver the late appointment gave rise to the unspending however contractors have been appointed and currently onsite and the funding has been committed.

N10 - Fines, penalties and forfeits: Over performance attributable to reconciliation, possible increase on services and fines issued.

N11 - As the variance is below 10%, the variance is regarded as immaterial and no explanation is provided.

N12 - Inventory consumed: This is attributable to the acquisition of smart meter segment. The service provider did not deliver according to the order.

N13 - Depreciation and amortisation: The increase in depreciation charge is as a result of the increased assets value arising from the revaluation of assets, whilst the remaining useful lives have remained constant.

N14 - Finance charges: The municipality had budgeted for a loan to fund road concession projects, however the decision was rescinded by council resulting in savings on finance charges.

N15 - Contracted services: The underspending is attributable to the roads maintenance segment expenditure that has been capitalised.

Notes to the Audited Annual Financial Statements

62. Budget differences (continued)

63. Deviation from supply chain management regulations

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

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

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

Deviations rand value	8 601 718	5 432 834

64. Accounting by principals and agents

The entity is a party to a principal-agent arrangement.

Details of the arrangment is as follows:Details of the arrangment is as follows:

The municipality is the agent to the provincial Department of Transport.

The provincial government, through the respective provincial department of transport, is mandated to collect motor vehicle licenses on an annual basis. The provincial department of transport determines the fee that is payable annually by motor vehicle owners, which varies depending on the type of motor vehicle owned.

To make the payment of the motor vehicle licenses easier, the provincial departments entered into a contractual arrangement with the Polokwane municipality to undertake this activity on their behalf. In terms of the arrangement:

- The provinicial department of transport issues the motor vehicle licence renewal form to the respective owners of the motor vehicles, indicating the amount due for the year.
- The municipality provide facilities for owners of motor vehicles to pay their licences.
- The provinicial department provides the municipality with access to its IT systems so that they can capture the amounts received and issue the motor vehicle licenses on their behalf. The system automatically generates the motor vehicle license upon capturing the payment of the fees due.
- The municipality collect the fees due from motor vehicles owners and simultaneously issue the new licenses on behalf of the provincial government.
- The municipalities are required to pay over any revenue (cash) collected to the provincial government in respect of motor vehicle licenses.
- The municipalities are entitled to retain 20% and 3% of the cash collected for undertaking this activity for the provincial Department of Transport and AARTO respectively.

No significant risks exist other than risks associated with cash management. The application controls designed within the IT system are adequate to correctly account for such revenues.

Notes to the Audited Annual Financial Statements

64. Accounting by principals and agents (continued)

Entity as agent

Revenue recognised as compensation for the transactions carried out on behalf of the principal	20 889 121	21 214 389
Revenue received on behalf of the principal	83 363 394	77 779 798

Payables or receivables held on behalf of the principal		
Total collected	104 252 515	98 994 187
Paid over to the principal	(83 363 394)	(77 779 798)
Recognised as agency revenue	(20 889 121)	(21 214 389)
	-	-

There are no expenditure paid or incurred on behalf of the principal.

There are no receivables held on behalf of the principal.

Resources (including assets and liabilities) of the entity under the custodianship of the agent

The resources have been recognised/have not been recognised by the agent in its financial statements. [Choose as appropriate]

The remittance of resources during the period [State details].

The expected timing of remittance of remaining resources by the agent to the entity, are [State timing and details].

The expected timing of remittance of remaining resources by the agent to third parties, are [State timing and details].

Resource or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

Fee paid

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

The resource and/or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

Segment surplus or deficit, assets and liabilities

By function

2021

	Statement of Financial Performance			Statement of financial position
	Total segment revenue	Total segment expenditure	Total segment surplus/ (Deficit)	Total segment capital expenditure

Notes to the Audited Annual Financial Statements

. **(continued)**

Governance and administration				
Executive and council	-	321 970 043	(321 970 043)	-
Finance and administration	2 701 141 404	768 839 981	1 932 301 423	67 714 202
Internal audit	-	10 399 453	(10 399 453)	-
Community and public safety				
Community and social services	7 464 963	63 398 493	(55 933 530)	2 232 977
Sport and recreation	2 479 555	104 432 052	(101 952 497)	58 719 698
Public safety	1 123 692	60 576 925	(59 453 233)	-
Housing	1 121 800	43 150 053	(42 028 253)	-
Health	-	7 728 913	(7 728 913)	-
Economic and environmental services				
Planning and development	39 302 935	118 831 748	(79 528 813)	-
Road transport	58 825 324	642 117 557	(583 292 233)	249 778 182
Environmental protection	178	24 301 981	(24 301 803)	-
Trading services				
Energy sources	1 057 236 144	931 316 313	125 919 831	50 016 458
Water management	236 497 450	492 826 843	(256 329 393)	198 949 753
Waste water managment	125 450 148	45 587 759	79 862 389	194 707 676
Waste managment	127 359 585	144 054 624	(16 695 039)	2 079 121
Total	**4 358 003 178**	**3 779 532 738**	**578 470 440**	**824 198 067**

Reportable Segments for the year ended 30 June 2021

2021

	Community and public safety	Economic and environmental services	Trading services	Unallocated	Total
Segment revenue					
External revenue from non-exchange transactions	5 634 278	30 638 003	8 300 650	2 647 753 721	2 692 326 652
External revenue from exchange transactions	3 231 801	40 116 737	1 538 242 677	40 347 569	1 621 938 784
Interest revenue	-	-	-	12 333 424	12 333 424
Total	**8 866 079**	**70 754 740**	**1 546 543 327**	**2 700 434 714**	**4 326 598 860**
Segment expenses					
Total segment expenses	(259 749 226)	(404 016 407)	(1 605 679 284)	(1 028 983 424)	(3 298 428 341)
Depreciation and amortisation	(19 537 220)	(381 234 882)	(8 106 252)	(10 141 620)	(419 019 974)
Interest expense	-	-	-	(61 910 286)	(61 910 286)
Total	**(279 286 446)**	**(785 251 289)**	**(1 613 785 536)**	**(1 101 035 330)**	**(3 779 358 601)**
Surplus for the year	**(270 420 367)**	**(714 496 549)**	**(67 242 209)**	**1 599 399 384**	**547 240 259**
Other information					
Segment assets	(441 648 579)	1 531 218 458	4 665 873 931	2 368 996 758	8 124 440 568
Segment liabilities	(9 823 677)	(110 638 156)	(194 118 718)	(1 663 441 139)	(1 978 021 690)
Total capital expenditure	(176 364 758)	224 531 867	444 838 590	74 840 999	567 846 698

* See Note 51