



**HARRY GWALA DISTRICT MUNICIPALITY  
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>Legal form of entity</b>	District Municipality
<b>Mayoral committee</b>	
Executive Mayor	M Ndobe
Deputy Mayor	NH Duma
Speaker	TN Jojozi
Member of executive committee	BP Nzimande
Member of executive committee	N Mavuka
Member of executive committee	LG Seja
Councillors	WB Dlamini SS Mavuma NW Dladla TG Soni V Xotongo BL Marncé B Caluza TC Dlamini ZC Khumalo S Nkala S Magaqa SN Madziba BZ Magaqa SV Zulu P Shange VW Zaza ZR Tshazi BC Mncwabe SJ Phakathi
<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer (CFO)</b>	Mr M Mkatu
<b>Accounting Officer</b>	Mrs AN Dlamini
<b>Registered office</b>	Harry Gwala District Municipality Main office
<b>Business address</b>	40 Main street Ixopo 3276
<b>Postal address</b>	Private Bag X501 Ixopo 3276
<b>Controlling entity</b>	Harry Gwala District Municipality
<b>Controlled entity</b>	Harry Gwala Economic Development Agency (Pty) Ltd
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General South Africa
<b>Telephone number</b>	039 - 834 8700

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## General Information

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Harry Gwala Economic Development Agency (Pty) Ltd Board of Directors

Dr IB Mkhize - Chairperson

Mr VIV Made

Mr PZ Duma

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

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

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Approval of financial statements

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I am responsible for the preparation of these Annual Financial Statements, which are set out in pages 5 to 72 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 33 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act..

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**Mrs AN Dlamini**  
**Municipal Manager**

**Friday, 28 September 2018**

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

	Note(s)	Group		Controlling entity	
		2018	2017 Restated*	2018	2017 Restated*
<b>Assets</b>					
Current Assets					
Inventories	3	170 584	179 844	170 584	179 844
Receivables from non-exchange transactions	4	6 377 252	5 204 304	5 776 600	4 610 451
VAT receivable	5	39 195 532	17 334 821	39 146 514	17 289 115
Consumer debtors	6	21 971 476	22 778 838	21 971 476	22 778 838
Cash and cash equivalents	7	112 335 670	43 023 019	96 962 031	24 272 551
		<b>180 050 514</b>	<b>88 520 826</b>	<b>164 027 205</b>	<b>69 130 799</b>
Non-Current Assets					
Property, plant and equipment	8	1 965 089 953	1 812 852 670	1 942 228 275	1 788 856 638
Intangible assets	9	1 712 026	2 300 056	1 347 031	1 618 761
Investment in entity	10	-	-	100	100
		<b>1 966 801 979</b>	<b>1 815 152 726</b>	<b>1 943 575 406</b>	<b>1 790 475 499</b>
<b>Total Assets</b>		<b>2 146 852 493</b>	<b>1 903 673 552</b>	<b>2 107 602 611</b>	<b>1 859 606 298</b>
<b>Liabilities</b>					
Current Liabilities					
Borrowings	11	6 159 439	5 792 884	6 159 439	5 792 884
Finance lease obligation	12	4 889 039	6 093 624	4 884 263	6 059 905
Payables from exchange transactions	13	169 807 834	136 414 638	168 824 190	135 246 807
Consumer deposits	14	1 605 611	1 441 387	1 605 611	1 441 387
Unspent conditional grants and receipts	15	72 881 009	57 195 804	61 985 601	49 300 396
Provisions	16	732 466	567 617	732 466	567 617
		<b>256 075 398</b>	<b>207 505 954</b>	<b>244 191 570</b>	<b>198 408 996</b>
Non-Current Liabilities					
Borrowings	11	8 656 680	12 353 357	8 656 680	12 353 357
Finance lease obligation	12	8 099 954	13 861 111	8 099 954	13 853 986
Provisions	16	22 216 863	20 947 488	22 216 863	20 947 488
		<b>38 973 497</b>	<b>47 161 956</b>	<b>38 973 497</b>	<b>47 154 831</b>
<b>Total Liabilities</b>		<b>295 048 895</b>	<b>254 667 910</b>	<b>283 165 067</b>	<b>245 563 827</b>
<b>Net Assets</b>		<b>1 851 803 598</b>	<b>1 649 005 642</b>	<b>1 824 437 544</b>	<b>1 614 042 471</b>
Accumulated surplus		1 851 803 598	1 649 005 642	1 824 437 544	1 614 042 471

\* See Note 44

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

	Note(s)	Group		Controlling entity	
		2018	2017 Restated*	2018	2017 Restated*
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	17	53 962 321	37 167 578	53 962 321	37 167 578
Operational Revenue	18	751 620	1 268 633	710 231	1 228 230
Interest income	19	21 062 823	18 416 258	20 331 866	17 630 419
<b>Total revenue from exchange transactions</b>		<b>75 776 764</b>	<b>56 852 469</b>	<b>75 004 418</b>	<b>56 026 227</b>
<b>Revenue from non-exchange transactions</b>					
<b>Transfer revenue</b>					
Government grants & subsidies	20	636 404 392	568 389 657	636 404 392	568 384 519
<b>Total revenue</b>	21	<b>712 181 156</b>	<b>625 242 126</b>	<b>711 408 810</b>	<b>624 410 746</b>
<b>Expenditure</b>					
Bulk purchases	22	14 434 430	12 582 053	14 434 430	12 582 053
Contracted services	23	151 771 740	112 406 074	151 199 632	112 202 968
Contribution to bad debt provision	24	24 717 388	34 877 132	24 717 388	34 877 132
Depreciation and amortisation	25	65 923 808	58 879 738	64 437 705	57 398 159
Directors fees		279 505	321 104	-	-
Employee related costs	26	158 995 533	152 266 444	150 226 814	144 809 130
Impairment loss	27	2 445 022	3 876 195	2 445 022	3 876 195
Interest expense	28	4 499 247	4 320 107	4 496 798	4 312 810
Inventory consumed	29	23 948 500	22 475 025	23 948 500	22 475 025
Operating Leases	30	100 657	109 046	-	-
Operational costs	31	52 169 527	49 761 234	47 025 829	44 522 397
Remuneration of councillors	32	5 963 561	5 451 994	5 963 561	5 451 994
Transfers and subsidies		3 707 789	654 795	11 707 789	17 988 128
<b>Total expenditure</b>		<b>508 956 707</b>	<b>457 980 941</b>	<b>500 603 468</b>	<b>460 495 991</b>
<b>Operating surplus</b>		<b>203 224 449</b>	<b>167 261 185</b>	<b>210 805 342</b>	<b>163 914 755</b>
Loss on disposal of assets		(498 803)	(59 434)	(410 258)	(40 983)
<b>Surplus for the year</b>		<b>202 725 646</b>	<b>167 201 751</b>	<b>210 395 084</b>	<b>163 873 772</b>

\* See Note 44

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
<b>Group</b>		
Opening balance as previously reported	1 485 012 170	1 485 012 170
Adjustments		
Prior year adjustments	(3 208 279)	(3 208 279)
<b>Balance at 01 July 2016 as restated*</b>	<b>1 481 803 891</b>	<b>1 481 803 891</b>
Changes in net assets		
Surplus for the year	167 201 751	167 201 751
Total changes	167 201 751	167 201 751
Opening balance as previously reported	1 666 998 883	1 666 998 883
Adjustments		
Prior year adjustments	(17 920 931)	(17 920 931)
<b>Restated* Balance at 01 July 2017 as restated*</b>	<b>1 649 077 952</b>	<b>1 649 077 952</b>
Changes in net assets		
Surplus for the year	202 725 646	202 725 646
Total changes	202 725 646	202 725 646
<b>Balance at 30 June 2018</b>	<b>1 851 803 598</b>	<b>1 851 803 598</b>
<b>Controlling entity</b>		
Opening balance as previously reported	1 453 376 965	1 453 376 965
Adjustments		
Prior year adjustments	(3 208 279)	(3 208 279)
<b>Balance at 01 July 2016 as restated*</b>	<b>1 450 168 686</b>	<b>1 450 168 686</b>
Changes in net assets		
Surplus for the year	163 873 785	163 873 785
Total changes	163 873 785	163 873 785
Opening balance as previously reported	1 630 973 180	1 630 973 180
Adjustments		
Prior year adjustments	(16 930 720)	(16 930 720)
<b>Balance at 01 July 2017 as restated*</b>	<b>1 614 042 460</b>	<b>1 614 042 460</b>
Changes in net assets		
Surplus for the year	210 395 084	210 395 084
Total changes	210 395 084	210 395 084
<b>Balance at 30 June 2018</b>	<b>1 824 437 544</b>	<b>1 824 437 544</b>

\* See Note 44

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

	Note(s)	Group		Controlling entity	
		2018	2017 Restated*	2018	2017 Restated*
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Sale of goods and services		41 442 761	18 319 673	40 968 700	21 729 534
Grants		652 089 597	610 134 079	649 089 597	610 134 070
Interest income		9 699 760	6 067 248	8 968 803	5 281 409
		<u>703 232 118</u>	<u>634 521 000</u>	<u>699 027 100</u>	<u>637 145 013</u>
<b>Payments</b>					
Employee costs		(164 873 727)	(155 190 435)	(156 166 113)	(147 872 674)
Suppliers		(233 733 746)	(268 623 031)	(235 022 024)	(284 775 831)
Finance costs		(4 499 247)	(4 320 107)	(4 496 798)	(4 312 810)
		<u>(403 106 720)</u>	<u>(428 133 573)</u>	<u>(395 684 935)</u>	<u>(436 961 315)</u>
<b>Net cash flows from operating activities</b>	33	<b><u>300 125 398</u></b>	<b><u>206 387 427</u></b>	<b><u>303 342 165</u></b>	<b><u>200 183 698</u></b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	8	(220 516 883)	(179 128 422)	(220 392 889)	(178 540 766)
Proceeds from sale of property, plant and equipment	8	-	2 031 478	-	2 031 750
Purchase of other intangible assets	9	-	(498 141)	-	-
<b>Net cash flows from investing activities</b>		<b><u>(220 516 883)</u></b>	<b><u>(177 595 085)</u></b>	<b><u>(220 392 889)</u></b>	<b><u>(176 509 016)</u></b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings		(3 330 122)	(2 999 912)	(3 330 122)	(2 999 912)
Finance lease payments		(6 965 742)	(2 259 112)	(6 929 674)	(2 221 195)
<b>Net cash flows from financing activities</b>		<b><u>(10 295 864)</u></b>	<b><u>(5 259 024)</u></b>	<b><u>(10 259 796)</u></b>	<b><u>(5 221 107)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>69 312 651</b>	<b>23 533 318</b>	<b>72 689 480</b>	<b>18 453 575</b>
Cash and cash equivalents at the beginning of the year		43 023 019	19 489 701	24 272 551	5 818 976
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>112 335 670</u></b>	<b><u>43 023 019</u></b>	<b><u>96 962 031</u></b>	<b><u>24 272 551</u></b>

\* See Note 44

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Group - 2018</b>											
<b>Financial Performance</b>											
Service charges	55 390 300	12 003 800	67 394 100	-		67 394 100	53 962 321		(13 431 779)	80 %	97 %
Interest Income	15 230 000	6 091 748	21 321 748	-		21 321 748	21 062 823		(258 925)	99 %	138 %
Transfers recognised - operational	303 218 000	44 147 281	347 365 281	-		347 365 281	372 491 527		25 126 246	107 %	123 %
Operational revenue	3 155 001	1 660 115	4 815 116	-		4 815 116	751 620		(4 063 496)	16 %	24 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>376 993 301</b>	<b>63 902 944</b>	<b>440 896 245</b>	<b>-</b>		<b>440 896 245</b>	<b>448 268 291</b>		<b>7 372 046</b>	<b>102 %</b>	<b>119 %</b>
Employee costs	(160 716 215)	(1 187 316)	(161 903 531)	-	-	(161 903 531)	(158 995 533)	-	2 907 998	98 %	99 %
Remuneration of councillors	(8 538 696)	2 198 237	(6 340 459)	-	-	(6 340 459)	(5 963 561)	-	376 898	94 %	70 %
Debt impairment	(27 842 812)	(6 255 416)	(34 098 228)			(34 098 228)	(24 717 388)	-	9 380 840	72 %	89 %
Depreciation and asset impairment	(34 995 922)	(15 654 000)	(50 649 922)			(50 649 922)	(68 368 830)	(17 718 908)	(17 718 908)	135 %	195 %
Finance charges	(2 009 000)	404 456	(1 604 544)	-	-	(1 604 544)	(4 499 247)	(2 894 703)	(2 894 703)	280 %	224 %
Materials and bulk purchases	(13 687 780)	(2 537 173)	(16 224 953)	-	-	(16 224 953)	(14 434 430)	-	1 790 523	89 %	105 %
Contracted services	(20 297 904)	(4 206 812)	(24 504 716)	-	-	(24 504 716)	(151 771 740)	(127 267 024)	(127 267 024)	619 %	748 %
Loss on disposal of assets and liabilities	-	-	-	-	-	-	(498 803)	(498 803)	(498 803)	DIV/0 %	DIV/0 %
Transfers and grants	-	-	-	-	-	-	(3 707 789)	(3 707 789)	(3 707 789)	DIV/0 %	DIV/0 %
Other expenditure	(119 023 737)	(40 379 285)	(159 403 022)	-	-	(159 403 022)	(76 498 189)	-	82 904 833	48 %	64 %
<b>Total expenditure</b>	<b>(387 112 066)</b>	<b>(67 617 309)</b>	<b>(454 729 375)</b>	<b>-</b>	<b>-</b>	<b>(454 729 375)</b>	<b>(509 455 510)</b>	<b>(152 087 227)</b>	<b>(54 726 135)</b>	<b>112 %</b>	<b>132 %</b>
<b>Surplus/(Deficit)</b>	<b>(10 118 765)</b>	<b>(3 714 365)</b>	<b>(13 833 130)</b>	<b>-</b>		<b>(13 833 130)</b>	<b>(61 187 219)</b>		<b>(47 354 089)</b>	<b>442 %</b>	<b>442 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	387 544 000	(44 174 281)	343 369 719	-		343 369 719	263 912 865		(79 456 854)	77 %	68 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>377 425 235</b>	<b>(47 888 646)</b>	<b>329 536 589</b>	-		<b>329 536 589</b>	<b>202 725 646</b>		<b>(126 810 943)</b>	<b>62 %</b>	<b>54 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>377 425 235</b>	<b>(47 888 646)</b>	<b>329 536 589</b>	-		<b>329 536 589</b>	<b>202 725 646</b>		<b>(126 810 943)</b>	<b>62 %</b>	<b>54 %</b>
<b>Capital expenditure and funds sources</b>											
<b>Sources of capital funds</b>											
Transfers recognised - capital	387 544 000	(44 147 281)	343 396 719	-		343 396 719	263 912 865		(79 483 854)	77 %	68 %
Internally generated funds	11 210 000	(3 556 578)	7 653 422	-		7 653 422	5 605 000		(2 048 422)	73 %	50 %
<b>Total sources of capital funds</b>	<b>398 754 000</b>	<b>(47 703 859)</b>	<b>351 050 141</b>	-		<b>351 050 141</b>	<b>269 517 865</b>		<b>(81 532 276)</b>	<b>77 %</b>	<b>68 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	404 773 967	(67 983 085)	336 790 882	-		336 790 882	303 342 165		(33 448 717)	90 %	75 %
Net cash from (used) investing	(398 754 000)	47 503 859	(351 250 141)	-		(351 250 141)	(220 392 889)		130 857 252	63 %	55 %
Net cash from (used) financing	(3 129 763)	-	(3 129 763)	-		(3 129 763)	(10 259 796)		(7 130 033)	328 %	328 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 890 204</b>	<b>(20 479 226)</b>	<b>(17 589 022)</b>	<b>-</b>		<b>(17 589 022)</b>	<b>72 689 480</b>		<b>90 278 502</b>	<b>(413)%</b>	<b>2 515 %</b>
Cash and cash equivalents at the beginning of the year	24 272 551	-	24 272 551	-		24 272 551	24 272 551		-	100 %	100 %
<b>Cash and cash equivalents at year end</b>	<b>27 162 755</b>	<b>(20 479 226)</b>	<b>6 683 529</b>	<b>-</b>		<b>6 683 529</b>	<b>96 962 031</b>		<b>90 278 502</b>	<b>1 451 %</b>	<b>357 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Controlling entity - 2018</b>											
<b>Financial Performance</b>											
Service charges	55 390 300	12 003 800	67 394 100	-		67 394 100	53 962 321		(13 431 779)	80 %	97 %
Interest Income	14 830 000	6 191 748	21 021 748	-		21 021 748	20 331 866		(689 882)	97 %	137 %
Transfers recognised - operational	303 218 000	44 147 281	347 365 281	-		347 365 281	372 491 527		25 126 246	107 %	123 %
Operational revenue	3 150 001	1 623 815	4 773 816	-		4 773 816	710 231		(4 063 585)	15 %	23 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>376 588 301</b>	<b>63 966 644</b>	<b>440 554 945</b>	<b>-</b>		<b>440 554 945</b>	<b>447 495 945</b>		<b>6 941 000</b>	<b>102 %</b>	<b>119 %</b>
Employee costs	(144 501 761)	(4 000 000)	(148 501 761)	-	-	(148 501 761)	(150 226 814)	(1 725 053)	(1 725 053)	101 %	104 %
Remuneration of councillors	(8 538 696)	2 198 237	(6 340 459)	-	-	(6 340 459)	(5 963 561)	-	376 898	94 %	70 %
Debt impairment	(27 842 812)	(6 255 416)	(34 098 228)			(34 098 228)	(24 717 388)	-	9 380 840	72 %	89 %
Depreciation and asset impairment	(34 285 922)	(15 864 000)	(50 149 922)			(50 149 922)	(66 882 727)	(16 732 805)	(16 732 805)	133 %	195 %
Finance charges	(2 000 000)	404 456	(1 595 544)	-	-	(1 595 544)	(4 496 798)	(2 901 254)	(2 901 254)	282 %	225 %
Materials and bulk purchases	(13 687 780)	(2 537 173)	(16 224 953)	-	-	(16 224 953)	(14 434 430)	-	1 790 523	89 %	105 %
Contracted services	(20 297 904)	(4 206 812)	(24 504 716)	-	-	(24 504 716)	(151 199 632)	(126 694 916)	(126 694 916)	617 %	745 %
Transfers and grants	(23 301 308)	12 000 000	(11 301 308)	-	-	(11 301 308)	(11 707 789)	(406 481)	(549 481)	104 %	50 %
Other expenditure	(112 551 348)	(50 298 986)	(162 850 334)	-	-	(162 850 334)	(70 974 329)	-	91 876 005	44 %	63 %
<b>Total expenditure</b>	<b>(387 007 531)</b>	<b>(68 559 694)</b>	<b>(455 567 225)</b>	<b>-</b>	<b>-</b>	<b>(455 567 225)</b>	<b>(500 603 468)</b>	<b>(148 460 509)</b>	<b>(45 179 243)</b>	<b>110 %</b>	<b>129 %</b>
<b>Surplus/(Deficit)</b>	<b>(10 419 230)</b>	<b>(4 593 050)</b>	<b>(15 012 280)</b>	<b>-</b>		<b>(15 012 280)</b>	<b>(53 107 523)</b>		<b>(38 238 243)</b>	<b>354 %</b>	<b>510 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	387 544 000	(44 174 281)	343 369 719	-		343 369 719	263 912 865		(79 456 854)	77 %	68 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>377 124 770</b>	<b>(48 767 331)</b>	<b>328 357 439</b>	<b>-</b>		<b>328 357 439</b>	<b>210 805 342</b>		<b>(117 552 097)</b>	<b>64 %</b>	<b>56 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>377 124 770</b>	<b>(48 767 331)</b>	<b>328 357 439</b>	<b>-</b>		<b>328 357 439</b>	<b>210 805 342</b>		<b>(117 552 097)</b>	<b>64 %</b>	<b>56 %</b>
<b>Capital expenditure and funds sources</b>											
<b>Sources of capital funds</b>											
Transfers recognised - capital	387 544 000	(44 147 281)	343 396 719	-		343 396 719	263 912 865		(79 483 854)	77 %	68 %
Internally generated funds	11 210 000	(3 556 578)	7 653 422	-		7 653 422	5 605 000		(2 048 422)	73 %	50 %
<b>Total sources of capital funds</b>	<b>398 754 000</b>	<b>(47 703 859)</b>	<b>351 050 141</b>	<b>-</b>		<b>351 050 141</b>	<b>269 517 865</b>		<b>(81 532 276)</b>	<b>77 %</b>	<b>68 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	404 773 967	(67 983 085)	336 790 882	-		336 790 882	303 342 165		(33 448 717)	90 %	75 %
Net cash from (used) investing	(398 754 000)	47 503 859	(351 250 141)	-		(351 250 141)	(220 392 889)		130 857 252	63 %	55 %
Net cash from (used) financing	(3 129 763)	-	(3 129 763)	-		(3 129 763)	(10 259 796)		(7 130 033)	328 %	328 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 890 204</b>	<b>(20 479 226)</b>	<b>(17 589 022)</b>	<b>-</b>		<b>(17 589 022)</b>	<b>72 689 480</b>		<b>90 278 502</b>	<b>(413)%</b>	<b>2 515 %</b>
Cash and cash equivalents at the beginning of the year	24 272 551	-	24 272 551	-		24 272 551	24 272 551		-	100 %	100 %
<b>Cash and cash equivalents at year end</b>	<b>27 162 755</b>	<b>(20 479 226)</b>	<b>6 683 529</b>	<b>-</b>		<b>6 683 529</b>	<b>96 962 031</b>		<b>(90 278 502)</b>	<b>1 451 %</b>	<b>357 %</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Appropriation Statement

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Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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### Narration area

#### Variance Explanations

1. Service charges - Due failure to add Donny brook, Franklin and Bulwer low cost housing to the billing as budgeted. Decrease due failure to add Donny brook, Franklin and Bulwer low cost housing to the billing as budgeted.
2. Interest investment - Due to higher positive cash balances compared to 2016/17 in the municipal call accounts and the primary bank account throughout the year.
3. Operational revenue - Decrease from the budgeted amount due changes in the MSCOA classification.
4. Government grants and subsidies Decrease due to the grants which were not fully spent at the end of the financial year (WSIG and MIG). The municipality had budgeted that all the capital budgets will be fully.
5. Employee related costs - Staff increases.
6. Remuneration of councillors - Over budgeting for Councillors allowance due to late determination receipt.
7. Depreciation and asset impairments - Increased from the prior year amounts due to a huge number of projects being capitalised during the current financial year than anticipated resulting in a higher depreciation expense in 2017/18.
8. Finance costs - Excess due to interest on Sars statements.
9. Material and bulk purchases - Decrease from the budgeted amounts due to lower volume than budgeted for being purchased and purified during the 2017/18 financial year.
10. Transfers and grants - Increase due to changes in the MSCOA classification.
11. Other expenditures - Reduction due to reclassification of actual expenditure from general expenditure vote to contracted services. Budgeting was also done on the votes for other expenditure instead of contracted votes.
12. Contracted services- Increased significantly from the budgeted amounts due to the difference in the alignment of votes for budgeted amounts and actuals. The Budget of operational grant expenditure is under the operational expenditure votes whereas the actual work was performed by consultants resulting in the actual expenditure being recorded under contracted services for example the expenditure on VIP toilets in local municipalities. Refer to the under expenditure on other expenditure.

# Accounting Policies

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## 1. Presentation of Consolidated Annual Financial Statements

The consolidated 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 consolidated 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.

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

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

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

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

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

### 1.2 Consolidation

#### Basis of consolidation

Consolidated consolidated annual financial statements are the consolidated annual financial statements of the group presented as those of a single entity.

The consolidated consolidated annual financial statements incorporate the consolidated annual financial statements of the controlling entity and the controlled entity. .

Consolidated consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's consolidated annual financial statements at the acquisition date.

The consolidated annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated consolidated annual financial statements are prepared as of the same date.

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional consolidated annual financial statements as of the same date as the consolidated annual financial statements of the controlling entity unless it is impracticable to do so. When the consolidated annual financial statements of a controlled entity used in the preparation of consolidated consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's consolidated annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates is the same from period to period.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## 1.2 Consolidation (continued)

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets.

## 1.3 Significant judgements and sources of estimation uncertainty

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

### Revenue Recognition

Accounting Policy on Revenue from Exchange Transactions and Accounting Policy on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. In particular when services are rendered, and whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgment by management..

### Impairment of Financial Assets

Accounting Policy on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

### Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies on property, plant and equipment and intangible assests, the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge

### Impairment: Write down of PPE

Significant estimates and judgments are made relating to PPE impairment tests.

### Defined Benefit Plan Liabilities

As described in Accounting Policy on employee benefits, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19 Employee Benefits. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes to the Annual Financial Statements.

Multi-employer defined benefit funds are accounted for as defined contribution plan.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 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 group; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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Item	Depreciation method	Average useful life
Buildings	Straight line	
• Office		30 years
Transport assets	Straight line	
• Motor vehicles		7 years
• Trailers and accessories		10 years
• Trucks		10 years
Furniture and office equipment	Straight line	
• Office equipment (including fax machines)		7 years
• Office furniture		10 years
• Paintings, sculptures, ornaments (home and office)		10 years

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# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

Computer Equipment	Straight line	
• Computer hardware including operating systems		5 years
• Networks		10 years
• Computer software		5 years
Dams/structure	Straight line	
• Concrete		100 years
• Earth		50 years
River	Straight line	
• Structure: Weir		50 years
• Borehole Establishment		30 years
Pump Stations	Straight line	
• Structure- buildings		55 years
• Structure-Clarifiers		55 years
• Structure-Filters		55 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports		15 years
Perimeter protection	Straight line	
• Palisade - Concrete		25 years
• Palisade – Steel / Razor wire / Weld mesh		15 years
Reservoirs	Straight line	
• Structure – Concrete		50 years
• Structure – Galaxy		30 years
• Structure – Steel Tank		30 years
• Structure - Jojo		15 years
• Electrical		20 years
• Mechanical		15 years
Underground: Chambers & Manholes	Straight line	
• Chambers		30 years
• Manholes		30 years
Water purification works	Straight line	
• Structure		55 years
• Ponds		55 years
• Electrical		20 years
• Mechanical		15 years
Spring protection	Straight line	
• Spring		20 years
• Jojo tank		15 years
• Reticulation		40 years
• Standpipes		20 years
Sewerage pump stations	Straight line	
• Structure - Buildings		55 years
• Structure - Reactors		55 years
• Structure – Drying Beds		55 years
• Structure - Clarifiers chambers		35 years
• Structure - Maturation Ponds		35 years
• Electrical		20 years
• Mechanical		15 years
• Containers - Diesel		15 years
• Structure - Carports, ect.		15 years
• Rising mains		40 years
• Gravity mains		40 years
Other machinery and equipment	Straight line	
• Audiovisual equipment		10 years
• Building air conditioning systems		5 years
• Domestic equipment		5 years
• Kitchen appliances		10 years

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the group. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The economic entity assesses at each reporting date whether there is any indication that the group 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 group 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 economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

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

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

### 1.5 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 group or from other rights and obligations.

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

An intangible asset is recognised when:

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

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

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

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 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.

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.

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 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.

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.

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.

Cash and cash equivalents include cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables..

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Short-term Investment Deposits – Call	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Long-term Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Long-term Liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost
Short-term loans	Financial liability measured at amortised cost

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 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.

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

An allowance for impairment based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable and are recognized in surplus or deficit for the year:

An allowance for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. Changes in the carrying amount of the allowance for impairment are recognized in surplus or deficit for the year.

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.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

##### Financial liabilities

The 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.

### 1.7 Tax

#### Value added tax

The Municipality accounts for Value Added Tax on the payments basis.

### 1.8 Leases

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

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessee

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.9 Inventories

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

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

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

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

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

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

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

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

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.

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 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.

### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

The municipality treats its provision for leave pay as an accrual.

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Employee benefits (continued)

#### 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.

#### 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.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

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

#### Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The KSN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Provident, Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment thereof is made in the course of the municipality's normal budgeting processes.

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The liability is the aggregate of the present value of the defined obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

#### Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Employee benefits (continued)

- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

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

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

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

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

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

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

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

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

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

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the consolidated 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.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

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

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

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

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

Before determining the effect of a curtailment or settlement, the entity re-measures 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 [OR is not] presented as the net of the amount recognised for a reimbursement.

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

### 1.12 Provisions and contingencies

Provisions are recognised when:

- the group 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 group 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.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.12 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

### 1.13 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.

### 1.14 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.

#### Service Charges

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties

#### Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff

### 1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

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.

#### Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures..

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the group,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

### 1.16 Investment income

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

### 1.17 Borrowing costs

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

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

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

### 1.19 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.

### 1.20 Fruitless and wasteful expenditure

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

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.20 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.

### 1.21 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.

### 1.22 Related parties

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

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

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

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

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

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

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

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

Where the group is exempt from the disclosures in accordance with the above, the group discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its consolidated annual financial statements.

### 1.23 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 group will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The group 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.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

		Group		Controlling entity	
		2018	2017	2018	2017

### 2. New standards and interpretations

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

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

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 34: Separate Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2009	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2009	Unlikely there will be a material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>3. Inventories</b>				
Raw materials, components	179 843	191 663	179 843	191 663
Water reduction	(9 259)	(11 819)	(9 259)	(11 819)
	<b>170 584</b>	<b>179 844</b>	<b>170 584</b>	<b>179 844</b>
<b>4. Receivables from non-exchange transactions</b>				
Unauthorised expenditure	5 979	5 979	5 979	5 979
Debtor - Kokstad deposits	105 753	105 753	105 753	105 753
Councillors laptops	94 045	94 045	94 045	94 045
Councillors bursary	19 537	19 537	19 537	19 537
Other debtors	3 546 432	2 373 484	2 945 780	1 779 631
Cyclone construction - Farmers market	2 000 000	2 000 000	2 000 000	2 000 000
ACB/debtors	424 247	424 247	424 247	424 247
SARS - debtors/salaries	181 259	181 259	181 259	181 259
	<b>6 377 252</b>	<b>5 204 304</b>	<b>5 776 600</b>	<b>4 610 451</b>
<b>5. VAT receivable</b>				
VAT	39 195 532	17 334 821	39 146 514	17 289 115
<b>6. Trade and other receivable from exchange transactions</b>				
<b>Gross balances</b>				
Rates	-	2 862	-	2 862
Water	113 340 109	107 118 565	113 340 109	107 118 565
Value added taxation	12 102 076	18 249 386	12 102 076	18 249 386
Sewerage	56 209 420	52 012 682	56 209 420	52 012 682
Debtors direct deposits	(10 257)	(55 520)	(10 257)	(55 520)
	<b>181 641 348</b>	<b>177 327 975</b>	<b>181 641 348</b>	<b>177 327 975</b>
<b>Less: Allowance for impairment</b>				
Rates	-	(2 862)	-	(2 862)
Water	(98 344 717)	(91 161 976)	(98 344 717)	(91 161 976)
Value added taxation	(10 349 182)	(15 300 426)	(10 349 182)	(15 300 426)
Sewerage	(50 975 973)	(48 083 873)	(50 975 973)	(48 083 873)
	<b>(159 669 872)</b>	<b>(154 549 137)</b>	<b>(159 669 872)</b>	<b>(154 549 137)</b>
<b>Net balance</b>				
Water	14 995 392	15 956 589	14 995 392	15 956 589
Value added taxation	1 752 894	2 948 960	1 752 894	2 948 960
Sewerage	5 233 447	3 928 809	5 233 447	3 928 809
Debtors direct deposits	(10 257)	(55 520)	(10 257)	(55 520)
	<b>21 971 476</b>	<b>22 778 838</b>	<b>21 971 476</b>	<b>22 778 838</b>
<b>Water and Sewerage</b>				
Current (0 -30 days)	12 145 171	13 910 100	12 145 171	13 910 100
31 - 60 days	3 336 454	6 286 817	3 336 454	6 286 817
61 - 90 days	3 568 584	4 927 220	3 568 584	4 927 220
91+	162 591 139	152 203 838	162 591 139	152 203 838
	<b>181 641 348</b>	<b>177 327 975</b>	<b>181 641 348</b>	<b>177 327 975</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 6. Trade and other receivable from exchange transactions (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(154 549 136)	(119 940 084)	(154 549 136)	(119 940 084)
Contributions to allowance	(24 717 388)	(34 877 133)	(24 717 388)	(34 877 133)
Debt impairment written off against allowance	19 596 652	268 080	19 596 652	268 080
	<b>(159 669 872)</b>	<b>(154 549 137)</b>	<b>(159 669 872)</b>	<b>(154 549 137)</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	11 019	2 302	10 557	300
Bank balances	6 926 935	8 127 034	2 822 218	1 597 841
Short-term deposits	105 397 716	34 893 683	94 129 256	22 674 410
	<b>112 335 670</b>	<b>43 023 019</b>	<b>96 962 031</b>	<b>24 272 551</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
FNB Ixopo branch Account Number 62022648169	2 793 500	1 597 841	299 557	2 822 218	1 597 841	299 557
FNB Call Account - 62032587331	180 802	13 504 348	2 099	180 802	13 504 348	2 099
FNB Call Account - 62095523281	1 243 741	5 870 388	231 610	1 243 741	5 870 388	231 610
FNB Call Account - 62138538692	34 075 686	1 000	47 173	34 075 686	1 000	47 173
FNB Call Account - 62398395204	17 289 757	1 000	9 922	17 289 757	1 000	9 922
FNB Call Account - 62434145331	2 605	5 076	2 735	2 605	5 076	2 735
FNB Call Account - 62434147072	9 190 531	2 769	11 748	9 190 531	2 769	11 748
FNB Call Account - 62434151239	68 407	1 005	5 243	68 407	1 005	5 243
FNB Call Account - 62414264797	9 600	3 134	8 996	9 600	3 134	8 996
Investec Bank - Call account - 50006688425	32 071 021	3 285 691	5 199 592	32 071 021	3 285 691	5 199 592
FNB - Ixopo Branch - 62313233504	4 104 717	6 529 193	3 041 298	4 104 717	6 529 193	3 041 298
Standard Bank - Kloof branch - 251660419	840 666	846 594	9 852 100	840 666	846 594	9 852 100
FNB - Ixopo branch - 62372506306	399 471	1 828 194	72 588	399 471	1 828 194	72 588
Standard Bank - Kloof branch - 254472435	9 915 188	9 435 082	4 575	9 915 188	9 435 082	4 575
FNB - 62478289989	113 116	109 403	700 164	113 116	109 403	700 164
<b>Total</b>	<b>112 298 808</b>	<b>43 020 718</b>	<b>19 489 400</b>	<b>112 327 526</b>	<b>43 020 718</b>	<b>19 489 400</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group			Controlling entity		
	2018	2017		2018	2017	
<b>8. Property, plant and equipment</b>						
Group	2018			2017		
	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>
Land	17 080 597	-	17 080 597	17 080 597	-	17 080 597
Buildings	57 773 690	(12 531 325)	45 242 365	57 812 490	(10 655 823)	47 156 667
Machinery and Equipment	2 197 309	(1 812 178)	385 131	3 019 633	(2 309 577)	710 056
Furniture and Office equipment	5 831 230	(4 102 834)	1 728 396	6 716 071	(4 186 720)	2 529 351
Transport assets	8 637 205	(5 822 759)	2 814 446	8 787 204	(4 901 935)	3 885 269
Computer equipment	3 543 067	(1 956 423)	1 586 644	4 027 920	(2 571 586)	1 456 334
Infrastructure: Information and Communication	1 262 002	(817 794)	444 208	1 819 236	(950 568)	868 668
Infrastructure: Water Reticulation	2 319 503 469	(437 439 679)	1 882 063 790	2 090 262 264	(372 998 321)	1 717 263 943
Community assets	5 188 302	(1 870 323)	3 317 979	5 188 302	(1 626 865)	3 561 437
Leased assets	20 006 136	(9 579 739)	10 426 397	27 191 897	(8 851 549)	18 340 348
<b>Total</b>	<b>2 441 023 007</b>	<b>(475 933 054)</b>	<b>1 965 089 953</b>	<b>2 221 905 614</b>	<b>(409 052 944)</b>	<b>1 812 852 670</b>
Controlling entity	2018			2017		
	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>
Land	17 080 597	-	17 080 597	17 080 597	-	17 080 597
Buildings	31 372 420	(8 403 673)	22 968 747	31 372 420	(7 449 927)	23 922 493
Machinery and Equipment	2 099 060	(1 754 555)	344 505	2 907 848	(2 261 545)	646 303
Furniture and Office equipment	5 149 255	(3 745 552)	1 403 703	6 030 942	(3 920 997)	2 109 945
Transport assets	8 637 205	(5 822 759)	2 814 446	8 787 204	(4 901 935)	3 885 269
Computer equipment	2 995 116	(1 631 213)	1 363 903	3 397 838	(2 220 203)	1 177 635
Infrastructure: Information and Communication	1 262 002	(817 794)	444 208	1 819 236	(950 568)	868 668
Infrastructure: Water Reticulation	2 319 503 469	(437 439 679)	1 882 063 790	2 090 262 264	(372 998 321)	1 717 263 943
Community assets	5 188 302	(1 870 323)	3 317 979	5 188 302	(1 626 865)	3 561 437
Leased assets	20 006 136	(9 579 739)	10 426 397	27 191 897	(8 851 549)	18 340 348
<b>Total</b>	<b>2 413 293 562</b>	<b>(471 065 287)</b>	<b>1 942 228 275</b>	<b>2 194 038 548</b>	<b>(405 181 910)</b>	<b>1 788 856 638</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

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

#### Reconciliation of property, plant and equipment - Group - 30 June 2018

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	47 156 667	-	(32 893)	-	(1 881 409)	-	45 242 365
Machinery and Equipment	710 056	2 450	(72 220)	-	(255 173)	-	385 131
Furniture and Office equipment	2 529 351	950	(75 029)	-	(726 876)	-	1 728 396
Transport assets	3 885 269	-	-	-	(1 070 823)	-	2 814 446
Computer equipment	1 456 334	845 139	(115 146)	-	(599 666)	-	1 586 644
Infrastructure: Information and Communication	868 668	-	(152 722)	-	(271 738)	-	444 208
Infrastructure: Water Reticulation	1 717 263 943	219 668 344	-	-	(52 423 475)	(2 445 022)	1 882 063 790
Community assets	3 561 437	-	-	-	(243 458)	-	3 317 979
Leased assets	18 340 348	-	(49 718)	136 271	(8 000 504)	-	10 426 397
	<b>1 812 852 670</b>	<b>220 516 883</b>	<b>(497 728)</b>	<b>136 271</b>	<b>(65 473 122)</b>	<b>(2 445 022)</b>	<b>1 965 089 953</b>

#### Reconciliation of property, plant and equipment - Group - 30 June 2017

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	48 380 280	637 383	-	-	(1 860 996)	-	47 156 667
Machinery and Equipment	887 086	56 221	(3 170)	-	(230 081)	-	710 056
Furniture and Office equipment	2 941 756	378 766	(50 121)	-	(741 050)	-	2 529 351
Transport assets	5 913 037	-	(638 913)	-	(1 388 855)	-	3 885 269
Computer equipment	1 419 752	547 325	(50 255)	-	(460 488)	-	1 456 334
Infrastructure: Information and Communication	916 509	204 865	(16 454)	-	(236 252)	-	868 668
Infrastructure: Water Reticulation	1 603 276 821	177 303 853	(712 975)	-	(58 727 561)	(3 876 195)	1 717 263 943
Community assets	3 686 178	-	-	-	(124 741)	-	3 561 437
Leased assets	7 459 658	16 642 264	(619 024)	(136 270)	(5 006 280)	-	18 340 348
	<b>1 691 961 674</b>	<b>195 770 677</b>	<b>(2 090 912)</b>	<b>(136 270)</b>	<b>(68 776 304)</b>	<b>(3 876 195)</b>	<b>1 812 852 670</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

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

#### Reconciliation of property, plant and equipment - Controlling entity - 30 June 2018

	Opening balance	Additions	Disposals	Lease modifications	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	23 922 493	-	-	-	(953 746)	-	22 968 747
Machinery and Equipment	646 303	-	(70 649)	-	(231 149)	-	344 505
Furniture and Office equipment	2 109 945	-	(74 056)	-	(632 186)	-	1 403 703
Transport assets	3 885 269	-	-	-	(1 070 823)	-	2 814 446
Computer equipment	1 177 635	724 545	(62 039)	-	(476 221)	-	1 363 903
Infrastructure: Information and Communication	868 668	-	(152 722)	-	(271 738)	-	444 208
Infrastructure: Water Reticulation	1 717 263 943	219 668 344	-	-	(52 423 475)	(2 445 022)	1 882 063 790
Community assets	3 561 438	-	-	-	(243 459)	-	3 317 979
Leased assets	18 340 348	-	(49 718)	136 271	(8 000 504)	-	10 426 397
	<b>1 788 856 639</b>	<b>220 392 889</b>	<b>(409 184)</b>	<b>136 271</b>	<b>(64 303 301)</b>	<b>(2 445 022)</b>	<b>1 942 228 275</b>

#### Reconciliation of property, plant and equipment - Controlling entity - 30 June 2017

	Opening balance	Additions	Disposals	Lease modification	Depreciation	Impairment loss	Total
Land	17 080 597	-	-	-	-	-	17 080 597
Buildings	24 672 531	202 583	-	-	(952 621)	-	23 922 493
Machinery and Equipment	855 780	-	(2 273)	-	(207 204)	-	646 303
Furniture and Office equipment	2 422 734	378 766	(49 277)	-	(642 278)	-	2 109 945
Transport assets	5 913 037	-	(638 913)	-	(1 388 855)	-	3 885 269
Computer equipment	1 064 649	450 690	(33 545)	-	(304 159)	-	1 177 635
Infrastructure: Information and Communication	916 509	204 865	(16 454)	-	(236 252)	-	868 668
Infrastructure: Water Reticulation	1 603 276 821	177 303 853	(712 975)	-	(58 727 561)	(3 876 195)	1 717 263 943
Community assets	3 686 178	-	-	-	(124 741)	-	3 561 437
Leased assets	7 459 658	16 642 264	(619 024)	(136 270)	(5 006 280)	-	18 340 348
	<b>1 667 348 494</b>	<b>195 183 021</b>	<b>(2 072 461)</b>	<b>(136 270)</b>	<b>(67 589 951)</b>	<b>(3 876 195)</b>	<b>1 788 856 638</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

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

#### Work In progress Without Movement

The following projects did not have movements in the current year:

Emacabazini	283 845	-	283 845	-
Horseshoe Sanitation - New Massification	13 699 057	-	13 699 057	-
Umzimkhulu Sewer Emergency Intervention	1 101 548	-	1 101 548	-
	-	-	-	-

The following projects did not have movements as a result of catastrophic destruction of infrastructure which was under construction. The destruction was caused by vandalism and theft.

Ebovini / Emazabekweni Comm Water Supply	622 635	-	622 635	-
	-	-	-	-

The projects did not have movements as a result of funding mechanism alignment for bulk capital infrastructure and sustainable water reticulation supply

Umzimkhulu Bulk Water	3 179 288	-	3 179 288	-
	-	-	-	-

The projects did not have movements during the current financial year as a result of drought which affected projects commission schedule

Bulwer Dam	45 896 930	-	45 896 930	-
Umzimkhulu Sewer Emergency Intervention	1 318 735	-	1 318 735	-
Underberg Bulk Water	4 097 540	-	4 097 540	-
	-	-	-	-

The projects did not have movements during the current financial year as a result of defaulting in terms of quality of workmanship and time contractors prolong project duration to complete Terms and conditions

Paninkukhu Water	27 692 139	-	27 692 139	-
Ngwagwane Water Supply - WSIG	1 559 456	-	1 559 456	-
Chancele Water Supply- WSIG	995 198	-	995 198	-
Ngunjini - WSIG	532 390	-	532 390	-
Gaybrook	1 373 681	-	1 373 681	-
Esdadeni water supply	1 081 868	-	1 081 868	-
Nokweja Mashumi	4 185 733	-	4 185 733	-

The previous contractors absconded the works. Decisions where taken to complete projects.

Moyeni / Teekloof	4 546 974	-	4 546 974	-
Makhoba Housing Project	19 554 485	-	19 554 485	-
	-	-	-	-

The projects did not have movements during the current financial year as a result of downward adjustment of project allocation in a quest to control accruals.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

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

#### Other information

#### Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance

Contracted Services	2 649 788	18 805 890	2 593 400	18 680 118
Materials consumed	8 275 840	6 879 650	8 275 840	6 879 650
	<b>10 925 628</b>	<b>25 685 540</b>	<b>10 869 240</b>	<b>25 559 768</b>

#### Reconciliation of Work-in-Progress Group - 2018

Included within Infrastructure

Opening balance	356 710 765	534 325 566	356 710 765	534 325 566
Additions/capital expenditure	219 668 344	177 303 862	219 668 344	177 303 862
Transferred to completed items	(167 751 002)	(354 918 663)	(167 751 002)	(354 918 663)
	<b>408 628 107</b>	<b>356 710 765</b>	<b>408 628 107</b>	<b>356 710 765</b>

During the current financial year infrastructure projects to the value of R467 686 547.90 completed in the previous financial years were capitalised and transferred from work in progress to property plant and equipment. Included in this amount is R242 986 143.43 for projects completed during the 2016/17 financial year and R224 700 404.47 for projects completed during the 2015/15 and prior years.

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.

### 9. Intangible assets

Group	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	4 643 222	(2 931 196)	1 712 026	4 673 732	(2 373 676)	2 300 056

  

Controlling entity	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 598 216	(2 251 185)	1 347 031	3 611 215	(1 992 454)	1 618 761

#### Reconciliation of intangible assets - Group - 30 June 2018

	<b>Opening balance</b>	<b>Disposals</b>	<b>Amortisation</b>	<b>Total</b>
Computer software, other	2 300 056	(1 074)	(586 956)	1 712 026

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 9. Intangible assets (continued)

#### Reconciliation of intangible assets - Group - 30 June 2017

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software, other	1 366 716	498 141	921 054	(485 855)	2 300 056

#### Reconciliation of intangible assets - Controlling entity - 30 June 2018

	Opening balance	Disposals	Amortisation	Total
Computer software, other	1 618 761	(1 075)	(270 655)	1 347 031

#### Reconciliation of intangible assets - Controlling entity - 30 June 2017

	Opening balance	Transfers	Amortisation	Total
Computer software, other	888 336	921 053	(190 628)	1 618 761

### 10. Investment in entity

#### Residual interest at cost

Unlisted shares	-	-	100	100
Terms and conditions				

#### Non-current assets

Residual interest at cost	-	-	100	100
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### 11. Borrowings

#### At amortised cost

ABSA	14 816 119	18 146 241	14 816 119	18 146 241
The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually.				
The loan is reedemable in twenty equal installment bi-annually in arrears on 30 June and 31 December each year until 30 June 2021.				

#### Non-current liabilities

At amortised cost	8 656 680	12 353 357	8 656 680	12 353 357
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#### Current liabilities

At amortised cost	6 159 439	5 792 884	6 159 439	5 792 884
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# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>12. Finance lease obligation</b>				
<b>Present value of minimum lease payments due</b>				
- within one year	4 889 039	6 093 624	4 884 263	6 059 905
- in second to fifth year inclusive	8 099 954	13 861 111	8 099 954	13 853 986
	<b>12 988 993</b>	<b>19 954 735</b>	<b>12 984 217</b>	<b>19 913 891</b>
Non-current liabilities	8 099 954	13 861 111	8 099 954	13 853 986
Current liabilities	4 889 039	6 093 624	4 884 263	6 059 905
	<b>12 988 993</b>	<b>19 954 735</b>	<b>12 984 217</b>	<b>19 913 891</b>

Harry Gwala District Municipality entered into a new lease with Afrient for the rental of Thirty two (32) vehicles.

The lease term is 4 years and the interest rate implicit in the lease varies per each vehicle. The lease payments escalate at 6% p.a and no arrangements have been entered into for contingent rent.

Harry Gwala District Municipality may purchase the leased vehicle at any time during the lease agreement from Afrient as an early termination. The settlement value is the capital balance outstanding plus a "re-purchase fee. .

### 13. Payables from exchange transactions

Trade payables	109 719 213	80 237 382	109 401 912	79 497 678
Provision for leave pay	10 063 193	11 412 050	9 573 961	10 983 923
Retentions	38 315 757	36 614 603	38 315 757	36 614 603
Debtors with credit balance	4 926 252	4 441 657	4 926 252	4 441 657
Other payables	1 178 900	241 160	1 178 900	241 160
Salary Intergration	5 604 519	3 467 786	5 427 408	3 467 786
	<b>169 807 834</b>	<b>136 414 638</b>	<b>168 824 190</b>	<b>135 246 807</b>

### 14. Consumer deposits

Water	1 605 611	1 441 387	1 605 611	1 441 387
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### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Cogta - Raset	3 000 000	-	-	-
Department of Higher Education and Training grant	6 841 347	6 841 347	-	-
Development Bank of SA	1 054 061	1 054 061	-	-
Development planning shared services grant	1 164 043	1 164 043	1 164 043	1 164 043
District growth summit Cogta	-	31 301	-	31 301
Electricity demand management grant	-	4 809 200	-	4 809 200
Gijima grant	235 810	235 810	235 810	235 810
Government experts grant	445 014	445 014	445 014	445 014
Municipal Infrastructure Grant	10 706 584	-	10 706 584	-
Municipal Water Infrastructure Grant.	49 012 312	15 261 555	49 012 312	15 261 555
Public Transport Grant	66 587	66 587	66 587	66 587
Rural bulk infrastructure grant	10 375	26 942 062	10 375	26 942 062
Rural transport service & infrastructure grant	4 351	4 299	4 351	4 299
Signage grant - Cogta	98 112	98 112	98 112	98 112
Sihleza maize production project (cogta)	242 413	242 413	242 413	242 413
	<b>72 881 009</b>	<b>57 195 804</b>	<b>61 985 601</b>	<b>49 300 396</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>16. Provisions</b>				
Non-current liabilities	22 216 863	20 947 488	22 216 863	20 947 488
Current liabilities	732 466	567 617	732 466	567 617
	<b>22 949 329</b>	<b>21 515 105</b>	<b>22 949 329</b>	<b>21 515 105</b>

The balance of R22 949 329 (2017 : R21 515 105) consists of post-retirement health care benefit liability of R17 727 986 (2017 : R16 962 824) and Long service awards liability of R5 221 343 (2017 : R4 552 281) as detailed below:

### RETIREMENT BENEFIT LIABILITY

#### Post-retirement Health Care Benefit Liability

Balance at beginning of year	16 962 824	16 172 855
Contributions to Provision	814 455	836 421
Benefits paid	(49 293)	(46 452)
Balance at end of year	17 727 986	16 962 824
Less current portion	52 537	49 293
Non-current portion	17 675 449	16 913 531

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the post-employment Medical Aid Benefit Plan are made up as follows:

In-service Members (Employees)	207	203
Continuation Members (Retirees, widowers and orphans)	1	1
Total Members	208	204

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

In-service Members	17 277 541	16 516 860
Continuation Members	450 446	445 965
Total Liability	17 727 987	16 962 825

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Keyhealth
- LA Health
- Samwumed

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 16. Provisions (continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	9,88 %	10,13 %
Health Care Cost inflation Rate	7,59 %	8,41 %
Net Effective Discount Rate	2,13 %	1,59 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	16 962 820	16 172 856
Current service costs	1 483 569	1 580 289
Interest cost	1 716 732	1 532 106
Benefits paid	(49 293)	(46 452)
Actuarial losses	(2 385 846)	(2 275 979)
Present Value of Fund Obligation at the end of the year	<b>17 727 982</b>	<b>16 962 820</b>

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

Current service cost	1 483 569	1 580 289
Interest cost	1 716 732	1 532 106
Actuarial losses	(2 385 846)	(2 275 974)
Total Post-retirement Benefit included in Employee Related cost	<b>814 455</b>	<b>836 421</b>

### SENSITIVITY ANALYSIS

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

#### Sensitivity Results

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

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement

The following table summarises the results of the sensitivity analysis.

Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
Central Assumptions	-	17,728	0,450	18,178	- %
Health care inflation	1%	18,628	0,451	19,079	8 %
	-1%	15,504	0,450	15,954	-16 %
Post-retirement mortality	- 1 yr	17,759	0,466	18,225	14 %
Average retirement age	- 1 yr	19,075	0,450	19,525	7 %
Continuation of membership at retirement	-10%	14,512	0,450	14,962	-16 %

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 7% higher than that shown.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 16. Provisions (continued)

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 483 600	1 716 700	3 200 300	- %
Health care inflation	1%	1 586 900	1 831 700	3 418 600	7 %
	-1%	1 324 300	1 556 500	2 880 800	-10 %
Post-retirement mortality	- 1 yr	1 523 900	1 766 500	3 290 400	3 %
Average retirement age	- 1 yr	1 541 000	1 891 000	3 432 000	7 %
Continuation of membership at retirement	-10%	1 240 800	1 443 600	2 684 400	-16 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2019 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	1 469 300	1 749 000	3 218 300	- %
Health care inflation	1%	1 586 000	1 882 400	3 468 400	8 %
	-1%	1 299 700	1 573 700	2 873 400	-11 %
Post-retirement mortality	- 1 yr	1 508 000	1 798 100	3 306 100	3 %
Average retirement age	- 1 yr	1 592 900	1 926 500	3 519 400	9 %
Continuation of membership at retirement	-10%	1 228 100	1 475 700	2 703 800	-16 %

Long service awards liability		
Balance at beginning of year	4 552 281	4 364 751
Contributions to Provision	1 187 386	740 499
Benefits paid	(518 324)	(552 969)
Balance at end of year	5 221 343	4 552 281
Less current portion	679 929	552 969
Non-current portion	4 541 414	3 999 312

The municipality operate an unfunded defined benefit plan for all itsemployees. Under the plan a Long-service Award is payable after 10 years thereafter to employees. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	8,58 %	8,45 %
Salary Cost inflation Rate	6,20 %	6,28 %
Net Effective Discount Rate	2,24 %	2,05 %
Expected Retirement Age - Females	55	55
Expected Retirement Age - Males	60	60

Movements in the present value of the Defined Benefit Obligations were as follows:

Balance at the beginning of the year:	4 552 281	4 364 751
Current service costs	504 919	539 556
Interest cost	363 373	350 987
Benefits paid	(518 324)	(552 969)
Actuarial losses	319 094	(150 044)
Present Value of Fund Obligation at the end of the year	<b>5 221 343</b>	<b>4 552 281</b>

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

Current service cost	504 919	539 556
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# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>16. Provisions (continued)</b>				
Interest cost			363 373	350 987
Actuarial losses			319 094	(150 044)
Total Post-retirement Benefit included in Employee Related cost			<b>1 187 386</b>	<b>740 499</b>

### SENSITIVITY ANALYSIS

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

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

- (i) The general salary inflation rate assumption;
- (ii) The discount rate assumption;
- (iii) The average retirement age of employees; and
- (iv) Assumed rates of withdrawal of employees from service.

#### Sensitivity Results

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

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 16. Provisions (continued)

The following table summarises the results of the sensitivity analysis.  
Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	% change
Central Assumptions	-	5,221	- %
General salary inflation	1%	5,545	6 %
	-1%	4,925	-6 %
Average retirement age	+2 yr	5,645	8 %
	- 2 yr	4,634	-11 %
Withdrawal rate	-50%	6,553	26 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2018 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	504 900	363 400	868 300	- %
General salary inflation	1%	544 400	387 800	932 200	7 %
	-1%	469 200	341 100	810 300	-13 %
Average retirement age	+2 yr	544 300	393 600	937 900	16 %
	- 2 yr	455 300	323 000	778 300	-17 %
Withdrawal rate	-50%	693 300	466 800	1 160 100	49 %

Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2019 -

Assumption	Change	Current service cost	Interest cost	Total	% change
Central Assumptions	-	552 000	419 400	971 400	- %
General salary inflation	1%	594 200	447 200	1 041 400	7 %
	-1%	513 700	394 000	907 700	-13 %
Average retirement age	+2 yr	596 800	455 800	1 052 600	16 %
	-2yr	498 300	373 100	871 400	-17 %
Withdrawal rate	-50%	749 800	533 700	1 283 500	47 %

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>17. Service charges</b>				
Sale of water	38 411 217	27 668 670	38 411 217	27 668 670
Sewerage and sanitation charges	15 551 104	9 498 908	15 551 104	9 498 908
	<b>53 962 321</b>	<b>37 167 578</b>	<b>53 962 321</b>	<b>37 167 578</b>
<b>18. Operational revenue</b>				
Clearance certificate	2 494	1 829	2 494	1 829
Sundry Income	-	154 149	-	154 149
Insurance refunds	139 443	326 454	109 794	326 454
Tender documents	587 390	421 703	575 650	381 300
Salary deductions	-	364 498	-	364 498
Management fees	22 293	-	22 293	-
	<b>751 620</b>	<b>1 268 633</b>	<b>710 231</b>	<b>1 228 230</b>
<b>19. Interest income</b>				
<b>Interest revenue</b>				
Interest on outstanding debtors	11 363 063	12 349 010	11 363 063	12 349 010
Interest received - Investments	9 699 760	6 067 248	8 968 803	5 281 409
	<b>21 062 823</b>	<b>18 416 258</b>	<b>20 331 866</b>	<b>17 630 419</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>20. Government grants and subsidies</b>				
<b>Operating grants</b>				
Equitable share	285 028 617	260 069 000	285 028 617	260 069 000
Expanded Public Works Programme	1 718 000	3 364 000	1 718 000	3 364 000
District Growth Summit Cogta	331 301	-	331 301	-
Accredited Councillors Training	-	62 803	-	62 803
Municipal Systems Improvement Grant	-	10 269	-	10 269
Financial Management Grant	1 250 000	1 252 365	1 250 000	1 252 365
Local Govt. Sector Education Training Authority	230 587	343 177	230 587	343 177
PMU MIG grant	68 902 874	12 911 693	68 902 874	12 911 693
Umzimkulu cogta	-	406 480	-	406 480
Planning and Shared Services grant	-	3 715 939	-	3 715 939
Rural Transportation Service Infrastructure Grant	2 220 948	2 090 701	2 220 948	2 090 701
Neighbourhood development grant	-	235	-	235
Massification-Cogta	-	36 307	-	36 307
Energy Efficient and Demand Management Grant	12 809 200	4 051 860	12 809 200	4 051 860
Drought Relief	-	974 080	-	974 080
Municipal Water Infrastructure Grant	-	11 412 517	-	11 412 517
Department of Higher Education and Training	-	5 138	-	-
	<b>372 491 527</b>	<b>300 706 564</b>	<b>372 491 527</b>	<b>300 701 426</b>

### Capital grants

Rural Bulk Infrastructure grant	89 989 626	21 057 938	89 989 626	21 057 938
Municipal Infrastructure grant	124 935 542	178 155 307	124 935 542	178 155 307
Municipal Water Infrastructure Grant	48 987 697	59 443 928	48 987 697	59 443 928
Drought Relief	-	9 025 920	-	9 025 920
	<b>263 912 865</b>	<b>267 683 093</b>	<b>263 912 865</b>	<b>267 683 093</b>
	<b>636 404 392</b>	<b>568 389 657</b>	<b>636 404 392</b>	<b>568 384 519</b>

### Equitable Share

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

### Municipal Infrastructure Grant

Current-year receipts	204 545 000	191 067 000	204 545 000	191 067 000
Conditions met - transferred to revenue	(193 838 416)	(191 067 000)	(193 838 416)	(191 067 000)
	<b>10 706 584</b>	<b>-</b>	<b>10 706 584</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 15).

### Drought Relief Grant

Current-year receipts	-	10 000 000	-	10 000 000
Conditions met - transferred to revenue	-	(10 000 000)	-	(10 000 000)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Municipal Systems Improvement Grant

Conditions met - transferred to revenue	-	(10 269)	-	(10 269)
Adjustment to payables from non - exchange	-	10 269	-	10 269
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>20. Government grants and subsidies (continued)</b>				
<b>Public Transport Grant</b>				
Balance unspent at beginning of year	66 587	66 587	66 587	66 587
Conditions still to be met - remain liabilities (see note 15).				
<b>Development Bank of SA</b>				
Balance unspent at beginning of year	1 054 061	1 460 541	-	-
Conditions met - transferred to revenue	-	(406 480)	-	-
	<b>1 054 061</b>	<b>1 054 061</b>	-	-
Conditions still to be met - remain liabilities (see note 15).				
<b>Financial Management Grant</b>				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 252 365)	(1 250 000)	(1 252 365)
Adjustment	-	2 365	-	2 365
	-	-	-	-
<b>Municipal Water Infrastructure Grant</b>				
Balance unspent at beginning of year	15 261 555	-	15 261 555	-
Current-year receipts	98 000 000	86 118 000	98 000 000	86 118 000
Conditions met - transferred to revenue	(48 987 688)	(70 856 445)	(48 987 688)	(70 856 445)
Unapproved roll over	(15 261 555)	-	(15 261 555)	-
	<b>49 012 312</b>	<b>15 261 555</b>	<b>49 012 312</b>	<b>15 261 555</b>
<b>Accredited Councillors Training</b>				
Balance unspent at beginning of year	-	62 803	-	62 803
Conditions met - transferred to revenue	-	(62 803)	-	(62 803)
	-	-	-	-
<b>Rural Transport Service &amp; Infrastructure Grant</b>				
Balance unspent at beginning of year	4 299	-	4 299	-
Current-year receipts	2 221 000	2 095 000	2 221 000	2 095 000
Conditions met - transferred to revenue	(2 220 948)	(2 090 701)	(2 220 948)	(2 090 701)
	<b>4 351</b>	<b>4 299</b>	<b>4 351</b>	<b>4 299</b>
Conditions still to be met - remain liabilities (see note 15).				
<b>Development Planning Shared Services</b>				
Balance unspent at beginning of year	1 164 043	4 879 982	1 164 043	4 879 982
Conditions met - transferred to revenue	-	(3 715 939)	-	(3 715 939)
	<b>1 164 043</b>	<b>1 164 043</b>	<b>1 164 043</b>	<b>1 164 043</b>
Conditions still to be met - remain liabilities (see note 15).				

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>20. Government grants and subsidies (continued)</b>				
<b>Local Government Sector Education Training Authority</b>				
Balance unspent at beginning of year	-	172 099	-	172 099
Current-year receipts	230 587	171 078	230 587	171 078
Conditions met - transferred to revenue	(230 587)	(343 177)	(230 587)	(343 177)
	-	-	-	-
<b>Department of Higher Education and Training grant</b>				
Balance unspent at beginning of year	6 841 347	6 846 484	-	-
Conditions met - transferred to revenue	-	(5 137)	-	-
	<b>6 841 347</b>	<b>6 841 347</b>	-	-
Conditions still to be met - remain liabilities (see note 15).				
<b>Regional Bulk Infrastructure Grant</b>				
Balance unspent at beginning of year	26 942 062	-	26 942 062	-
Current-year receipts	90 000 000	48 000 000	90 000 000	48 000 000
Conditions met - transferred to revenue	(89 989 625)	(21 057 938)	(89 989 625)	(21 057 938)
Unapproved roll over	(26 942 062)	-	(26 942 062)	-
	<b>10 375</b>	<b>26 942 062</b>	<b>10 375</b>	<b>26 942 062</b>
Conditions still to be met - remain liabilities (see note 15).				
<b>SIHLEZA Maize Production Project</b>				
Balance unspent at beginning of year	242 413	242 413	242 413	242 413
Conditions still to be met - remain liabilities (see note 15).				

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>20. Government grants and subsidies (continued)</b>				
<b>Expanded Public Works Programme</b>				
Current-year receipts	1 718 000	3 364 000	1 718 000	3 364 000
Conditions met - transferred to revenue	(1 718 000)	(3 364 000)	(1 718 000)	(3 364 000)
	-	-	-	-
<b>Signage Grant</b>				
Balance unspent at beginning of year	98 112	98 112	98 112	98 112
Conditions still to be met - remain liabilities (see note 15).				
<b>Government Experts</b>				
Balance unspent at beginning of year	445 014	445 014	445 014	445 014
Conditions still to be met - remain liabilities (see note 15).				
<b>Gijima Grant</b>				
Balance unspent at beginning of year	235 810	235 810	235 810	235 810
Conditions still to be met - remain liabilities (see note 15).				
<b>Massification</b>				
Balance unspent at beginning of year	-	36 307	-	36 307
Conditions met - transferred to revenue	-	(36 307)	-	(36 307)
	-	-	-	-
<b>CoGTA - RASET</b>				
Current-year receipts	3 000 000	-	-	-
Conditions still to be met - remain liabilities (see note 15).				
The grant will be spent in line with the signed business plan and the signed agreement funding of Harry Gwala District Municipality for the implementation of RASET programme.				
The grant was not spent as it was received in June 2018.				
<b>Energy Efficiency Demand Side Management Grant</b>				
Balance unspent at beginning of year	4 809 200	-	4 809 200	-
Current-year receipts	8 000 000	8 000 000	8 000 000	8 000 000
Conditions met - transferred to revenue	(12 809 200)	(4 051 860)	(12 809 200)	(4 051 860)
Adjustment	-	861 060	-	861 060
	-	<b>4 809 200</b>	-	<b>4 809 200</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>20. Government grants and subsidies (continued)</b>				
<b>District Growth Summit</b>				
Balance unspent at beginning of year	31 301	31 301	31 301	31 301
Current-year receipts	300 000	-	300 000	-
Conditions met - transferred to revenue	(331 301)	-	(331 301)	-
	<b>-</b>	<b>31 301</b>	<b>-</b>	<b>31 301</b>
<b>21. Revenue</b>				
Service charges	53 962 321	37 167 578	53 962 321	37 167 578
Operational revenue	751 620	1 268 633	710 231	1 228 230
Interest income	21 062 823	18 416 258	20 331 866	17 630 419
Government grants & subsidies	636 404 392	568 389 657	636 404 392	568 384 519
	<b>712 181 156</b>	<b>625 242 126</b>	<b>711 408 810</b>	<b>624 410 746</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>				
Service charges	53 962 321	37 167 578	53 962 321	37 167 578
Operational revenue	751 620	1 268 633	710 231	1 228 230
Interest income	21 062 823	18 416 258	20 331 866	17 630 419
	<b>75 776 764</b>	<b>56 852 469</b>	<b>75 004 418</b>	<b>56 026 227</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>				
<b>Transfer revenue</b>				
Government grants & subsidies	636 404 392	568 389 657	636 404 392	568 384 519
<b>22. Bulk purchases</b>				
Water	14 434 430	12 582 053	14 434 430	12 582 053
<b>23. Contracted services</b>				
<b>Outsourced Services</b>				
Administrative and Support Staff	16 846 007	3 844 144	16 846 007	3 844 144
Burial Services	2 000	-	2 000	-
Business and Advisory	14 608 661	8 788 288	14 608 661	8 788 288
Catering Services	3 744 450	2 814 002	3 744 450	2 814 002
Hygiene Services	87 825	350 578	87 825	350 578
Clearing and Grass Cutting Services	-	49 350	-	49 350
Meter Management	5 408 519	355 200	5 408 519	355 200
Security Services	24 454 402	16 566 781	24 111 678	16 566 781
Water Takers	1 605 627	14 836 743	1 605 627	14 836 743
<b>Consultants and Professional Services</b>				
Business and Advisory	3 184 657	4 518 237	3 026 657	4 440 903
Legal Cost	10 537 580	1 202 506	10 514 601	1 202 506

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>23. Contracted services (continued)</b>				
<b>Contractors</b>				
Audio-visual Services	87 195	116 349	87 195	116 349
Bore Waterhole Drilling	-	854 456	-	854 456
Catering Services	94 243	734 793	94 243	734 793
Electrical	6 988 268	7 772 860	6 988 268	7 772 860
Employee Wellness	282 004	626 338	282 004	626 338
Event Promoters	1 298 494	877 193	1 298 494	877 193
First Aid	-	142 244	-	142 244
Gardening Services	25 000	117 400	25 000	117 400
Maintenance of Buildings and Facilities	1 768 478	1 380 944	1 727 033	1 256 181
Maintenance of Unspecified Assets	2 712 974	16 365 603	2 706 014	16 364 594
Rural roads site supervision and consulting	1 947 762	2 185 558	1 947 762	2 185 558
Sewerage Services	55 992 584	27 533 334	55 992 584	27 533 334
Stage and Sound Crew	95 010	373 173	95 010	373 173
	<b>151 771 740</b>	<b>112 406 074</b>	<b>151 199 632</b>	<b>112 202 968</b>
<b>24. Contribution to bad debt provision</b>				
Contribution to bad debt provision	24 717 388	34 877 132	24 717 388	34 877 132
<b>25. Depreciation and amortisation</b>				
Property, plant and equipment	65 336 853	58 393 883	64 167 050	57 207 530
Intangible assets	586 955	485 855	270 655	190 629
	<b>65 923 808</b>	<b>58 879 738</b>	<b>64 437 705</b>	<b>57 398 159</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>26. Employee related costs</b>				
Basic	101 046 688	99 236 410	95 887 992	93 876 372
Social contributions - medical aid	7 979 521	6 016 887	7 559 284	5 909 959
UIF	656 409	673 257	601 124	614 466
Other payroll levies	1 729 125	1 749 777	-	-
Leave pay provision charge	1 592 661	2 058 638	1 531 556	1 899 681
Health care retirement benefit	765 162	789 969	765 162	789 969
Social contributions - pension fund	11 337 434	10 810 820	9 993 163	10 810 820
Social contribution - SALGBC	31 566	31 205	31 566	31 205
Travel, motor car, accommodation, subsistence and other allowances	14 860 622	14 295 193	14 860 622	14 272 370
Overtime payments	17 029 206	15 055 738	17 029 206	15 055 738
Long-service awards	1 184 492	187 530	1 184 492	187 530
Housing benefits and allowances	782 647	1 361 020	782 647	1 361 020
	<b>158 995 533</b>	<b>152 266 444</b>	<b>150 226 814</b>	<b>144 809 130</b>

### Remuneration of municipal manager

Annual Remuneration	981 704	961 598	981 704	961 598
Travel and other allowances	282 099	402 296	282 099	402 296
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions to UIF	1 785	1 785	1 785	1 785
Contributions -Medical Aid	46 339	43 417	46 339	43 417
Contributions- SALGBC	97	90	97	90
Skills	12 932	13 718	12 932	13 718
	<b>1 342 650</b>	<b>1 440 598</b>	<b>1 342 650</b>	<b>1 440 598</b>

### Remuneration of chief finance officer

Annual Remuneration	860 660	882 350	860 660	882 350
Bonus	67 487	77 532	67 487	77 532
Travel and other allowances	242 106	327 420	242 106	327 420
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	36 969	34 556	36 969	34 556
Contributions - SALGBC	98	11 961	98	90
Skills	11 961	13 081	11 961	13 081
	<b>1 238 760</b>	<b>1 366 379</b>	<b>1 238 760</b>	<b>1 354 508</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 26. Employee related costs (continued)

#### Remuneration of Corporate Services Manager

Annual Remuneration	722 768	839 334	722 768	839 334
Bonus	64 116	73 386	64 116	73 386
Travel and other allowances	226 166	271 077	226 166	271 077
Cellphone Allowances	17 694	17 694	17 694	17 694
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	22 206	32 432	22 206	32 432
Contributions - SALGBC	98	90	98	90
Skills	10 294	11 977	10 294	11 977
	<b>1 065 127</b>	<b>1 247 775</b>	<b>1 065 127</b>	<b>1 247 775</b>

#### Remuneration of Water Services Manager

Annual Remuneration	617 637	812 087	617 637	812 087
Travel and other allowances	150 667	419 098	150 667	419 098
Cellphone Allowances	10 321	17 692	10 321	17 692
Contributions - UIF	1 041	1 785	1 041	1 785
Contributions - Skills	7 584	11 965	7 584	11 965
Contributions - SALGBC	57	90	57	90
	<b>787 307</b>	<b>1 262 717</b>	<b>787 307</b>	<b>1 262 717</b>

#### Remuneration of Engineering Manager - Infrastructure

Annual Remuneration	1 266 849	1 024 449	1 266 849	1 024 449
Bonus	92 485	80 538	92 485	80 538
Travel and other allowances	164 209	127 200	164 209	127 200
Cellphone Allowances	4 423	17 692	4 423	17 692
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - SALGBC	98	90	98	90
Contributions - Medical Aid	15 000	12 244	15 000	12 244
	<b>1 544 849</b>	<b>1 263 998</b>	<b>1 544 849</b>	<b>1 263 998</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>26. Employee related costs (continued)</b>				
<b>Remuneration of Chief Executive Office - Harry Gwala Economic Development Agency</b>				
Annual Remuneration	1 267 184	1 172 087	-	-
Travel Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	297 933	17 269	-	-
13th Cheque	115 599	107 674	-	-
	<b>1 800 716</b>	<b>1 417 030</b>	-	-
<b>Remuneration of Chief Financial Officer - Harry Gwala Economic Development Agency</b>				
Annual Remuneration	905 261	834 975	-	-
Car Allowance	120 000	120 000	-	-
Contributions to UIF, Medical and Pension Funds	210 604	14 094	-	-
13th Cheque	85 438	79 581	-	-
	<b>1 321 303</b>	<b>1 048 650</b>	-	-
<b>Remuneration of Board Members - Attendance fees at meetings</b>				
IB Mkhize	162 828	150 701	-	-
VIV Made	32 174	44 823	-	-
PZ Duma	25 920	36 177	-	-
	<b>220 922</b>	<b>231 701</b>	-	-
<b>Remuneration of Board Members - Travelling re-imbursements</b>				
IB Mkhize	31 923	36 756	-	-
VIV Made	14 248	26 685	-	-
PZ Duma	12 413	25 963	-	-
	<b>58 584</b>	<b>89 404</b>	-	-
<b>Remuneration of Community Services Manager</b>				
Annual Remuneration	710 341	754 011	710 341	754 011
Bonus	181 533	243 305	181 533	243 305
Cellphone Allowances	17 404	16 536	17 404	16 536
Contributions - UIF	1 785	1 785	1 785	1 785
Contributions - Medical Aid	8 824	9 833	8 824	9 833
Contributions - SALGBC	97	61	97	61
	<b>919 984</b>	<b>1 025 531</b>	<b>919 984</b>	<b>1 025 531</b>
<b>27. Impairment of assets</b>				
<b>Impairments</b>				
Property, plant and equipment	2 445 022	3 876 195	2 445 022	3 876 195
<b>28. Finance costs</b>				
External borrowings	4 496 798	4 312 810	4 496 798	4 312 810
Bank	2 449	7 297	-	-
	<b>4 499 247</b>	<b>4 320 107</b>	<b>4 496 798</b>	<b>4 312 810</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>29. Inventory Consumed</b>				
Consumables:Standard Rated	394 877	1 113 777	394 877	1 113 777
Consumables:Zero Rated	4 475 914	3 914 691	4 475 914	3 914 691
Materials & Supplies	19 077 709	17 446 557	19 077 709	17 446 557
	<b>23 948 500</b>	<b>22 475 025</b>	<b>23 948 500</b>	<b>22 475 025</b>
<b>30. Operating leases</b>				
Printing Machines and Car Rentals	100 657	109 046	-	-
<b>Minimum lease payment due</b>				
Within one year	26 111	63 384	-	-
In second to third year inclusive	74 546	45 662	-	-
	<b>100 657</b>	<b>109 046</b>	-	-
<b>31. Operational costs</b>				
Advertising	2 305 800	1 788 633	2 287 457	1 672 412
Agricultural expenses	596 800	-	-	-
Bank Charges, Facility and Card Fees	198 077	143 163	176 960	123 407
Bursaries	314 846	217 376	314 846	217 376
Cleaning Campaign	-	75 700	-	75 700
Cleaning materials	-	27 569	-	-
Communication	4 128 981	4 454 540	3 828 907	4 017 745
Entertainment	1 358	88 602	-	77 793
Eskom Internal consumption	10 790 221	10 145 887	10 790 221	10 145 887
External Audit Fees	3 115 382	2 665 365	2 605 814	2 254 853
External Computer Service	4 036 220	2 737 716	3 094 404	2 333 826
Financial assistance and school campaign	167 500	168 449	167 500	36 325
Hire Charges	3 890 676	772 048	3 877 702	575 046
Implementation of Bds and Gds	-	764 268	-	764 268
Insurance Underwriting	1 395 145	900 959	1 273 649	790 833
LED expenses - SDA	283 441	845 777	-	-
Motor Vehicle Licence and Registrations	207 227	186 146	207 227	186 146
National- Events-registration	35 150	-	35 150	-
Other expenses	69 923	44 564	-	2 330
Planned projects as per priority	-	1 189 095	-	1 189 095
Training	61 008	190 967	-	-
Printing, Publications and Books	1 172 390	602 867	1 039 201	538 499
Professional Bodies, Membership and Subscription	75 419	47 801	66 908	31 239
Rental Offices	1 313 986	1 343 147	1 313 986	1 343 147
Signage	99 667	181 310	99 667	181 310
Skills Development Fund Levy	1 338 780	1 271 748	1 266 350	1 195 814
Tourism expenses	1 697 772	1 596 233	-	-
Transport Provided as Part of Departmental Activities	758 334	357 745	758 334	357 745
Travel and Subsistence	1 192 921	7 800 832	908 187	7 290 998
Uniform and Protective Clothing	793 997	1 230 818	793 997	1 220 313
Vehicle Expenses	5 667 613	2 295 292	5 667 613	2 295 292
Water Use Licensing	-	469 796	-	469 796
Wet Fuel	6 460 893	5 156 821	6 451 749	5 135 202
	<b>52 169 527</b>	<b>49 761 234</b>	<b>47 025 829</b>	<b>44 522 397</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>32. Remuneration of councillors</b>				
Salaries	4 322 108	4 243 615	4 322 108	4 243 615
Cellphone allowance	462 756	224 516	462 756	224 516
Meeting allowance	283 088	213 960	283 088	213 960
Travelling allowance	895 609	769 903	895 609	769 903
	<b>5 963 561</b>	<b>5 451 994</b>	<b>5 963 561</b>	<b>5 451 994</b>
<b>33. Cash generated from operations</b>				
Surplus	202 725 646	167 201 751	210 395 084	163 873 772
<b>Adjustments for:</b>				
Depreciation and amortisation	65 923 808	58 879 738	64 437 705	57 398 159
Loss on disposal of assets	498 803	59 434	410 258	40 983
Impairment deficit	2 445 022	3 876 195	2 445 022	3 876 195
Debt impairment	24 717 388	34 877 132	24 717 388	34 877 132
Movements in provisions	1 434 224	977 499	1 434 224	977 499
Other non-cash items	-	(154 000)	-	(154 000)
Leave provision movement	(1 348 857)	1 550 504	(1 409 962)	1 410 949
<b>Changes in working capital:</b>				
Inventories	9 260	11 819	9 260	11 819
Consumer debtors	(23 910 026)	(30 715 838)	(23 910 026)	(30 715 838)
Other receivables from non-exchange transactions	(1 172 948)	(1 607 529)	(1 166 149)	(1 614 636)
Payables from exchange transactions	34 814 360	(73 759 652)	34 987 331	(72 858 275)
VAT	(21 860 711)	3 350 543	(21 857 399)	1 214 971
Payables from non exchange transactions	-	(873 929)	-	(873 929)
Unspent conditional grants and receipts	15 685 205	42 618 351	12 685 205	42 623 488
Consumer deposits	164 224	95 409	164 224	95 409
	<b>300 125 398</b>	<b>206 387 427</b>	<b>303 342 165</b>	<b>200 183 698</b>
<b>34. Commitments</b>				
<b>Authorised capital expenditure</b>				
<b>Already contracted for but not provided for</b>				
• Infrastructure	425 085 356	194 685 663	425 085 356	194 685 663
<b>Total capital commitments</b>				
Already contracted for but not provided for	425 085 356	194 685 663	425 085 356	194 685 663
Intangible assets	19 267	782 620	-	-
	<b>425 104 623</b>	<b>195 468 283</b>	<b>425 085 356</b>	<b>194 685 663</b>
<b>Authorised operational expenditure</b>				
<b>Total operational commitments</b>				
Approved and contracted for	19 267	782 620	-	-

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>35. Contingencies</b>				
National Skills Fund	1 937 245	1 742 245	-	-
Mondli Lukhozi	-	30 000	-	30 000
Bhungane Built Environment	3 103 364	2 750 000	3 103 364	2 750 000
Matatiele Local Municipality	2 941 249	2 941 249	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	1 604 000	1 400 000	1 604 000	1 400 000
Sektor Consulting and engineers	480 000	572 567	480 000	572 567
Sifiso Gregory Mkize	21 295	-	21 295	-
Unitrade 1047 CC T/A Isidingo Security Services	26 000 000	-	26 000 000	-
Mahlaselondwe Trading	-	4 200 000	-	4 200 000
Shemuntu Trading CC	-	47 850	-	47 850
National Treasury jobs Fund Project	-	5 821 160	-	5 821 160
	<b>36 087 153</b>	<b>19 505 071</b>	<b>34 149 908</b>	<b>17 762 826</b>

- Bhungane Built Environment

Action for professional services rendered was instituted against the Municipality. Municipality instituted a counter-claim for plaintiff to deliver supporting documents. Pleadings have closed and we await receipt of case flow management directives.

- Sifiso Gregory Mkize

The claim has been instituted against the Municipality. The matter is being defended.

- Matatiele Local Municipality

This is a claim for rates for Matatiele Local Municipality.

- Mdlebeni Trading (Pty) Ltd

Action for damages arising from breach of contract was instituted against the Municipality. Pleadings have closed and we are in the process of exchanging pre-trial notices.

- Sektor Consulting and engineers

This is a claim for payment for services rendered. The matter has been defended.

- Shemuntu Trading CC

Action has been instituted against the Municipality. The matter is being defended.

- Mahlaselondwe Trading

Action instituted against the Municipality for professional services rendered. Matter currently pending as we await a condonation application to be filed for the late delivery of the Plaintiff's Replying Affidavit in the application to condone its failure to comply with section 3(2)(a) of Act 40 of 2002. Action has been instituted against the Municipality. The matter is being defended.

- National Treasury Jobs Fund Project

This relates to a claim by National Treasury for Harry Gwala District Municipality to repay the amount transferred to the Municipality during the 2013/14 and 2014/15 financial years if the municipality fails to provide the project close out reports and the proof of expenditure.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 35. Contingencies (continued)

- Unitrade 1047 CC T/A Isidingo Security Services

This was an application to interdict the Municipality from appointing another security service provider, pending the outcome of a review. The application for the interdict has been successfully resisted by the municipality and we are presently opposing the review through our lawyers.

- National Skills Fund

The liability which might arise as a result of the investigation, if the outcome points to the fact that there are service providers that need to be paid. If the finding points out that there are implicated service providers losses will be recovered.

### 36. Related parties

Controlled entity	Harry Gwala Economic Development Agency (Pty) Ltd
Controlling entity	Harry Gwala District Municipality

Harry Gwala District Municipality has 100% shareholding in Harry Gwala Development Agency.

Harry Gwala Development Agency is registered (PTY) Ltd company in terms of the Company Act 71 2008.

#### Related party transactions

During the year Harry Gwala Municipality transferred R8 000 0000 (2017: R17 333 333.34) to Harry Gwala Development Agency.

#### Key management information

The key management personnel of Harry Gwala Development Agency are.

The Chief Financial office is Mrs N R Shabalala is she is the Acting Chief Executive Officer.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

### 37. Risk management

#### Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group 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.

#### Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, without taking account of the value of any collateral obtained.

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

Financial instrument	Group - 2018	Group - 2017	Controlling entity - 2018	Controlling entity - 2017
Cash and cash equivalents	112 335 670	43 023 019	96 962 031	24 272 551
Trade and other receivables	28 348 728	27 983 142	27 748 076	27 389 289

#### Market risk

##### Interest rate risk

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

	Group		Controlling entity	
	2018	2017	2018	2017
Call deposits	105 400 610	34 893 683	94 129 256	22 674 410
Bank balance and cash	6 926 935	8 127 034	2 822 218	1 597 841
ABSA loan	12 984 217	18 146 240	12 984 217	18 146 240
	<b>125 311 762</b>	<b>61 166 957</b>	<b>109 935 691</b>	<b>42 418 491</b>

### 38. Going concern

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

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality that will remain in force for so long as it takes to restore the solvency of the municipality

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017
<b>39. Unauthorised expenditure</b>				
Unauthorised expenditure	316 916 181	266 147 013	316 916 181	266 147 013
Add current year expenditure	148 460 509	50 769 168	148 460 509	50 769 168
Approved by council	(51 569 648)	-	(51 569 648)	-
	<b>413 807 042</b>	<b>316 916 181</b>	<b>413 807 042</b>	<b>316 916 181</b>
<b>40. Fruitless and wasteful expenditure</b>				
Fruitless and wasteful expenditure	3 681 367	704 903	3 448 469	514 239
Add current year expenditure	750 186	2 976 464	518 916	2 934 230
	<b>4 431 553</b>	<b>3 681 367</b>	<b>3 967 385</b>	<b>3 448 469</b>
<b>41. Irregular expenditure</b>				
Opening balance	370 036 216	268 283 695	344 021 428	242 268 907
Add: Irregular Expenditure - current year	116 023 404	101 752 521	116 023 404	101 752 521
	<b>486 059 620</b>	<b>370 036 216</b>	<b>460 044 832</b>	<b>344 021 428</b>
<b>42. Additional disclosure in terms of Municipal Finance Management Act</b>				
<b>Contributions to organised local government</b>				
Current year subscription / fee	3 289 477	32 000	3 289 477	32 000
Amount paid - current year	(3 289 477)	(32 000)	(3 289 477)	(32 000)
	-	-	-	-
<b>Material losses Incurred</b>				
Water losses	9 106 988	11 912 025	9 106 988	11 912 025
<p>The water losses of 38.2% (2016-17 :40.4 %) is calculated on the total consumption of 3 850 033kl (2016-17 : 5 459 092kl) purchased at an average price of R6.20 (2016-17 : R5.40 ) per kl. Total water stock losses amounts to 1 468 869 kl (2016-17 : 2 205 931 kl).</p>				
<b>Audit fees</b>				
Current year subscription / fee	3 115 382	2 665 365	2 605 814	2 254 853
Amount paid - current year	(3 115 382)	(2 665 365)	(2 605 814)	(2 254 853)
	-	-	-	-
<b>PAYE and UIF</b>				
Opening balance	1 893 947	1 647 481	1 893 947	1 647 481
Current year subscription / fee	38 401 501	24 854 279	34 971 532	23 045 711
Amount paid - current year	(35 883 226)	(22 960 332)	(32 620 793)	(21 151 764)
Amount paid - previous years	(1 893 947)	(1 647 481)	(1 893 947)	(1 647 481)
	<b>2 518 275</b>	<b>1 893 947</b>	<b>2 350 739</b>	<b>1 893 947</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

	Group		Controlling entity	
	2018	2017	2018	2017

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

#### Pension and Medical Aid Deductions

Opening balance	-	1 725 244	-	1 725 244
Current year subscription / fee	19 316 955	16 827 707	17 552 447	16 720 779
Amount paid - current year	(16 240 286)	(16 827 707)	(14 475 778)	(16 720 779)
Amount paid - previous years	-	(1 725 244)	-	(1 725 244)
	<b>3 076 669</b>	<b>-</b>	<b>3 076 669</b>	<b>-</b>

#### VAT

VAT receivable	39 195 532	17 334 821	39 146 514	17 289 115
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VAT output payables and VAT input receivables are shown in Note 5.

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the District Municipal Council.

Section 36 deviations transferred to Irregular Expenditure.

During the 2017/18 there were deviations on the SCM Procedures when acquiring goods and services from suppliers.

#### Incident

Wise Security	-	5 294 323	-	5 294 323
Judy Mangwaza Trading Entrepise	-	1 000 000	-	1 000 000
Afrostructure (Pty) Ltd	16 309 548	-	16 309 548	-
Total Harry Gwala Development Agency supply chain management deviations	360 495	335 867	-	-
	<b>16 670 043</b>	<b>6 630 190</b>	<b>16 309 548</b>	<b>6 294 323</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

		Group		Controlling entity	
		2018	2017	2018	2017

### 43. FINANCIAL SUSTAINABILITY

The following indicators highlight that the municipality is facing financial sustainability concerns and a material uncertainty exists that may cast doubt on the municipality's ability to meet its short term financial obligations:

- The net current liability position has improved from R118,99 million to R76,02 million. Though the ratio improved, the short term liabilities are still more than the current assets.
- The cash balance at year end improved from R43.02 million to R112.34 million. The balance improved however the short term liabilities are still more than the cash and cash equivalents.
- The debt impairment of R159,67 million (2016-17: R154,54 million) is significant and indicates challenges surrounding the recoverability of trade receivable.

#### Reasons for the movements

- The increase in current liabilities is attributed to the overspending on the operational budget.
- The huge debt impairment is due to the water consumers not paying for the services and the fact that the infrastructure in use to measure water provision does not allow for restriction in the event a debtor does not pay for services. The incentives that the municipality implemented did not achieve the set results.

#### Action Plan to improve the indicators

- The Municipality has engaged the National Treasury for the drafting of a financial recovery plan which is aimed at introducing cost containment measures as well as improve revenue collection.
- The Municipality formed an Interim Finance Committee which convenes on a weekly basis to approve the procurement of goods and services as a cost containment measure.
- Management is implementing the cost containment measures that were introduced by National Treasury.
- The Municipality is in a process of replacing the credit water meters with smart meters which are versatile in that they are capable of being restricted; in particular, for households and business or used as credit water meters for government institutions. This approach will enhance revenue management strategy which is in place by improving debt collection and reduce the huge debt book.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

### 44. Prior-year adjustments

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

#### Statement of financial position

2017

	Note	As previously reported	Correction of error	Reclassification	Restated
<b>Current assets</b>					
Interest	6	34 395 926	(2 324 590)	(32 071 336)	-
Water	6	89 537 584	(3 539 195)	21 120 176	107 118 565
Sewerage	6	41 061 522	-	10 951 160	52 012 682
Vat	5	18 101 816	(766 995)	-	17 334 821
<b>Non Current assets</b>					
Computer equipment	8	-	253 520	1 202 921	1 456 441
IT equipment	8	278 699	-	(278 699)	-
Computer software-Intangible	8	1 348 836	269 051	874	1 618 761
Furniture and Office equipment	8	-	768 091	1 761 259	2 529 350
Furniture and fixtures	8	1 409 252	-	(1 409 252)	-
Motor Vehicles	8	3 720 552	-	(3 720 552)	-
Transport assets	8	-	164 718	3 720 552	3 885 270
Infrastructure: Information and Communication	8	-	12 224	856 444	868 668
Infrastructure: Water	8	1 733 353 731	(16 089 788)	-	1 717 263 943
Leased Assets	8	17 520 493	819 855	-	18 340 348
Machinery and Equipment	8	-	108 018	602 038	710 056
Other assets	8	2 192 188	-	(2 192 188)	-
Plant and machinery	8	543 397	-	(543 397)	-
<b>Current Liabilities</b>					
Accounts payable	13	(78 419 777)	(1 817 604)	-	(80 237 381)
Trade Payables from non Exchange		(235)	235	-	-
Unspent conditional grants and receipts	15	(61 417 333)	4 221 529	-	(57 195 804)
<b>Accumalated Surplus</b>					
Accumalated Surplus		(1 666 926 703)	17 920 931	-	(1 649 005 772)
		<b>136 699 948</b>	<b>-</b>	<b>-</b>	<b>136 699 948</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

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

#### Statement of financial performance

2017

	Note	As previously reported	Correction of error	Reclassification	Restated
<b>Revenue</b>					
Interest on outstanding debtors		(16 394 536)	4 045 526	12 349 010	-
Interest Received- Investments		(5 281 409)	-	5 281 409	-
Service Charges	17	(39 650 969)	3 539 195	(1 055 804)	(37 167 578)
Other Income	18	(2 170 438)	(154 000)	2 324 438	-
Operational revenue		-	-	(1 268 633)	(1 268 633)
Interest Income	19	-	-	(17 630 419)	(17 630 419)
Government Grants and Subsidies	20	(564 167 893)	(4 221 754)	-	(568 389 647)
<b>Expenditure</b>					
Community participation		3 103 300	-	(3 103 300)	-
Contracted services	23	55 509 637	-	56 896 437	112 406 074
Employee related costs	26	143 703 053	-	8 563 391	152 266 444
Finance costs		4 319 968	-	(4 319 968)	-
Interest Expense	28	-	-	4 320 107	4 320 107
Depreciation	25	49 960 763	8 918 975	-	58 879 738
General expenditure		77 197 891	(1 593 381)	(75 604 510)	-
Operational Costs	31	-	-	49 761 234	49 761 234
Bulk purchases	22	8 334 938	4 247 115	-	12 582 053
Transfer and Subsidies		-	-	654 795	654 795
Operating grant expenditure		35 126 058	-	(35 126 058)	-
Repairs and Maintenance		25 685 545	(1 059 345)	(24 626 200)	-
Inventory Consumed	29	-	-	22 475 025	22 475 025
Operating lease		-	-	109 046	109 046
Surplus for the year		180 924 074	(13 722 331)	-	167 201 743
		<b>(43 800 018)</b>	-	-	<b>(43 800 018)</b>

#### Cash flow statement

2017

	Note	As previously reported	Correction of error	Restated
<b>Cash flow from operating activities</b>				
Sale of goods and services		21 729 534	(3 409 861)	18 319 673
Grants		627 467 411	(17 333 332)	610 134 079
Other receipts		1 703 256	(1 703 256)	-
Employee costs		(139 233 353)	(15 957 082)	(155 190 435)
Suppliers		(307 026 975)	38 403 944	(268 623 031)
Finance costs		(4 319 968)	(139)	(4 320 107)
		<b>200 319 905</b>	<b>274</b>	<b>200 320 179</b>

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

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

#### Errors

The following prior period errors adjustments occurred:

#### Interest Income and receivables from exchange transactions

During the 2015/16 financial year, interest was charged at an incorrect rate of 9.25% instead of 11.25%, a similar error occurred in the 2016/17 financial when interest was charged at the rate of 15.25% instead of 11.5%. This error resulted in the understatement of interest on outstanding debtors in 2015/16 by R1 720 936.10 and overstatement in 2016/17 financial year by R4 045 526.27. The adjustment of the interest rate in the two financial years has a net effect of reducing consumer debtors by an amount of R2 324 590.

#### Service charges and receivables from exchange transactions

In the previous financial year the municipality charged consumers in the Bhongweni area using a flat rate instead of actual consumption. The revenue raised in the previous years based on a flat rate was reversed and a consumption of 10kl per household was estimated during the current financial year resulting in a decrease of service charges by R353 9195 and a corresponding decrease in consumer debtors.

#### Property plant and equipment

During the current financial year, infrastructure projects amounting to the value of R467 686 547,90 completed in the previous financial years were capitalised and transferred from work in progress to property plant and equipment. Depreciation on these projects was calculated from the day the asset was available for use resulting in an increase in depreciation expense in the 2016/17 financial year of R9 169 357,34 and R10 324 553,64 in the financial years before 2016/17.

The municipality engaged in the exercise of physical verification and conditional assessment of movable assets. The exercise resulted in the identification of assets still in use but fully depreciated. The useful life of these assets was reassessed which resulted in the accumulated depreciation adjustment of respective categories of assets as follows; Infrastructure assets R3 105 847, Leases R819 855, Machinery and Equipment R108 018, Infrastructure (ICT) R12 224, Furniture and office equipment - R768 091, Computer equipment R253 520, Transport assets R164 718 and Intangible assets R269 050.

Ebovini project with a negative work in progress balance of R144 284,71 was written off during the data cleansing exercise before migration to MSCOA

During the physical verification of infrastructure projects it was discovered that one control panel to the value of R150 000 and springs amounting R4 000 were not accounted for in the general ledger but appeared in the fixed asset register. Expenditure for these assets could not be traced to the general ledger or bank statement but the assets were physically verified. This results in the increase in other income and infrastructure assets.

# Harry Gwala District Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2018

## Notes to the Consolidated Annual Financial Statements

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

#### Payables from exchange transactions, expenditure and Vat receivable

Afrivent lease payments for four months from March 2017 to June 2017 to the amount of R1 816 454,60 were incorrectly accounted for as motor vehicle expenses during the 2016/17 financial year. This resulted in the overstatement of general expenditure, VAT receivable and payable from exchange transactions by R1 593 381, R223 073,37 and R1 816 454,60 respectively.

During the reconciliation of Umgeni statement of account to the general ledger, it was discovered that certain invoices were not accounted for in the prior years. This resulted in the understatement of bulk purchases, VAT receivable and trade and other payables from exchange by R4 247 115, R594 596,08 and R4 841 710,96 respectively

During the 2016/17 financial year Shukuma Enterprice CC invoice number HGDM529-008 for the maintenance of Kokstad schemes to the value of R1 059 345 was duplicated in the general ledger. This resulted in the overstatement of repairs and maintenance, VAT receivable and payable from exchange transactions by R1 059 345, R148 308 30 and R1 207 653,30 respectively

Input VAT claims of R990 209 were declined by SARS between 2012 and 2015 for the Harry Gwala Development Agency. The adjustment for the denied claims were adjusted during the 2017/18 financial year.

#### Unspent conditional grants

During the current financial year the municipality engaged the Department of Corporate Governance, Traditional Affairs (CoGTA) and Development Bank of South Africa regarding the issue of long outstanding unspent conditional grants without movements in more than three financial years. An agreement was reached to recognise revenue on the following grants as they were fully spent per CoGTA records: Accredited Councillors Training R62 803, Massification R36 307, Development Bank of South Africa R406 480 and Development Planning Shared Services Grant R3 715 939,35.

#### Reclassifications

The purpose of these reclassifications was to align the comparative figures to the current year which is in compliance with the mSCOA Regulations.