



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

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

GENERAL INFORMATION

MEMBERS OF THE COUNCIL

M Ndobe	Mayor
NH Duma	Deputy Mayor
TN Jojozi	Speaker
BP Nzimande	Member of the Executive Committee
N Mavuka	Member of the Executive Committee
LG Seja	Member of the Executive Committee
WB Dlamini	Member
SS Mavuma	Member
NW Dladla	Member
TG Soni	Member
V Xotongo	Member
BL Marnce	Member
B Caluza	Member
TC Dlamini	Member
ZC Khumalo	Member
S Nkala	Member
S Magaqa	Member
SN Madziba	Member
BZ Magaqa	Member
SV Zulu	Member
P Shange	Member
VW Zaza	Member
ZR Tshazi	Member
BC Mncwabe	Member
SJ Phakathi	Member

MUNICIPAL MANAGER

Mrs AN Dlamini

AUDITORS

Auditor-General South Africa
Chartered Accountants (S.A.)

BANKERS

First National Bank

PHYSICAL ADDRESS

40 Main Street
Ixopo
3276

POSTAL ADDRESS

Private Bag X501
Ixopo
3276

TELEPHONE NUMBER

039 - 834 8700

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

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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

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APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out in pages 4 to 63 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 34 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.

Mrs AN Dlamini
Municipal Manager

31 August 2018

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	170 584	179 844
Receivables from non-exchange transactions	4	5 776 600	4 610 451
VAT receivable	5	39 146 513	17 289 115
Trade and other receivables from exchange transactions	6	21 971 476	22 778 838
Cash and cash equivalents	7	96 962 031	24 272 551
		164 027 204	69 130 799
Non-Current Assets			
Property, plant and equipment	8	1 942 228 275	1 788 856 638
Intangible assets	9	1 347 031	1 618 761
Investment in entity	10	100	100
		1 943 575 406	1 790 475 499
Total Assets		2 107 602 610	1 859 606 298
Liabilities			
Current Liabilities			
Borrowings	11	6 159 439	5 792 884
Finance lease obligation	12	4 884 263	6 059 905
Payables from exchange transactions	13	168 824 189	135 246 820
Consumer deposits	14	1 605 611	1 441 387
Unspent conditional grants and receipts	15	61 985 601	49 300 396
Provisions	16	732 466	567 617
		244 191 569	198 409 009
Non-Current Liabilities			
Borrowings	11	8 656 680	12 353 357
Finance lease obligation	12	8 099 954	13 853 986
Provisions	16	22 216 863	20 947 488
		38 973 497	47 154 831
Total Liabilities		283 165 066	245 563 840
Net Assets		1 824 437 544	1 614 042 458
Accumulated surplus		1 824 437 544	1 614 042 458

* See Note 44

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	53 962 321	37 167 578
Operational revenue	18	710 231	1 228 230
Interest Income	19	20 331 866	17 630 419
Total revenue from exchange transactions		75 004 418	56 026 227
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	20	636 404 392	568 384 519
Total revenue	21	711 408 810	624 410 746
Expenditure			
Bulk purchases	22	14 434 430	12 582 053
Contracted services	23	151 199 632	112 202 968
Contribution to bad debt provision	24	24 717 388	34 877 132
Depreciation and amortisation	25	64 437 705	57 398 159
Employee related costs	26	150 226 814	144 809 130
Interest Expense	27	4 496 798	4 312 810
Operational Costs	28	47 025 829	44 522 397
Transfers and subsidies	29	11 707 789	17 988 128
Remuneration of councillors	30	5 963 561	5 451 994
Impairment loss/ Reversal of impairments	31	2 445 022	3 876 195
Inventory Consumed	32	23 948 500	22 475 025
Total expenditure		500 603 468	460 495 991
Operating surplus		210 805 342	163 914 755
Loss on disposal of assets and liabilities	33	(410 258)	(40 983)
Surplus for the year		210 395 084	163 873 772

* See Note 44

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand	Accumulate d surplus	Total net assets
Opening balance as previously reported	1 453 377 088	1 453 377 088
Adjustments		
Prior year adjustments	(3 208 402)	(3 208 402)
Balance at 01 July 2016 as restated*	1 450 168 686	1 450 168 686
Changes in net assets		
Surplus for the year	163 873 772	163 873 772
Total changes	163 873 772	163 873 772
Opening balance as previously reported 1 July 2017	1 630 973 180	1 630 973 180
Adjustments		
Prior year adjustments	(16 930 720)	(16 930 720)
Balance at 01 July 2017 as restated*	1 614 042 460	1 614 042 460
Changes in net assets		
Surplus for the year	210 395 084	210 395 084
Total changes	210 395 084	210 395 084
Balance at 30 June 2018	1 824 437 544	1 824 437 544

* See Note 44

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		40 968 700	21 729 534
Grants		649 089 597	610 134 070
Interest income		8 968 803	5 281 409
		<u>699 027 100</u>	<u>637 145 013</u>
Payments			
Employee costs		(156 166 113)	(147 872 674)
Suppliers		(235 022 024)	(284 775 831)
Interest Expense		(4 496 798)	(4 312 810)
		<u>(395 684 935)</u>	<u>(436 961 315)</u>
Net cash flows from operating activities	34	<u>303 342 165</u>	<u>200 183 698</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(220 392 889)	(178 540 766)
Proceeds on disposal of property plant and equipment		-	2 031 750
Net cash flows from investing activities		<u>(220 392 889)</u>	<u>(176 509 016)</u>
Cash flows from financing activities			
Repayment of borrowings	11	(3 330 122)	(2 999 912)
Repayment of financial liabilities	12	(6 929 674)	(2 221 195)
Net cash flows from financing activities		<u>(10 259 796)</u>	<u>(5 221 107)</u>
Net increase/(decrease) in cash and cash equivalents		72 689 480	18 453 575
Cash and cash equivalents at the beginning of the year		24 272 551	5 818 976
Cash and cash equivalents at the end of the year	7	<u>96 962 031</u>	<u>24 272 551</u>

* See Note 44

Harry Gwala District Municipality

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APPROPRIATION STATEMENT

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2018											
Financial Performance											
Service charges	55 390 300	12 003 800	67 394 100	-		67 394 100	53 962 321		(13 431 779)	80 %	97 %
Interest, dividend and rent on land	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 %
Total revenue (excluding capital transfers and contributions)	376 588 301	63 966 644	440 554 945	-		440 554 945	447 495 945		6 941 000	102 %	119 %
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)	(406 481)	104 %	50 %
Other expenditure	(112 551 348)	(50 298 986)	(162 850 334)	-	-	(162 850 334)	(70 974 329)	-	91 876 005	44 %	63 %
Total expenditure	(387 007 531)	(68 559 694)	(455 567 225)	-	-	(455 567 225)	(500 603 468)	(148 460 509)	(45 036 243)	110 %	129 %
Surplus/(Deficit)	(10 419 230)	(4 593 050)	(15 012 280)	-		(15 012 280)	(53 107 523)		(38 095 243)	354 %	510 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand

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

Harry Gwala District Municipality

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
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 %
Net increase/(decrease) in cash and cash equivalents	2 890 204	(20 479 226)	(17 589 022)	-		(17 589 022)	72 689 480		90 278 502	(413)%	2 515 %
Cash and cash equivalents at the beginning of the year	24 272 551	-	24 272 551	-		24 272 551	24 272 551		-	100 %	100 %
Cash and cash equivalents at year end	27 162 755	(20 479 226)	6 683 529	-		6 683 529	96 962 031		(90 278 502)	1 451 %	357 %

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

Figures in Rand

Reported unauthorise d expenditur e	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
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VARIANCE EXPLANATIONS

1. Service charges - Decreased due to the municipality engaging in the process of capturing actual meter readings and adjusting consumer accounts..
2. Interest investment - Higher interest earned on positive bank balances.
3. Other revenue - Actual performance less due higher due to lower projected debtors book
4. Government grants and subsidies - Variance within limits.
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 - Additional assets brought in from Wip.
8. Finance costs - Excess due to interest on Sars statements.
9. Material and bulk purchases - Lower than projected bulk water consumption due to drought.
10. Transfers and grants - Budget less to actual.
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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

1.1 PRESENTATION CURRENCY

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

1.2 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Errors are corrected retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

1.3 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS

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

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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.3 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

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 assets, 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

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

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 municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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:

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

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

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	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

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

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

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

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

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

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

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

The municipality 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 municipality or from other rights and obligations.

An intangible asset is recognised when:

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

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

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

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

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ACCOUNTING POLICIES

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.

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

Harry Gwala District Municipality

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ACCOUNTING POLICIES

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.

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.

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..

Classification

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

Class	Category
Short-term Investment Deposits	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
Investments in Fixed Deposits	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:

Class	Category
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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS (continued)

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.

Subsequent measurement of financial assets and financial liabilities

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.

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 nonrecoverability.

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.

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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

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.

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.

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 on the remaining balance of the liability.

Operating leases - lessee

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

1.9 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.

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

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

1.10 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:

Harry Gwala District Municipality

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ACCOUNTING POLICIES

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS (continued)

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

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

1.11 SHARE CAPITAL / CONTRIBUTED CAPITAL

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

1.12 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.12 EMPLOYEE BENEFITS (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Provisions are recognised when:

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

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

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

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

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.13 PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES (continued)

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in notes to the financial statements.

1.14 COMMITMENTS

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

Disclosures are required in respect of unrecognised contractual commitments.

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-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

Harry Gwala District Municipality

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ACCOUNTING POLICIES

1.15 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.

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:

Finance Income

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

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straightline basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.16 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.

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.

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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.16 REVENUE FROM NON-EXCHANGE TRANSACTIONS (continued)

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 municipality,
- 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.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- 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.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 INVESTMENT INCOME

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

1.18 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.

1.19 COMPARATIVE INFORMATION

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.20 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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.21 FRUITLESS AND WASTEFUL EXPENDITURE

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

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

1.22 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.

1.23 RELATED PARTIES

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

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

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

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

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

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

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

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

Where the municipality is exempt from the disclosures in accordance with the above, the municipality 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 annual financial statements.

1.24 EVENTS AFTER REPORTING DATE

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

ACCOUNTING POLICIES

1.24 EVENTS AFTER REPORTING DATE (continued)

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

1.25 GOVERNMENT GRANTS AND RECEIPTS

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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2. NEW STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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

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

IGRAP 19: Liabilities to Pay Levies

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

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

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

Consensus reached in this interpretation:

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

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

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. NEW STANDARDS AND INTERPRETATIONS (continued)

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

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

GRAP 16 (as amended 2016): Investment Property

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

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

3. INVENTORIES

Raw materials, components	179 843	191 663
Water reduction	(9 259)	(11 819)
	170 584	179 844

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Unauthorised expenditure	5 979	5 979
Debtor-Kokstad deposits	105 753	105 753
Other debtors	2 945 780	1 779 631
Cyclone construction - Farmers market	2 000 000	2 000 000
SARS - debtors/salaries	181 259	181 259
ACB/debtors	424 247	424 247
Councillors laptops	94 045	94 045
Councillors bursary	19 537	19 537
	5 776 600	4 610 451

5. VAT RECEIVABLE

VAT Control	24 595 389	3 887 070
VAT reclaimable	31 804 063	29 644 755
VAT on consumer accruals	(17 252 939)	(16 242 710)
	39 146 513	17 289 115

VAT is payable on a receipt basis. Only once payment is received from debtors is VAT paid over to SARS.

Harry Gwala District Municipality

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Figures in Rand	2018	2017
6. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Gross balances		
Rates	-	2 862
Sewerage	56 209 420	52 012 682
Value added taxation	12 102 076	18 249 386
Water	113 340 109	107 118 565
Debtors direct deposits	(10 257)	(55 520)
	181 641 348	177 327 975
Less: Allowance for impairment		
Rates	-	(2 862)
Sewerage	(50 975 973)	(48 083 873)
Value added taxation	(10 349 182)	(15 300 426)
Water	(98 344 717)	(91 161 976)
	(159 669 872)	(154 549 137)
Net balance		
Sewerage	5 233 447	3 928 809
Value added taxation	1 752 894	2 948 960
Water	14 995 392	15 956 589
Debtors direct deposits	(10 257)	(55 520)
	21 971 476	22 778 838
Rates		
> 365 days	-	2 862
Water and Sewerage		
Current (0 -30 days)	12 145 171	13 910 100
31 - 60 days	3 336 454	6 286 817
61 - 90 days	3 568 584	4 927 220
>91 days	162 591 139	152 203 838
	181 641 348	177 327 975
Reconciliation of allowance for impairment		
Balance at beginning of the year	(154 549 136)	(119 940 084)
Contributions to allowance	(24 717 388)	(34 877 133)
Debt impairment written off against allowance	19 596 652	268 080
	(159 669 872)	(154 549 137)

The debtors direct deposits is an amount of debtors received via the bank account at year end but not yet captured to reduce the the respective individual debtors balance.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	10 557	300
Bank balances	2 822 218	1 597 841
Short-term deposits	94 129 256	22 674 410
	96 962 031	24 272 551

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

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Figures in Rand				2018			2017
7. CASH AND CASH EQUIVALENTS (continued)							
Cash and cash equivalents pledged as collateral							
Total financial assets pledged as collateral for Eskom				200 000			200 000
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	
Total	<u>96 925 650</u>	<u>24 272 252</u>	<u>5 818 675</u>	<u>96 954 368</u>	<u>24 272 252</u>	<u>5 818 675</u>	

Harry Gwala District Municipality

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Figures in Rand	2018			2017		
8. PROPERTY, PLANT AND EQUIPMENT						
	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	31 372 420	(8 403 673)	22 968 747	31 372 420	(7 449 927)	23 922 493
Community Assets	5 188 302	(1 870 323)	3 317 979	5 188 302	(1 626 865)	3 561 437
Computer Equipment	2 995 116	(1 631 213)	1 363 903	3 397 838	(2 220 203)	1 177 635
Land	17 080 597	-	17 080 597	17 080 597	-	17 080 597
Furniture and Office Equipment	5 149 255	(3 745 552)	1 403 703	6 030 942	(3 920 997)	2 109 945
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
Leased Assets	20 006 136	(9 579 739)	10 426 397	27 191 897	(8 851 549)	18 340 348
Machinery and Equipment	2 099 060	(1 754 555)	344 505	2 907 848	(2 261 545)	646 303
Transport Assets	8 637 205	(5 822 759)	2 814 446	8 787 204	(4 901 935)	3 885 269
Total	2 413 293 562	(471 065 287)	1 942 228 275	2 194 038 548	(405 181 910)	1 788 856 638

Harry Gwala District Municipality

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8. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 30 June 2018

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	23 922 493	-	-	-	(953 746)	-	22 968 747
Community Assets	3 561 438	-	-	-	(243 459)	-	3 317 979
Computer Equipment	1 177 635	724 545	(62 039)	-	(476 221)	-	1 363 903
Land	17 080 597	-	-	-	-	-	17 080 597
Furniture and Office Equipment	2 109 945	-	(74 056)	-	(632 186)	-	1 403 703
Infrastructure: Water Reticulation	1 717 263 943	219 668 344	-	-	(52 423 475)	(2 445 022)	1 882 063 790
Infrastructure: Information and Communication	868 668	-	(152 722)	-	(271 738)	-	444 208
Leased - Assets	18 340 348	-	(49 718)	136 270	(8 000 503)	-	10 426 397
Machinery and Equipment	646 303	-	(70 649)	-	(231 149)	-	344 505
Transport Assets	3 885 269	-	-	-	(1 070 823)	-	2 814 446
	1 788 856 639	220 392 889	(409 184)	136 270	(64 303 300)	(2 445 022)	1 942 228 275

Harry Gwala District Municipality

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8. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 30 June 2017

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	24 672 531	202 583	-	-	(952 621)	-	23 922 493
Community Assets	3 686 178	-	-	-	(124 741)	-	3 561 437
Computer Equipment	1 064 649	450 690	(33 545)	-	(304 159)	-	1 177 635
Land	17 080 597	-	-	-	-	-	17 080 597
Furniture and Office Equipment	2 422 734	378 766	(49 277)	-	(642 278)	-	2 109 945
Infrastructure: Water Reticulation	1 603 276 821	177 303 853	(712 975)	-	(58 727 561)	(3 876 195)	1 717 263 943
Infrastructure: Information and Communication	916 509	204 865	(16 454)	-	(236 252)	-	868 668
Lease Assets	7 459 658	16 642 264	(619 023)	(136 270)	(5 006 281)	-	18 340 348
Machinery and Equipment	855 780	-	(2 273)	-	(207 204)	-	646 303
Transport Assets	5 913 037	-	(638 913)	-	(1 388 855)	-	3 885 269
	1 667 348 494	195 183 021	(2 072 460)	(136 270)	(67 589 952)	(3 876 195)	1 788 856 638

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. PROPERTY, PLANT AND EQUIPMENT (continued)		
8.2 Work In progress Without Movement		
The following projects did not have movements in the current year		
Emacabazini	283 845	-
Horseshoe San - New Massification	13 699 057	-
Umzimkhulu Sewer Emergency Intervention	1 101 548	-
	-	-
The projects did not have movements as a result of catastrophic destruction of infrastructure under construction by criminals vandalism, theft		
	-	-
Ebovini / Emazabekweni Comm Water Supply	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	-
	-	-
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	-
Umzimkhulu Sewer Emergency Intervention	1 318 735	-
Underberg Bulk Water	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.		
	-	-
Paninkukhu Water	27 692 139	-
Ngwagwane Water Supply - WSIG	1 559 456	-
Chancele Water Supply- WSIG	995 198	-
Ngunjini - WSIG	532 390	-
Gaybrook	1 373 681	-
Esdadeni water supply	1 081 868	-
Nokweja Mashumi	4 185 733	-
	-	-
The previous contractors absconded the works. Decisions where taken to complete projects		
	-	-
Moyeni / Teekloof	4 546 974	-
Makhoba Housing Project	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		
	-	-
8.3 Other information		
Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance		
Contracted Services	2 887 544	18 680 118
Materials consumed	7 923 726	6 879 650
	10 811 270	25 559 768

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. PROPERTY, PLANT AND EQUIPMENT (continued)		
8.4 Reconciliation of Work-in-Progress		
Included within Infrastructure		
Opening balance	356 710 765	534 325 566
Additions/capital expenditure	219 668 344	177 303 862
Transferred to completed items current year	(167 751 002)	(354 918 663)
	408 628 107	356 710 765

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. The amount of R242 986 143,43 relates to 2017 financial statements and R224 700 404,47 relates to prior to 2016 financial statements

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

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

Reconciliation of intangible assets - 30 June 2018

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

Reconciliation of intangible assets - 30 June 2017

	Opening balance	Transfers	Amortisation	Total
Computer software	888 336	921 054	(190 629)	1 618 761

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
10. INVESTMENT IN ENTITY		
Investment in entity	100	100
Non-current assets		
Investment in entity	100	100
11. BORROWINGS		
ABSA The loan bears a nominal fixed interest rate of 11.59 % compounded bi-annually The loan is redeemable in twenty equal installments bi-annually in arrears on 30 June and 31 December each year until 31 June 2021 .	14 816 119	18 146 241
Non-current liabilities		
At amortised cost	8 656 680	12 353 357
Current liabilities		
At amortised cost	6 159 439	5 792 884
12. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
- within one year	6 929 465	9 973 545
- in second to fifth year inclusive	9 212 678	16 142 143
Present value of minimum lease payments	16 142 143	26 115 688
Present value of minimum lease payments due		
- within one year	4 884 263	6 059 905
- in second to fifth year inclusive	8 099 954	13 853 986
	12 984 217	19 913 891
Non-current portion	8 099 954	13 853 986
Current portion	4 884 263	6 059 905
	12 984 217	19 913 891

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.

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
13. PAYABLES FROM EXCHANGE TRANSACTIONS		
Accounts payable	109 401 911	79 497 691
Provision for leave pay	9 573 961	10 983 923
Retention	38 315 757	36 614 603
Debtors with credit balance	4 926 252	4 441 657
Other creditors	1 178 900	241 160
Salary Integration	5 427 408	3 467 786
	168 824 189	135 246 820

The fair value of trade and other payables approximates their carrying amounts.

Debtors with credit amounts are accounts receivables who have overpaid their amounts and have have been reclassified to creditors.

14. CONSUMER DEPOSITS

Water	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

Development Planning Shared Services Grant	1 164 043	1 164 043
District Growth Summit COGTA	-	31 301
Energy Efficiency Demand Management Grant	-	4 809 200
Gijima Grant	235 810	235 810
Government Experts Grant	445 014	445 014
Municipal Infrastructure Grant	10 706 584	-
Municipal Water Infrastructure Grant	49 012 312	15 261 555
Public Transport Grant	66 587	66 587
Regional Bulk Infrastructure Grant	10 375	26 942 062
Rural Transportation Service Infrastructure Grant	4 351	4 299
Signage Grant - COGTA	98 112	98 112
Sihleza Maize Production Project (COGTA)	242 413	242 413
	61 985 601	49 300 396

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
16. PROVISIONS		
Non-current liabilities	22 216 863	20 947 488
Current liabilities	732 466	567 617
	22 949 329	21 515 105

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

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Notes to the Annual Financial Statements

Figures in Rand	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	17 727 982	16 962 820
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	814 455	836 421

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

Harry Gwala District Municipality

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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	Continuation	Total	% change
Central Assumptions	-	17,278	0,450	17,728	- %
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.

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 %

Harry Gwala District Municipality

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16. PROVISIONS (continued)

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 its employees. 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	5 221 343	4 552 281

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

Current service cost	504 919	539 556
Interest cost	363 373	350 987
Actuarial losses	319 094	(150 044)
Total Post-retirement Benefit included in Employee Related cost	1 187 386	740 499

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;

Harry Gwala District Municipality

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16. PROVISIONS (continued)

(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

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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 %

17. SERVICE CHARGES

Sale of water	38 411 217	27 668 670
Sewerage and sanitation charges	15 551 104	9 498 908
	53 962 321	37 167 578

18. OPERATIONAL REVENUE

Clearance certificate	2 494	1 829
Management Fees	22 293	-
Insurance refunds	109 794	326 454
Salary deductions	-	364 498
Sundry Income	-	154 149
Tender documents	575 650	381 300
	710 231	1 228 230

Harry Gwala District Municipality

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19. INTEREST INCOME		
Interest revenue		
Interest on Outstanding debtors	11 363 063	12 349 010
Interest Received- Investments	8 968 803	5 281 409
	20 331 866	17 630 419
20. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Equitable Share	285 028 617	260 069 000
Expanded Public Works Programme	1 718 000	3 364 000
District Growth Summit COGTA	331 301	-
Accredited Councillors Training	-	62 803
Municipal Systems Improvement Grant	-	10 269
Financial Management Grant	1 250 000	1 252 365
Local Govt. Sector Education Training Authority	230 587	343 177
Municipal Infrastructure Grant Operating expenditure	68 902 874	12 911 693
Development Bank of South Africa	-	406 480
Development Planning Shared Services	-	3 715 939
Rural Transportation Service Infrastructure Grant	2 220 948	2 090 701
Neighbourhood development grant	-	235
Massification-Cogta	-	36 307
Energy Efficiency Demand Management Grant	12 809 200	4 051 860
Drought Relief	-	974 080
Municipal Water Infrastructure Grant	-	11 412 517
	372 491 527	300 701 426
Capital grants		
Regional Bulk Infrastructure Grant	89 989 626	21 057 938
Municipal Infrastructure Grant	124 935 542	178 155 307
Municipal Water Infrastructure Grant	48 987 697	59 443 928
Drought Relief	-	9 025 920
	263 912 865	267 683 093
	636 404 392	568 384 519
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
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
Conditions met - transferred to revenue	(193 838 416)	(191 067 000)
	10 706 584	-
Conditions still to be met - remain liabilities (see note 15).		

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
20. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Drought Relief Grant		
Current-year receipts	-	10 000 000
Conditions met - transferred to revenue	-	(10 000 000)
	-	-
Municipal Systems Improvement Grant		
Conditions met - transferred to revenue	-	(10 269)
Conditions met - transferred to revenue	-	10 269
	-	-
Public Transport Grant		
Balance unspent at beginning of year	66 587	66 587
Conditions still to be met - remain liabilities (see note 15).		
Financial Management Grant		
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 252 365)
Adjustment	-	2 365
	-	-
Municipal Water Infrastructure Grant - DWA		
Balance unspent at beginning of year	15 261 555	-
Current-year receipts	98 000 000	86 118 000
Conditions met - transferred to revenue	(48 987 688)	(70 856 445)
Unapproved roll over	(15 261 555)	-
	49 012 312	15 261 555
Accredited Councillors Training		
Balance unspent at beginning of year	-	62 803
Conditions met - transferred to revenue	-	(62 803)
	-	-
Rural Transport Service & Infrastructure Grant		
Balance unspent at beginning of year	4 299	-
Current-year receipts	2 221 000	2 095 000
Conditions met - transferred to revenue	(2 220 948)	(2 090 701)
	4 351	4 299
Conditions still to be met - remain liabilities (see note 15).		

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Figures in Rand	2018	2017
20. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Development Planning Shared Services		
Balance unspent at beginning of year	1 164 043	4 879 982
Conditions met - transferred to revenue	-	(3 715 939)
	1 164 043	1 164 043
Conditions still to be met - remain liabilities (see note 15).		
Local Government Sector Education Training Authority		
Balance unspent at beginning of year	-	172 099
Current-year receipts	230 587	171 078
Conditions met - transferred to revenue	(230 587)	(343 177)
	-	-
Regional Bulk Infrastructure Grant		
Balance unspent at beginning of year	26 942 062	-
Current-year receipts	90 000 000	48 000 000
Conditions met - transferred to revenue	(89 989 625)	(21 057 938)
Unapproved roll over	(26 942 062)	-
	10 375	26 942 062
SIHLEZA Maize Production Project - COGTA		
Balance unspent at beginning of year	242 413	242 413
Conditions still to be met - remain liabilities (see note 15).		
Expanded Public Works Programme		
Current-year receipts	1 718 000	3 364 000
Conditions met - transferred to revenue	(1 718 000)	(3 364 000)
	-	-
Signage Grant - COGTA		
Balance unspent at beginning of year	98 112	98 112
Conditions still to be met - remain liabilities (see note 15).		
Government Experts		
Balance unspent at beginning of year	445 014	445 014
Conditions still to be met - remain liabilities (see note 15).		
Gijima Grant		
Balance unspent at beginning of year	235 810	235 810
Conditions still to be met - remain liabilities (see note 15).		

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
20. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
Massification - COGTA		
Balance unspent at beginning of year	-	36 307
Conditions met - transferred to revenue	-	(36 307)
	-	-
Energy Efficiency Demand Side Management Grant		
Balance unspent at beginning of year	4 809 200	-
Current-year receipts	8 000 000	8 000 000
Conditions met - transferred to revenue	(12 809 200)	(4 051 860)
Adjustment	-	861 060
	-	4 809 200
District Growth Summit - COGTA		
Balance unspent at beginning of year	31 301	31 301
Current-year receipts	300 000	-
Conditions met - transferred to revenue	(331 301)	-
	-	31 301
Conditions still to be met - remain liabilities (see note 15).		
21. REVENUE		
Service charges	53 962 321	37 167 578
Operational revenue	710 231	1 228 230
Interest, dividend and rent on land	20 331 866	17 630 419
Government grants & subsidies	636 404 392	568 384 519
	711 408 810	624 410 746
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	53 962 321	37 167 578
Operational revenue	710 231	1 228 230
Interest, dividend and rent on land	20 331 866	17 630 419
	75 004 418	56 026 227
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	636 404 392	568 384 519
22. BULK PURCHASES		
Water	14 434 430	12 582 053

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
23. CONTRACTED SERVICES		
Consultants and Professional Services		
Business and Advisory	3 026 657	4 440 903
Legal Costs	10 514 601	1 202 506
Contractors		
Audio- Visual Services	87 195	116 349
Bore Waterhole Drilling	-	854 456
Catering Services	94 243	734 793
Electrical	6 988 268	7 772 860
Employee Wellness	282 004	626 338
Event Promoters	1 298 494	877 193
First Aid	-	142 244
Gardening Services	25 000	117 400
Maintenance of Buildings and Facilities	1 727 033	1 256 181
Maintenance of Unspecified Assets	2 706 014	16 364 594
Rural roads site supervision and consulting	1 947 762	2 185 558
Sewerage Services	55 992 584	27 533 334
Stage and Sound Crew	95 010	373 173
Outsourced Services		
Administrative and Support Staff	16 846 007	3 844 144
Business and Advisory	14 608 661	8 788 288
Burial Services	2 000	-
Catering Services	3 744 450	2 814 002
Clearing and Grass Cutting Services	-	49 350
Hygiene Services	87 825	350 578
Meter Management	5 408 519	355 200
Security Services	24 111 678	16 566 781
Water Takers	1 605 627	14 836 743
	151 199 632	112 202 968
24. CONTRIBUTION TO BAD DEBT PROVISION		
Contributions to provision	24 717 388	34 877 132
25. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	64 303 320	57 207 530
Intangible assets	270 655	190 629
	64 573 975	57 398 159

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. EMPLOYEE RELATED COSTS		
Basic	95 887 992	93 876 372
Health care retirement benefit	765 162	789 969
Housing benefits and allowances	782 647	1 361 020
Leave pay provision charge	1 531 556	1 899 681
Long-service awards	1 184 492	187 530
Overtime payments	17 029 206	15 055 738
Social contribution - SALGBC	31 566	31 205
Social contributions - medical aid	7 559 284	5 909 959
Social contributions - pension fund	9 993 163	10 810 820
Travel, motor car, accommodation, subsistence and other allowances	14 860 622	14 272 370
UIF	601 124	614 466
	150 226 814	144 809 130
Remuneration of Municipal Manager		
Annual Remuneration	981 704	961 598
Travel and other allowances	282 099	402 296
Cellphone Allowances.	17 694	17 694
Contributions to UIF	1 785	1 785
Contributions -Medical Aid	46 339	43 417
Contributions- SALGBC	97	90
Skills	12 932	13 718
	1 342 650	1 440 598
Remuneration of Chief Financial Officer		
Annual Remuneration	860 660	882 350
Bonus	67 487	77 532
Travel and other allowances	242 106	327 420
Cellphone Allowances.	17 694	17 694
Contributions to UIF	1 785	1 785
Contributions -Medical Aid	36 969	34 556
Contributions- SALGBC	98	90
Skills	11 961	13 081
	1 238 760	1 354 508
Remuneration of Community Services Manager		
Annual Remuneration	710 341	754 011
Travel and other allowances	181 533	243 305
Cellphone Allowances.	17 404	16 536
Contributions to UIF	1 785	1 785
Contributions- SALGBC	97	61
Contributions- Skills	8 824	9 833
	919 984	1 025 531

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. EMPLOYEE RELATED COSTS (continued)		
Remuneration of Corporate Services Manager		
Annual Remuneration	722 768	839 334
Bonus	64 116	73 386
Travel and other allowances	226 166	271 077
Cellphone Allowances.	17 694	17 694
Contributions to UIF	1 785	1 785
Contributions- Medical Aid	22 206	32 432
Contributions- SALGBC	98	90
Contributions- Skills	10 294	11 977
	1 065 127	1 247 775
Remuneration of Water Services Manager		
Annual Remuneration	617 637	812 087
Travel and other allowances	150 667	419 098
Cellphone Allowances.	10 321	17 692
Contributions to UIF	1 041	1 785
Contributions- SALGBC	57	90
Contributions- Skills	7 584	11 965
	787 307	1 262 717
Remuneration of Engineering Manager - Infrastructure		
Annual Remuneration	1 266 849	1 024 449
Bonus	92 485	80 538
Travel and other allowances	164 209	127 200
Cellphone Allowances.	4 423	17 692
Contributions to UIF	1 785	1 785
Contributions- SALGBC	98	90
Contributions- Skills	15 000	12 244
	1 544 849	1 263 998
27. INTEREST EXPENSE		
External borrowings and Finance leases	4 496 798	4 312 810

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
28. OPERATIONAL COSTS		
Advertising	2 287 457	1 672 412
Bank Charges, Facility and Card Fees	176 960	123 407
Bursaries (Employees)	314 846	217 376
Cleaning Campaign	-	75 700
Communication	3 828 907	4 017 745
Entertainment	-	77 793
Eskom Internal consumption	10 790 221	10 145 887
External Audit Fees	2 605 814	2 254 853
External Computer Service	3 094 404	2 333 826
Financial assistance and school campaign	167 500	36 325
Hire Charges	3 877 702	575 046
Implementation of Bds and Gds	-	764 268
Insurance Underwriting	1 273 649	790 833
Motor Vehicle Licence and Registrations	207 227	186 146
National- Events-registration	35 150	-
Other expenses	-	2 330
Planned projects as per priority	-	1 189 095
Printing, Publications and Books	1 039 201	538 499
Professional Bodies, Membership and Subscription	66 908	31 239
Rental offices	1 313 986	1 343 147
Signage	99 667	181 310
Skills Development Fund Levy	1 266 350	1 195 814
Transport Provided as Part of Departmental Activities	758 334	357 745
Travel and Subsistence	908 187	7 290 998
Uniform and Protective Clothing	793 997	1 220 313
Vehicle Expenses	5 667 613	2 295 292
Water Use Licencing	-	469 796
Wet Fuel	6 451 749	5 135 202
	47 025 829	44 522 397
29. TRANSFERS AND SUBSIDIES		
Bursaries (Non-Employee)	402 670	354 850
Dundee July	-	74 510
Greenest Municipality Conduct	-	193 435
Harry Gwala Development Agency	8 000 000	17 333 333
National Youth Commission	15 642	-
South Africa Local Government Association (SALGA)	3 289 477	32 000
	11 707 789	17 988 128
30. REMUNERATION OF COUNCILLORS		
Salaries	4 322 108	4 243 615
Travelling allowance	895 609	769 903
Cellphone allowance	462 756	224 516
Meeting allowance	283 088	213 960
	5 963 561	5 451 994
31. IMPAIRMENT OF ASSETS		
Impairments		
Property, plant and equipment	2 445 022	3 876 195

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
32. INVENTORIES CONSUMABLES		
Inventory Consumed		
Consumables:Standard Rated	394 877	1 113 777
Consumables:Zero Rated	4 475 914	3 914 691
Materials & Supplies	19 077 709	17 446 557
	23 948 500	22 475 025
33. LOSS ON DISPOSAL OF ASSETS		
Loss on disposal	410 258	2 072 733
Proceeds on disposal of property plant and equipment	-	(2 031 750)
	410 258	40 983
34. CASH GENERATED FROM OPERATIONS		
Surplus	210 395 084	163 873 772
Adjustments for:		
Depreciation and amortisation	64 437 705	57 398 159
Loss on disposal of assets and liabilities	410 258	40 983
Impairment deficit	2 445 022	3 876 195
Debt impairment	24 717 388	34 877 132
Movements in provisions	1 434 224	977 499
Leave pay Provision	(1 409 962)	1 410 949
Other non cash item	-	(154 000)
Changes in working capital:		
Inventories	9 260	11 819
Receivables from exchange transactions	(23 910 026)	(30 715 838)
Other receivables from non-exchange transactions	(1 166 149)	(1 614 636)
Payables from exchange transactions	34 987 330	(72 858 275)
VAT	(21 857 398)	1 214 971
Trade and other payables from non-exchange transactions	-	(873 929)
Unspent conditional grants and receipts	12 685 205	42 623 488
Consumer deposits	164 224	95 409
	303 342 165	200 183 698
35. COMMITMENTS		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	425 085 356	194 685 663
Total capital commitments		
Already contracted for but not provided for	425 085 356	194 685 663

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
36. CONTINGENCIES		
Harry Gwala District Municipality had the following litigations and claims as at 30 June 2018.		
National Treasury jobs Fund Project	-	5 821 160
Bhungane Built Environment	3 103 364	2 750 000
Sifiso Gregory Mkize	21 295	-
Matatiele Local Municipality	2 941 249	2 941 249
Mdlebeni Trading (Pty) Ltd	1 604 000	1 400 000
Sektor Consulting and engineers	480 000	572 567
Unitrade 1047 CC T/A Isidingo Security Services.	26 000 000	-
Mahlaselondwe Trading	-	4 200 000
Mondli Lukhozi	-	30 000
Shemuntu Trading CC	-	47 850
	34 149 908	17 762 826

- 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

- 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 CC

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

- Sifiso Gregory Mkize

The claim 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.

- Shemuntu Trading CC

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

- 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.

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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36. CONTINGENCIES (continued)

- 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.

- Mondli Lukhozi

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

Harry Gwala District Municipality

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Figures in Rand	2018	2017
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37. RISK MANAGEMENT

Financial risk management

Liquidity risk

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

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

Interest rate risk

Call deposits	94 129 256	22 674 410
Bank balance and cash	2 822 218	1 597 841
ABSA loan	12 984 217	18 146 240
	<u>109 935 691</u>	<u>42 418 491</u>

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

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 counterparty.

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		
Cash and cash equivalents	96 962 031	24 272 251
Trade and other receivables	27 748 076	33 253 075
	<u>124 710 107</u>	<u>57 525 326</u>

38. UNAUTHORISED EXPENDITURE

Opening balance	316 916 181	266 147 013
Add current year expenditure	148 460 509	50 769 168
Approved by council	(51 569 648)	-
	<u>413 807 042</u>	<u>316 916 181</u>

39. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	3 448 469	514 239
Add current year expenditure	518 916	2 934 230
	<u>3 967 385</u>	<u>3 448 469</u>

40. IRREGULAR EXPENDITURE

Opening balance	344 021 428	242 268 907
Add: Irregular Expenditure - current year	116 023 404	101 752 521
	<u>460 044 832</u>	<u>344 021 428</u>

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
41. RELATED PARTIES		
Controlled entities		Refer to note 10
The Harry Gwala District Municipality controls the following reporting entity: Harry Gwala Development Agency: Harry Gwala District Municipality has 100% shareholding in Harry Gwala Development Agency. Harry Gwala Development Agency is a registered (PTY) Ltd company in terms of the Company Act 71 of 2008.		
Related party transactions		
During the financial year Harry Gwala District Municipality transferred R8 000 000 (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 Executive Officer Dr M A Mdletye The Chief Financial Officer Mrs N R Shabalala		
42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
Contributions to organised local government		
Current year subscription / fee	3 289 477	32 000
Amount paid - current year	(3 289 477)	(32 000)
	-	-
Material losses Incurred		
Water losses	9 106 988	11 912 025
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)		
Audit fees		
Current year subscription / fee	2 605 814	2 254 853
Amount paid - current year	(2 605 814)	(2 254 853)
	-	-
PAYE and UIF		
Opening balance	1 893 947	1 647 481
Current year subscription / fee	34 971 532	23 045 711
Amount paid - current year	(32 620 793)	(21 151 764)
Amount paid - previous years	(1 893 947)	(1 647 481)
	2 350 739	1 893 947

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Figures in Rand	2018	2017
42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)		
Pension and Medical Aid Deductions		
Opening balance	-	1 725 244
Current year subscription / fee	17 552 447	16 720 779
Amount paid - current year	(14 475 778)	(16 720 779)
Amount paid - previous years	-	(1 725 244)
	3 076 669	-
VAT		
VAT receivable	39 146 513	17 289 115
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		
Afrostructure (Pty) Ltd	16 309 548	-
Wise Security	-	5 294 323
Judy Mangwaza Trading Entreprise	-	1 000 000
	16 309 548	6 294 323

Harry Gwala District Municipality

Annual Financial Statements for the year ended 30 June 2018

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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 129.28 million in 2016/17 to R80.16 million in 2017/18. Though the ratio improved, the short term liabilities are still more than the current assets.
- The cash balance at year end improved from R24.27 million to R96.96 million. The balance improved however the short term liabilities are still more than the cash and cash equivalence.
- The debt impairment of R159,67 million (2016-17:R154,54 million) is significant and indicates challenges surrounding the recoverability of trade receivables.

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 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 improve revenue collection.

The Municipality formed an Interim Finance Committee which comprises of all senior management, political leadership as well as provincial treasury. The committee 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.

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

Harry Gwala District Municipality

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Notes to the Annual Financial Statements

Figures in Rand

44. PRIOR-YEAR ADJUSTMENTS (continued)

2017

	Note	As previously reported	Correction of error	Reclassification s	Restated
<u>Current Assets</u>					
Interest		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	-	8 987 345	50 048 867
Service charges	6	-	-	1 963 815	1 963 815
Vat	5	17 065 901	223 214	-	17 289 115
		-	-	-	-
<u>Non Current Assets</u>					
Computer Equipment	8	-	253 520	924 222	1 177 742
Computer software-Intangible	9	1 348 836	269 051	874	1 618 761
Furniture and Office Equipment	8	-	768 091	1 341 853	2 109 944
Furniture and fixtures		989 846	-	(989 846)	-
Motor Vehicles		3 720 552	-	(3 720 552)	-
Transport Assets	8	-	164 718	3 720 552	3 885 270
Infrastructure: Information and Communicatio	8	-	12 224	856 444	868 668
Infrastructure: Water	8	1 733 353 731	(16 089 788)	-	1 717 263 943
Lease Assets	8	17 520 493	819 855	-	18 340 348
Machinery and Equipment	8	-	108 018	538 285	646 303
Other assets		2 192 188	-	(2 192 188)	-
Plant and machinery		479 644	-	(479 644)	-
		-	-	-	-
<u>Current liabilities</u>					
Accounts payable	13	(77 680 088)	(1 817 602)	-	(79 497 690)
Trade Payables from non Exchange.		(235)	235	-	-
Unspent Conditional grants	15	(53 521 925)	4 221 529	-	(49 300 396)
		-	-	-	-
Accumulated Surplus		(1 630 973 307)	16 930 720	-	(1 614 042 587)
		179 490 668	-	-	179 490 668

Statement of financial performance

Harry Gwala District Municipality

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44. PRIOR-YEAR ADJUSTMENTS (continued)

2017

	Note	As previously reported	Correction of error	Reclassification s	Restated
<u>Revenue from exchange transactions</u>					
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		(2 130 035)	(154 225)	2 284 260	-
Operational revenue	18	-	-	(1 228 456)	(1 228 456)
Interest Income	19	-	-	(17 630 419)	(17 630 419)
Government Grants and Subsidies	20	(296 479 897)	(4 221 529)	-	(300 701 426)
		-	-	-	-
<u>Expenditure</u>					
Community participation		3 103 300	-	(3 103 300)	-
Contracted services	23	54 663 860	-	57 539 108	112 202 968
Employee related costs	26	136 169 805	-	8 639 325	144 809 130
Finance costs		4 312 671	-	(4 312 671)	-
Interest Expense	27	-	-	4 312 809	4 312 809
Depreciation	25	48 479 184	8 918 975	-	57 398 159
General expenditure		72 699 526	(1 593 381)	(71 106 145)	-
Operational Costs	28	-	-	44 522 397	44 522 397
Bulk purchases	22	8 334 938	4 247 115	-	12 582 053
Transfer and Subsidies	29	17 333 333	-	654 795	17 988 128
Operating grant expenditure		35 120 920	-	(35 120 920)	-
Repairs and Maintenance		25 559 768	(1 059 345)	(24 500 423)	-
Inventory Consumed	32	-	-	22 475 025	22 475 025
		-	-	-	-
Surplus for the year		177 596 094	(13 722 331)	-	163 873 763
Total		223 436 553	-	-	223 436 553

Cash flow statement

2017

	Note	As previously reported	Correction of error	Reclassification s	Restated
<u>Cash flow from operating activities</u>					
Payments to suppliers		(293 415 301)	-	8 639 325	(284 775 976)
Employees related costs		(139 233 351)	-	(8 639 325)	(147 872 676)
Other non cash item	34	-	154 000	-	154 000
		(432 648 652)	154 000	-	(432 494 652)

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44. PRIOR-YEAR ADJUSTMENTS (continued)

Details

Reclassifications Explanations.

The purpose of these reclassifications was to align the comparative figures to the current year which was prepared for compliance with the mSCOA Regulation.

Prior Year Errors Explanations

(1) 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 resultant net effect of reducing consumer debtors by an amount of R2 324 590.

(2) 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 R3 539 195 and a corresponding decrease in consumer debtors.

(3) 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. 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 assets of these assets was reassessed resulting 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 of MSCOA.

(4) Afrirent 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.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

Harry Gwala District Municipality

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45. GOING CONCERN

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

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