

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

General Information

Legal form of entity	Local Municipality, governed by the MFMA (No 56 of 2003)
Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Cllr A Salaledi
Councillors	Cllr ME Doyi Cllr MH Bhoola Cllr G Naledi Cllr OS Molusi Cllr JP Snyman Cllr N Sole Cllr D Ramoenyane Cllr A Molefe Cllr LD Modisane Cllr TI Jabobs
Accounting Officer	Mr Joseph Mogale
Chief Finance Officer (CFO)	Mr Siphon Ngwenya
Registered office	Kgetlengrivier Local Municipality Smuts and Deewet Street Koster 0348
Business address	Kgetlengrivier Local Municipality Smuts and Deewet Street Koster 0348
Postal address	Kgetlengrivier Local Municipality Smuts and Deewet Street Koster 0348
Bankers	ABSA
Auditors	Auditor General of South Africa

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
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)

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future

The annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June, 2019 and were signed on its behalf by:

Accounting Officer
Mr Joseph Mogale

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June, 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

2. Going concern

The annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months. However, the municipality has liquidity problems as current liabilities exceed current assets by R 144,899,722.

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3. Subsequent events

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

4. Accounting Officer's interest in contracts

Non have been identified.

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Position as at 30 June, 2019

Figures in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Inventories	8	536,486	49,872,124
Other financial assets	5	1,318,753	1,212,521
VAT	15	1,224,663	-
Receivables from exchange transactions	9	17,368,770	8,552,601
Receivables from non-exchange transactions	10	32,590,931	26,243,628
Consumer debtors	11	49,916,948	37,618,594
Cash and cash equivalents	12	59,155,263	1,472,763
		162,111,814	124,972,231
Non-Current Assets			
Investment property	3	37,565,000	33,511,000
Property, plant and equipment	4	644,624,212	555,997,766
		682,189,212	589,508,766
Total Assets		844,301,026	714,480,997
Liabilities			
Current Liabilities			
VAT	15	-	757,841
Payables from exchange transactions	16	222,138,015	146,930,296
Consumer deposits	17	1,975,246	1,892,334
Employee benefit obligation	7	888,000	844,000
Unspent conditional grants and receipts	13	62,047,628	33,059,357
Provisions	14	8,868,224	4,763,819
Other liability		774,423	774,423
Other employee benefits	6	315,000	329,000
Loans from related parties		10,005,000	-
		307,011,536	189,351,070
Non-Current Liabilities			
Employee benefit obligation	7	14,094,000	14,138,000
Provisions	14	18,183,538	17,540,853
		32,277,538	31,678,853
Total Liabilities		339,289,074	221,029,923
Net Assets		505,011,952	493,451,074
Accumulated surplus		505,011,952	493,451,079

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions			
Service charges	19	49,220,848	56,196,206
Rental of facilities and equipment	20	56,647	87,917
Licences and permits		11,941,164	6,037,298
Miscellaneous revenue		241,279	276,966
Interest on outstanding debtor balances	21	14,801,422	15,093,421
Relief funding from NW Provincial Treasury		1,455,024	13,877,397
Interest received - investment	22	81,975	102,854
Total revenue from exchange transactions		77,798,359	91,672,059
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	7,325,475	7,578,732
Transfer revenue			
Government grants & subsidies	24	131,353,178	105,806,395
Fines, penalties and forfeits		7,208,000	32,777,599
Total revenue from non-exchange transactions		145,886,653	146,162,726
Total revenue	18	223,685,012	237,834,785
Expenditure			
Employee related costs	25	(57,392,051)	(55,298,006)
Remuneration of councillors	26	(7,275,769)	(7,054,868)
Depreciation and amortisation	27	(23,434,217)	(28,374,274)
Finance costs	28	(8,616,831)	(4,692,627)
Lease rentals on operating lease		(13,601,997)	(714,295)
Debt Impairment	29	(10,356,452)	(58,919,798)
Bulk purchases	30	(30,421,528)	(28,811,558)
Loss on disposal of assets and liabilities		(848,021)	(5,953,787)
General Expenses	31	(70,372,446)	(71,564,692)
Total expenditure		(222,319,312)	(261,383,905)
Surplus (deficit) for the year		1,365,700	(23,549,120)

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Annual Financial Statements for the year ended 30 June, 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 1 July, 2017	517,000,199	517,000,199
Changes in net assets		
Surplus for the year	(23,549,120)	(23,549,120)
Total changes	<u>(23,549,120)</u>	<u>(23,549,120)</u>
Balance at 1 July, 2018	493,451,078	493,451,078
Changes in net assets		
Surplus for the year	1,365,700	1,365,700
Prior period correction	10,195,174	10,195,174
Total changes	<u>11,560,874</u>	<u>11,560,874</u>
Balance at 30 June, 2019	<u>505,011,952</u>	<u>505,011,952</u>
Note(s)		

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Sale of goods and services		36,129,241	36,301,935
Grants		160,341,449	144,549,460
Interest income		81,975	15,093,421
Other receipts		25,869,019	10,071,586
		<u>222,421,684</u>	<u>206,016,402</u>
Payments			
Employee costs		(64,681,820)	(60,134,175)
Suppliers		(87,106,586)	(97,872,320)
Finance costs		(8,616,831)	(4,692,627)
		<u>(160,405,237)</u>	<u>(162,699,122)</u>
Net cash flows from operating activities	33	<u>62,016,447</u>	<u>43,317,280</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(68,704,089)	(42,445,569)
Proceeds from sale of property, plant and equipment	4	4,902,021	5,218
Net cash flows from investing activities		<u>(63,802,068)</u>	<u>(42,440,351)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		-	(45,469)
Net increase/(decrease) in cash and cash equivalents		(1,785,621)	831,460
Cash and cash equivalents at the beginning of the year		1,472,763	641,303
Cash and cash equivalents at the end of the year	12	<u>59,155,258</u>	<u>1,472,763</u>

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	69,026,914	-	69,026,914	49,220,848	(19,806,066)	B-01
Rental of facilities and equipment	190,296	-	190,296	56,647	(133,649)	B-02
Licences and permits	9,249,565	-	9,249,565	11,941,164	2,691,599	B-03
Miscellaneous other revenue	16,986,000	-	16,986,000	241,279	(16,744,721)	B-04
Interest on outstanding debtor balances	18,000,000	-	18,000,000	14,801,422	(3,198,578)	B-05
Relief funding from NW Provincial Treasury	-	-	-	1,455,024	1,455,024	B-06
Interest received - investment	50,000	-	50,000	81,975	31,975	B-07
Total revenue from exchange transactions	113,502,775	-	113,502,775	77,798,359	(35,704,416)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8,000,000	-	8,000,000	7,325,475	(674,525)	B-08
Transfer revenue						
Government grants & subsidies	86,349,600	-	86,349,600	131,353,178	45,003,578	B-09
Fines, penalties and forfeits	35,000,000	-	35,000,000	7,208,000	(27,792,000)	B-10
Total revenue from non-exchange transactions	129,349,600	-	129,349,600	145,886,653	16,537,053	
Total revenue	242,852,375	-	242,852,375	223,685,012	(19,167,363)	
Expenditure						
Personnel	(50,787,000)	6,000,000	(44,787,000)	(57,392,051)	(12,605,051)	B-11
Remuneration of councillors	(5,550,000)	-	(5,550,000)	(7,275,769)	(1,725,769)	B-12
Depreciation and amortisation	(45,004,000)	-	(45,004,000)	(23,434,217)	21,569,783	B-13
Finance costs	(1,000,000)	-	(1,000,000)	(8,616,831)	(7,616,831)	B-14
Lease rentals on operating lease	-	-	-	(13,601,997)	(13,601,997)	B-15
Debt Impairment	-	-	-	(10,356,452)	(10,356,452)	B-16
Bulk purchases	(29,051,000)	3,000,000	(26,051,000)	(30,421,528)	(4,370,528)	B-17
General Expenses	(48,553,000)	-	(48,553,000)	(70,372,446)	(21,819,446)	B-18
Total expenditure	(179,945,000)	9,000,000	(170,945,000)	(221,471,291)	(50,526,291)	
Operating surplus	62,907,375	9,000,000	71,907,375	2,213,721	(69,693,654)	
Loss on disposal of assets and liabilities	-	-	-	(848,021)	(848,021)	B-19
Surplus before taxation	62,907,375	9,000,000	71,907,375	1,365,700	(70,541,675)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	62,907,375	9,000,000	71,907,375	1,365,700	(70,541,675)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	51,115,000	-	51,115,000	536,486	(50,578,514)	B-20
Other financial assets	1,429,000	-	1,429,000	1,318,753	(110,247)	B-21
VAT	-	-	-	1,224,663	1,224,663	B-22
Receivables from exchange transactions	33,918,000	-	33,918,000	17,368,770	(16,549,230)	B-23
Receivables from non-exchange transactions	-	-	-	32,590,931	32,590,931	B-24
Consumer debtors	40,611,000	-	40,611,000	49,916,948	9,305,948	B-25
Cash and cash equivalents	30,788,000	-	30,788,000	59,155,263	28,367,263	B-26
	157,861,000	-	157,861,000	162,111,814	4,250,814	
Non-Current Assets						
Investment property	37,804,000	-	37,804,000	37,565,000	(239,000)	B-27
Property, plant and equipment	639,008,000	-	639,008,000	644,624,212	5,616,212	B-28
	676,812,000	-	676,812,000	682,189,212	5,377,212	
Total Assets	834,673,000	-	834,673,000	844,301,026	9,628,026	
Liabilities						
Current Liabilities						
Payables from exchange transactions	89,126,000	-	89,126,000	222,138,015	133,012,015	B-29
Consumer deposits	1,897,000	-	1,897,000	1,975,246	78,246	B-30
Employee benefit obligation	-	-	-	888,000	888,000	B-31
Unspent conditional grants and receipts	-	-	-	62,047,628	62,047,628	B-32
Provisions	20,471,000	-	20,471,000	8,868,224	(11,602,776)	B-33
Other liability	-	-	-	774,423	774,423	B-34
Other employee benefits	-	-	-	315,000	315,000	B-35
Loans from related parties	-	-	-	10,005,000	10,005,000	
	111,494,000	-	111,494,000	307,011,536	195,517,536	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	14,094,000	14,094,000	B-36
Provisions	13,456,000	-	13,456,000	18,183,538	4,727,538	B-37
	13,456,000	-	13,456,000	32,277,538	18,821,538	
Total Liabilities	124,950,000	-	124,950,000	339,289,074	214,339,074	
Net Assets	709,723,000	-	709,723,000	505,011,952	(204,711,048)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	709,723,000	-	709,723,000	494,211,952	(215,511,048)	B-38

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

B-01:

Decrease is mainly due to the demand for electricity being lower than anticipated and poor settlement of accounts by consumers.

B-02:

Decrease in number of facilities and equipment that are rented out by the consumers for the current year.

B-03:

Increase is due to the high number of license applications and permits for the current financial year.

B-04:

Decrease is due to the increase in write offs for the current financial year.

B-05:

Increase is due to more funds that were invested in the current financial year therefore interest earned has increased.

B-06:

Increase in receivables from exchange transactions.

B-07:

Decrease in actual is due to the portion of equitable share retained by the Department of treasury.

B-08:

Increase in receivables from exchange transactions.

B-09:

Decrease is due to debtors that did not settle their accounts and as a result were written off.

B-10:

Increase is as a result of annual salary increments, including recognition of employee benefits.

B-11:

Increase is due to annual salary increments.

B-12:

The payment for interest costs was more than anticipated due to the additional finance charges relating to overdue accounts that was not budgeted for.

B-13:

The increase is due to newly incurred expenditure such as Community development and training, Conferences and seminars and Standby.

B-14:

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

The payment for interest costs was more than anticipated due to the additional finance charges relating to overdue accounts that was not budgeted for.

B-15:

This is due to a new contract that was entered to by the municipality with Bertobrite PTY LTD which was not budgeted for in the 2018-19 financial year.

B-16:

Increase is due to newly incurred expenditure such as Community development and training, Conferences and seminars and Standby.

B-17:

B-18:

The reason for this is due the decrease in service charges for the current year.

B-19:

Consumption of water and electricity was higher than what was anticipated.

B-20:

The main reason why Receivables from exchange transactions is below the budgeted amount is mainly due to the decrease in anticipated demand for municipal services and also the increase in bad debts written off.

B-21:

The increase in Receivables from non-exchange transactions is mainly because of the increase in traffic fines for the current financial year.

B-22:

The major reason why consumer debtors is below the budgeted amount is mainly due to the decrease in anticipated demand for municipal services such as electricity and housing rentals and also the increase in bad debts written off.

B-23:

Loss on disposal of assets was not budgeted for.

B-24:

The budget was compiled using last year's comparative figures which was subsequently adjusted hence that is why the actual is less than what was anticipated.

B-25:

The reason why Property, plant and equipment is less than the the budgeted is because the municipality acquired less assets as anticipated and the value of the existing ones has decreased due to depreciation and revaluation.

B-26:

This is due to reconciling items which were not cleared on the system.

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

B-27:

This was due to a high fair value adjust which was not anticipated.

B-28:

This is due to a lot of unfinished projects which were anticipated to be finished in the year under review.

B-29:

This is due to cash flow problems thus less payments was made in the year under review.

B-30:

This is due to less demand of rental of facilities as anticipated.

B-31:

Defined benefit obligation was not budgeted for.

B-32:

Unspent conditional grants was not budgeted for.

B-33:

This was budgeted based on prior year comparisons.

B-34:

Other Liabilities comprises of legacy balances and was not budgeted for.

B-35:

Defined benefit obligation was not budgeted for.

B-36:

Defined benefit obligation was not budgeted for.

B-37:

This was budgeted based on prior year comparisons.

B-38:

This is due to prior period corrections

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions. Provisions are measured using managements best estimates of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effects are material. Reliance was based on expert knowledge.

Useful lives of waste and water network and other assets

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

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Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Allowance for doubtful debts

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

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Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.4 Investment property

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

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

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

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

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

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

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

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

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

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Accounting Policies

1.5 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; 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.

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.

Major spare parts and standby equipment which are expected to be used for more than one period are included in the property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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.

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	50 years
Furniture and fixtures	Straight line	5 - 7 years
Office equipment	Straight line	5 - 7 years
Infrastructure roads	Straight line	100 years
Community buildings	Straight line	50 years
Pavings	Straight line	50 years
Water	Straight line	100 years
Electricity	Straight line	45 years
Recreation facilities	Straight line	50 years
Security halls	Straight line	5 years
Other property, plant and equipment		.
Other vehicles	Straight line	4 - 10 years
Specialised plant and equipment	Straight line	15 years
Laboratory equipment	Straight line	.

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

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.

1.6 Intangible assets

An asset is identifiable if it either:

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

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

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.

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1.6 Intangible assets (continued)

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.

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Licenses and franchises	Straight line	3 years
Computer software, other	Straight line	3 years

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

Intangible assets are derecognised:

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

1.7 Inventories

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

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

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

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

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Accounting Policies

1.7 Inventories (continued)

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

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

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

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

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

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

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Accounting Policies

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

[Specify judgements made]

Discount rate

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

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Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

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Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.9 Impairment of non-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.

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

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

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

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

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

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

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

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

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Accounting Policies

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

Useful life is either:

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

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

[Specify judgements made]

Identification

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

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

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

Value in use

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

1.10 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.

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Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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

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Accounting Policies

1.11 Provisions and contingencies (continued)

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.12 Capital commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Capital commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

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

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Accounting Policies

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service Charges

Flat rate service charges relating to electricity and water which are based on consumption are metered and an estimate of consumption between the latest meter reading and the reporting date shall be recognised.

Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made then recognised in the statement of financial performance in the invoicing period in which meters have been read.

Revenue from the sale of electricity prepaid meter credit is recognised at the point of sale.

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.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

Service charges from sewerage and sanitation are based on the size of the property, number of dwellings on each property and the connections, using the tariffs approved by Council and are levied monthly.

Other Revenue

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

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

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Accounting Policies

1.13 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

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Accounting Policies

1.14 Revenue from non-exchange transactions

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

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Kgetlengrivier Local Municipality 2019

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1.14 Revenue from non-exchange transactions (continued)

Measurement

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

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

Government grants and other grants

Equitable share allocation is recognised in revenue at the start of the financial year if no time-based restriction exists.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, condition or obligation embodied in the agreement. Where the agreement contains a stipulation to return with any assets, other future economic benefits or services potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, condition or obligation has been met. Where such requirements are not enforceable, or where past experience has indicated that the transfer has never enforced the requirement to return the transferred assets, other future economic benefit or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue..

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are recognised as revenue and as assets. Services in-kind provided by individuals to the municipality in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. These assets are, however, immediately consumed and a transaction of equal value is also recognised to reflect the consumption of these services in-kind.

The municipality may be a recipient of services in-kind under voluntary or non-voluntary schemes operated in the public interest, for example:

- (a) Technical assistance from other governments or international organisations;
- (b) Local governments may increase the services of volunteer fire fighters.

Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, the municipality did not recognise any services in-kind however the services in-kind will be disclosed in the notes to the financial statements.

The disclosures will assist users to make informed judgements about the contribution made by such services to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such services for the achievement of its objectives in the future.

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.15 Investment income

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

1.16 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.

1.17 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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.

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Accounting Policies

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and remeasured to fair value at subsequent reporting dates.

Changes in the fair value of the derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they rise.

1.23 Conditional grants and receipts

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

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Annual Financial Statements for the year ended 30 June, 2019

Accounting Policies

1.24 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 01 July 2018 to 30 June 2019.

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

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

1.26 Related parties

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.

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

1.27 Events after reporting date

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

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

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

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

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	1 April, 2019	Unlikely there will be a material impact
• GRAP 7 (as revised 2010): Investments in Associates	1 April, 2019	Unlikely there will be a material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	1 April, 2019	Unlikely there will be a material impact
• GRAP 18 (as amended 2016): Segment Reporting	1 April, 2019	Unlikely there will be a material impact
• GRAP 20: Related parties	1 April, 2019	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	1 April, 2019	Unlikely there will be a material impact
• GRAP 105: Transfers of functions between entities under common control	1 April, 2019	Unlikely there will be a material impact
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	1 April, 2019	Unlikely there will be a material impact
• GRAP 107: Mergers	1 April, 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	1 April, 2019	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	1 April, 2019	Unlikely there will be a material impact
• IGRAP 11: Consolidation – Special purpose entities	1 April, 2019	Unlikely there will be a material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1 April, 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	1 April, 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	1 April, 2019	Unlikely there will be a material impact

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3. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	37,565,000	-	37,565,000	33,511,000	-	33,511,000

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	33,511,000	4,054,000	37,565,000

Reconciliation of investment property - 2018

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	35,901,000	(228,000)	(2,162,000)	33,511,000

Details of property

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.

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3. Investment property (continued)

Details of valuation

Reconciliation of valuation obtained and the valuation included in the financial statements

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

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

4. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	208,625,094	(47,485,201)	161,139,893	159,161,973	(45,473,945)	113,688,028
Infrastructure	839,036,402	(429,826,386)	409,210,016	802,856,628	(420,160,521)	382,696,107
Community	55,657,698	(39,007,094)	16,650,604	55,662,960	(37,578,278)	18,084,682
Work in progress	54,954,391	-	54,954,391	36,929,521	-	36,929,521
Moveable assets	16,822,219	(14,152,911)	2,669,308	16,618,417	(12,018,989)	4,599,428
Total	1,175,095,804	(530,471,592)	644,624,212	1,071,229,499	(515,231,733)	555,997,766

Reconciliation of property, plant and equipment - 2019

	Opening balance	Correction to prior period	Additions	Disposals	Transfers	Depreciation	Total
Land	113,688,028	49,463,121	-	-	-	(2,011,256)	161,139,893
Infrastructure	382,696,107	(575,847)	50,475,417	(4,902,021)	-	(17,854,959)	409,210,016
Community	18,084,682	-	-	-	-	(1,434,078)	16,650,604
Work in progress	36,929,521	-	68,500,287	-	(50,475,417)	-	54,954,391
Moveable assets	4,599,428	-	203,802	-	-	(2,133,922)	2,669,308
	555,997,766	48,887,274	119,179,506	(4,902,021)	(50,475,417)	(23,434,215)	644,624,212

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	115,913,085	-	-	-	(2,225,057)	-	113,688,028
Infrastructure	386,135,418	-	(3,359,240)	22,183,774	(22,253,680)	(10,165)	382,696,107
Community	19,904,027	-	(416)	-	(1,659,304)	(159,625)	18,084,682
Work in progress	17,001,956	42,111,339	-	(22,183,774)	-	-	36,929,521
Moveable assets	6,540,984	334,230	(39,559)	-	(2,236,227)	-	4,599,428
	545,495,470	42,445,569	(3,399,215)	-	(28,374,268)	(169,790)	555,997,766

Pledged as security

No property, plant and equipment were pledged as security during the year under review.

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4. Property, plant and equipment (continued)		
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.		
5. Other financial assets		
At amortised cost		
Fixed deposit accounts	1,318,753	1,212,521
	<hr/>	<hr/>
Current assets		
At amortised cost	1,318,753	1,212,521
	<hr/>	<hr/>

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

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Figures in Rand	2019	2018
6. Other employee benefits		
Reconciliation of long service award		
- Opening balance	2,522,000	2,252,000
- Movements	309,000	270,000
	2,831,000	2,522,000
Non-current liability	2,516,000	2,193,000
Current liability	315,000	329,000
	2,831,000	2,522,000

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long service Award is payable to employees after 10 years of continuous service and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2018 by Niel Fourie, fellow of the Actuarial Society of South Africa. The present value of the long service award, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows for the year ended 30 June 2018

Discount rate - 8.63%

General salary inflation - 7.28%

Net discount rate - 1.26%

The basis on which the discount rate has been determined is as follows: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields..

Credit quality of finance lease receivables

The credit quality of finance lease receivables that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

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

Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63
	126	126

Movements in the present value of the Long service award were as follows:

Balance at the beginning of the year	2,522,000	2,252,000
Current service cost	292,000	279,000
Interest cost	256,000	232,000
Benefits paid	(292,000)	(183,000)
Actuarial losses/(gains)	53,000	(58,000)
	2,831,000	2,522,000

The amount recognised in the Statement of Financial Position are as follows:

Present value of the unfunded obligation	2,831,000	2,522,000
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Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

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Figures in Rand	2019	2018
6. Other employee benefits (continued)		
The amount recognised in the Statement of Financial Performance are as follows:		
Current service	292,000	279,000
Interest cost	256,000	232,000
Actuarial losses/(gains)	53,000	(58,000)
	601,000	453,000
7. Employee benefit obligations		
Defined benefit plan		
The municipality has a policy to subsidize post-employment health care costs of employees that belonged to medical scheme on their retirement. The subsidy covers the employee as well as spouse or dependent.		
The plan is a final salary pension / flat plan or a post-employment medical benefit plan.		
Post retirement benefit plan		
The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such a medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.		
The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2019 by Niel Fourie, fellow of the Actuarial Society of South Africa. The present value of the defined benefit plan obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(14,982,000)	(14,982,000)
Non-current liabilities	(14,094,000)	(14,138,000)
Current liabilities	(888,000)	(844,000)
The municipality has no further obligation to cover unfunded benefits.		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	14,982,000	13,136,000
Benefits paid	(722,000)	(719,000)
Net expense recognised in the statement of financial performance	1,009,000	2,565,000
	15,269,000	14,982,000
Net expense recognised in the statement of financial performance		
Current service cost	551,000	443,000
Interest cost	1,474,000	1,332,000
Actuarial (gains) losses	(1,016,000)	790,000
	1,009,000	2,565,000

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Figures in Rand	2019	2018
7. Employee benefit obligations (continued)		
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	7.76 %	7.76 %
Expected rate of return on assets	6.33 %	6.33 %
Expected rate of return on reimbursement rights	7.35 %	7.35 %
Actual return on reimbursement rights	0.59 %	0.59 %
The basis used to determine the overall expected rate of return on assets is as follow:		
GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.		
Consequently, a discount rate of 7.75% per annum has been used. These rates do not reflect any adjustment for taxation. These rates were deducted from the JSE Zero Coupon bond yield after the market close on 30 June 2019.		
The rate is calculated by using a weighted average of yields for the three components of the liability. Each component's fixed interest and index-linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at that component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).		
8. Inventories		
Stock - Water	70,781	39,863
Stock - General	348,445	278,503
Stock - Electricity	117,260	90,637
Non-current asset held for sale	-	49,463,121
	536,486	49,872,124
8.1 - Inventory reconciliation		
8.1.1 - Water consumables		
Balance at the beginning of the year	39,863	54,516
Movement during the year	30,918	(14,653)
	70,781	39,863
8.1.2 - Stock: General		
Balance at the beginning of the year	278,503	634,171
Movement during the year	69,942	(355,668)
	348,445	278,503
8.1.3 - Stock: Electricity		
Balance at the beginning of the year	90,638	122,877
Movement during the year	26,622	(32,239)
	117,260	90,638
8.1.4 - Land held for sale		
Balance at the beginning of the year	49,463,121	50,303,360
Movement during the year	(49,463,121)	(840,239)
	-	49,463,121

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9. Receivables from exchange transactions		
Trade debtors	640,554	640,554
Sundry debtors	16,728,216	7,912,047
	17,368,770	8,552,601
10. Receivables from non-exchange transactions, net balances		
Fines	60,429	61,990
Other receivables from non-exchange revenue	32,530,502	26,181,638
	32,590,931	26,243,628
Gross balance		
Fines	-	-
Other receivables from non-exchange revenue	-	54,795,936
Less: allowance for impairment		
Fines	-	-
Other receivables from non-exchange revenue	-	(27,436,200)
11. Consumer debtors		
Gross balances		
Rates	19,191,789	15,027,719
Electricity	17,532,260	18,958,936
Water	43,495,472	38,812,679
Unallocated funds (Advanced payments)	(3,584,290)	31,824
Sewerage	18,499,851	16,217,225
Refuse	12,070,429	10,244,394
Interest	91,024,488	76,672,651
VAT	18,045,582	17,187,045
Housing rental	107,566	151,978
Non-VAT Sundries	2,206,924	2,630,814
	218,590,071	195,935,265
Less: Allowance for impairment		
Rates	(11,490,955)	(10,080,614)
Electricity	(10,173,973)	(10,630,715)
Water	(15,367,962)	(35,394,019)
Sewerage	(15,779,258)	(14,387,677)
Refuse	(10,478,075)	(9,277,305)
Other (specify)	(105,382,900)	(78,546,341)
	(168,673,123)	(158,316,671)

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
11. Consumer debtors (continued)		
Net balance		
Rates	7,700,834	4,947,105
Electricity	7,358,287	8,328,221
Water	28,127,510	3,418,660
Unallocated (Advanced Payments)	(3,584,290)	31,824
Sewerage	2,720,593	1,829,548
Refuse	1,592,354	967,089
Interest	91,024,488	76,672,651
VAT	18,045,582	17,187,045
Housing rental	107,566	151,978
Non-VAT Sundries	(103,175,976)	(75,915,527)
	49,916,948	37,618,594
Rates		
Current (0 -30 days)	1,123,489	1,424,069
31 - 60 days	683,867	637,201
61 - 90 days	647,050	571,364
91 - 120 days	607,476	530,831
121 - 360 days	4,443,385	493,913
> 361 Days	195,567	1,289,727
	7,700,834	4,947,105
Electricity		
Current (0 -30 days)	(486,925)	769,903
31 - 60 days	281,775	430,930
61 - 90 days	356,715	277,330
91 - 120 days	329,554	301,571
121 - 360 days	1,099,695	4,355,405
> 361 days	5,777,473	2,193,082
	7,358,287	8,328,221
Water		
Current (0 -30 days)	906,019	3,418,660
31 - 60 days	1,074,822	-
61 - 90 days	474,283	-
91 - 120 days	582,727	-
121 - 360 days	4,759,433	-
> 361 days	20,330,226	-
	28,127,510	3,418,660
Unallocated (Advanced payments)		
Current (0 -30 days)	391,363	31,824
31 - 60 days	236,893	-
61 - 90 days	227,117	-
91 - 120 days	223,808	-
121 - 360 days	1,662,343	-
> 360 days	(6,325,814)	-
	(3,584,290)	31,824

Kgetlengrivier Local Municipality 2019

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
11. Consumer debtors (continued)		
Sewerage		
Current (0 -30 days)	450,966	450,966
31 - 60 days	218,562	218,562
61 - 90 days	28,594	28,594
91 - 120 days	23,764	23,764
121 - 360 days	1,068,581	1,068,581
> 361 days	930,126	39,081
	2,720,593	1,829,548
Refuse		
Current (0 -30 days)	297,301	297,301
31 - 60 days	174,862	174,862
61 - 90 days	171,511	171,511
91 - 120 days	169,684	169,684
121 - 360 days	778,996	153,731
	1,592,354	967,089
Interest		
Current (0 -30 days)	1,771,357	2,247,755
31 - 60 days	1,008,049	900,897
61 - 90 days	990,804	877,396
91 - 120 days	970,764	896,220
121 - 360 days	10,752,374	11,039,969
> 361 days	75,531,140	60,710,414
	91,024,488	76,672,651
VAT		
Current (0 -30 days)	1,126,438	17,187,045
31 - 60 days	251,853	-
61 - 90 days	172,332	-
91 - 120 days	189,037	-
121 - 360 days	2,823,049	-
> 361 days	13,482,873	-
	18,045,582	17,187,045
Housing rental		
61 - 90 days	-	106
121 - 360 days	889	-
> 361 days	106,677	151,872
	107,566	151,978
Non-VAT Sundries		
121 - 365 days	372,379	-
> 361 days	(103,548,355)	(75,915,527)
	(103,175,976)	(75,915,527)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(158,316,671)	(126,833,071)
Contributions to allowance	(10,356,452)	(31,483,600)
	(168,673,123)	(158,316,671)

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

11. Consumer debtors (continued)

Consumer debtors pledged as security

No consumer debtors were pledged as security during the year under review.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	58,893,225	1,180,129
Short-term deposits	247,652	278,248
Other cash and cash equivalents	14,386	14,386
	59,155,263	1,472,763

Cash at bank and short term deposits, excluding cash on hand

Call investment deposits are investments with a maturity period of less than 3 months and earn interest rates varying from day to day.

Management of the municipality is of the opinion that the carrying value of the bank balance and cash recorded at amortised cost in the financial statements approximate their fair values.

The fair value of bank balance and cash were determined after considering the standard terms and conditions of agreements entered into between the municipality and the financial institutions::

Short term deposits

ABSA Bank - Call Account - 406 946 550	5,061	4,909
ABSA Bank - Call Account - 407 406 9151	51,292	93,976
ABSA Bank - Call Account - 407 406 9020	3,816	330
ABSA Bank - Call Account - 909 898 605	1,903	1,826
ABSA Bank - Cheque Account - 406 045 1122	183,196	183,911
FNB Bank - Savings - 740 3742 6985	2,384	2,292
	247,652	287,244

The municipality had the following main bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2019	30 June, 2018	30 June, 2017	30 June, 2019	30 June, 2018	30 June, 2017
ABSA BANK - Cheque Account - 170 000 0032	461,223	1,221,011	378,020	58,893,225	5,517,942	256,746

Kgetlengrivier Local Municipality 2019

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	2,106,936	11,095,537
Draught relief grant (NW Provincial Treasury)	23,726,217	-
BPDM Grant asset verification	(44,972)	(44,972)
Municipal Service Infrastructure Grant	28,800,073	14,549,417
Library Grant	-	-
Provincial Infrastructure Grant	6,616,216	6,616,216
Provincial Cleaning Programme Grant	(48,081)	(48,081)
Regional Bulk Infrastructure Grant	354,077	354,077
RDP Housing Project	64,939	64,939
Expanded Public Works Programme Grant	-	1
Energy Efficiency Grant	(237)	(237)
SETA Grant	472,460	472,460
	62,047,628	33,059,357
Movement during the year		
Balance at the beginning of the year	33,059,357	8,238,660
Movements during the year	90,831,000	69,164,616
Income recognition during the year	(61,842,729)	(44,343,919)
	62,047,628	33,059,357

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that have been recognised.

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

14. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	15,347,853	628,685	-	15,976,538
Leave reserve funds	4,763,819	4,188,398	(879,323)	8,072,894
Employee benefit cost	2,193,000	14,000	-	2,207,000
	22,304,672	4,831,083	(879,323)	26,256,432

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	14,557,281	790,572	-	15,347,853
Leave reserve funds	3,884,326	1,082,066	(202,573)	4,763,819
Employee benefit cost	2,062,000	131,000	-	2,193,000
	20,503,607	2,003,638	(202,573)	22,304,672

Non-current liabilities	18,183,538	17,540,853
Current liabilities	8,868,224	4,763,819
	27,051,762	22,304,672

Environmental rehabilitation provision

The provision for landfill site is classified as a current liability as the municipality has not obtained a license to operate all three landfill sites as yet.

In terms of the licensing of the landfill refuse site, the municipality will incur licensing and rehabilitation costs of R13 817 702 to restore the site at the end of its useful life, estimated to be between 2017 and 2024 for Koster Townlands landfill sites. Provision has been for the net present value of this cost, using the average cost of borrowing interest rate.

Wage curve agreements

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional payable for employees' wages, depending on the outcome of the pending litigation. It is not practical to reliably estimate the amount of this payable prior to the outcome of the pending litigations.

Long service award

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a long-service award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2019 by Mr N Fourie, 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.

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

14. Provisions (continued)

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

Discount rate		Yield curve
Consumer Price Inflation		Difference between nominal and real yield curve
Normal Salary Increase Rate		Equal to CPI + 1%
Net effective discount rate		Yield curve based

- -

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

Balance at the beginning of the year	2,522,000	2,252,000
Current Service Costs	292,000	279,000
Interest costs	256,000	232,000
Actuary losses/(gains)	(292,000)	(183,000)
Benefits paid	53,000	(58,000)
	2,831,000	2,522,000

The amount recognised in the Statement of Financial Position is as follows:

Present Value of unfunded obligations	-	2,252,000
---------------------------------------	---	-----------

The amount recognised in the Statement of Financial Performance is as follows:

Current service costs	-	279,000
Interest paid	-	232,000
Actuarial losses/(gains)	-	(183,000)
	-	328,000

Employee benefit cost provision

Defined contribution plan

The municipality has a policy to subsidise post-employment health care costs of employees that belonged to medical scheme on their retirement. The subsidy covers the employee as well as the spouse or dependent.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement benefit plan

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

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2019 by Mr Niel Fourie, 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 costs were measured using the Projected Unit Credit Method.

The amount recognised in the Statement of Financial Position is as follows:

Present value of the defined benefit obligation-wholly unfunded	-	14,982,000
	-	-
Net current liabilities	-	(14,138,000)
Current liabilities	-	(844,000)

Kgetlengrivier Local Municipality 2019

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
14. Provisions (continued)		
The municipality has no further obligation to cover unfunded benefits.	-	-
Changes in the present value of the defined benefit obligations are as follows:	-	-
Opening balance	-	13,136,000
Benefits paid	-	(719,000)
Net expense recognised in the statement of financial performance	-	2,565,000
Net expense recognised in the statement of financial performance is as follows:	-	-
Current service cost	-	279,000
Interest cost	-	232,000
Actuarial losses/(gains)	-	(183,000)

Key assumptions used

Assumption used at the reporting date:

Discount rate used - Yield curve

CPI (Consumer Price Inflation) - Difference between nominal and yield curves

Medical Aid Contribution Inflation - CPI + 1%

Net Effective Discount Rate - Yield curve based

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

GRAP 25 stipulates that the choice of the rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yield on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.75% per annum has been used. These rates do not reflect any adjustments for taxation.

These rates were deducted from the JSE Zero Coupon bond yield after the market close on 30 June 2019.

The rate is calculated by using the weighted average of yields for the three components of the liability. Each component's fixed interest and index linked yield was taken from the JSE (Best Decency) Zero Coupon bond yield curve at the component's liability-weighted average duration, using an iterative process (because the yield depends on the liability, which in turn depends on the yield).

15. VAT

VAT payable

Transfers payable	-	757,841
Transfers receivable	(1,224,652)	-
	(1,224,652)	757,841

All VAT returns have been submitted by the due date throughout the period

16. Payables from exchange transactions

Trade payables	208,074,460	138,639,267
Retention	15,386,860	10,443,492
Accrued bonus	1,248,534	1,411,398
Accrued expenses	(2,571,839)	(3,563,861)
	222,138,015	146,930,296

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Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Consumer deposits		
Water	1,975,246	1,892,334
<p>Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposits as payments for the outstanding account. No interest is paid on Consumer deposits held.</p> <p>The management of the municipality is of the opinion that the carrying value of Consumer deposits approximate their fair value.</p>		
18. Revenue		
Service charges	49,220,848	56,196,206
Rental of facilities and equipment	56,647	87,917
Licences and permits	11,941,164	6,037,298
Miscellaneous other revenue	241,279	276,966
Interest on outstanding balances	14,801,422	15,093,421
Relief funding - NW Treasury	1,455,024	13,877,397
Interest received - investment	81,975	102,854
Property rates	7,325,475	7,578,732
Government grants & subsidies	131,353,178	105,806,395
Fines, penalties and forfeits	7,208,000	32,777,599
	223,685,012	237,834,785
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	49,220,848	56,196,206
Rental of facilities and equipment	56,647	87,917
Licences and permits	11,941,164	6,037,298
Miscellaneous other revenue	241,279	276,966
Interest on outstanding debtor balances	14,801,422	15,093,421
Relief funding - NW Treasury	1,455,024	13,877,397
Interest received - investment	81,975	102,854
	77,798,359	91,672,059
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7,325,475	7,578,732
Transfer revenue		
Government grants & subsidies	131,353,178	105,806,395
Fines, penalties and forfeits	7,208,000	32,777,599
	145,886,653	146,162,726
19. Service charges		
Sale of electricity	40,345,102	44,136,120
Sale of water	3,490,986	6,760,059
Sewerage and sanitation charges	3,054,237	3,002,723
Refuse removal	2,330,523	2,297,304
	49,220,848	56,196,206

Kgetlengrivier Local Municipality 2019

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
20. Rental of facilities and equipment		
Premises		
Premises	54,449	82,244
Venue hire	2,198	5,673
	56,647	87,917
21. Other revenue		
Interest on outstanding debtor balances	14,801,422	15,093,421
Relief funding - NW Provincial Treasury	1,455,024	13,877,397
	16,256,446	28,970,818
22. Investment revenue		
Interest revenue		
Fixed investment bank accounts	81,975	102,854
23. Property rates		
Rates received		
Property taxes	7,325,475	7,578,732

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
24. Government grants and subsidies		
Operating grants		
Equitable share	69,867,000	70,566,000
Financial management grant	2,415,000	2,345,000
Expanded Public Works Programme Grant	1,375,001	1,362,000
Bojanala financial support grant	708,981	3,352,747
	74,365,982	77,625,747
Capital grants		
Draught relief grant	20,573,783	-
Municipal infrastructure grant	35,369,068	11,143,463
Municipal services infrastructure grant	1,044,345	17,037,185
	56,987,196	28,180,648
	131,353,178	105,806,395
Municipal infrastructure grant		
Balance unspent at beginning of year	11,095,537	-
Unspent grant surrendered	(11,095,537)	-
Current-year receipts	37,392,000	22,239,000
Conditions met - transferred to revenue	(35,285,064)	(11,143,463)
	2,106,936	11,095,537
Municipal Service Infrastructure Grants		
Balance unspent at beginning of year	14,549,417	2,264,988
Current-year receipts	25,600,000	20,000,000
Conditions met - transferred to revenue	(11,349,344)	(7,715,571)
	28,800,073	14,549,417
Library Grant		
Balance unspent at beginning of year	-	1,002,747
Current-year receipts	770,000	1,350,000
Conditions met - transferred to revenue	(770,000)	(2,352,747)
	-	-
Provincial Infrastructure Grant		
Balance unspent at beginning of year	6,616,216	4,127,767
Current-year receipts	-	11,810,073
Conditions met - transferred to revenue	-	(9,321,624)
	6,616,216	6,616,216
Provincial Government Cleaning Campaign Project Grant		
Balance unspent at beginning of year	(48,081)	(48,081)
Regional Bulk Infrastructure Grant		
+	354,077	354,077
RDP Housing Projects		

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
24. Government grants and subsidies (continued)		
Balance unspent at beginning of year	<u>64,939</u>	<u>64,939</u>
Financial Management Grant		
Current-year receipts	2,415,000	2,345,000
Conditions met - transferred to revenue	<u>(2,415,000)</u>	<u>(2,345,000)</u>
	<u>-</u>	<u>-</u>
Expanded Public Works Programme Grant		
Balance unspent at beginning of year	1	1
Current-year receipts	1,159,000	1,362,000
Conditions met - transferred to revenue	<u>(1,159,001)</u>	<u>(1,362,000)</u>
	<u>-</u>	<u>1</u>
Electricity Efficiency Grant		
Balance unspent at beginning of year	<u>(237)</u>	<u>(237)</u>
SETA Grant		
Balance unspent at beginning of year	<u>472,460</u>	<u>472,460</u>

Kgetlengrivier Local Municipality 2019

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs		
Basic	38,111,681	32,091,805
Bonus	2,718,970	4,829,797
Medical aid - company contributions	3,030,672	3,351,922
UIF	380,239	351,422
SDL	504,504	412,047
Travel, motor car, accommodation, subsistence and other allowances	3,373,079	2,305,298
Overtime payments	1,732,077	1,945,257
Housing benefits and allowances	774,487	3,834,914
Contributions to Pension fund and SALGA	6,039,937	5,415,608
Group Life Insurance	3,683	3,461
Standby and Shift Allowances	722,722	756,475
	57,392,051	55,298,006
Remuneration of Municipal manager		
Acting allowance (Mr B Mothogoane)	-	29,476
Acting allowance (Mr S Ngwenya)	-	233,282
Annual Remuneration	846,922	166,012
Car allowance	282,307	55,337
Contributions to UIF, Medical and Pension Funds	81,813	2,447
Cellphone allowance	12,000	3,000
	1,223,042	489,554
Remuneration of Chief finance officer		
Acting allowance (S Ngwenya)	-	85,165
Acting allowance (S Ntshangase)	-	58,914
Acting allowance (A Hlahu)	-	204,201
Annual Remuneration	699,411	136,304
Car Allowance	73,720	2,228
Contributions to UIF, Medical and Pension Funds	233,137	45,435
Cellphone Allowance	12,000	3,000
Leave payout	29,606	59,984
	1,047,874	595,231
Remuneration of Directors - Corporate services		
Annual Remuneration	453,325	226,663
Car Allowance	151,108	75,554
Contributions to UIF, Medical and Pension Funds	7,660	3,540
Cellphone Allowance	8,000	4,000
	620,093	309,757
Remuneration of Directors - Community Services		
Acting allowance (R Mavhungu)	-	151,484
Annual Remuneration	699,411	363,477
Car Allowance	233,137	121,159
Contributions to UIF, Medical and Pension Funds	11,736	12,406
Cellphone allowance	12,000	8,000
Leave payout	-	50,846
	956,284	707,372
Remuneration of Directors - Technical Services		
Acting allowance (W Maluleke)	-	341,280
Annual Remuneration	569,993	-
Car Allowance	189,998	-
Contributions to UIF, Medical and Pension Funds	62,551	-

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Employee related costs (continued)		
Cellphone allowance	10,000	-
	832,542	341,280
Remuneration of Directors - Finance		
Annual Remuneration	-	91,346
Car Allowance	-	39,574
Contributions to UIF, Medical and Pension Funds	-	1,859
Cellphone allowance	-	2,000
	-	134,779
Remuneration of Directors - LED		
Annual Remuneration	272,607	181,738
Car Allowance	90,869	60,580
Contributions to UIF, Medical and Pension Funds	892	7,195
Cellphone allowance	6,000	4,000
	370,368	253,513
26. Remuneration of councillors		
Executive Major	3,020,384	2,697,911
Councillors	3,544,565	3,629,908
Councillors' pension contribution	710,820	727,049
	7,275,769	7,054,868
27. Depreciation and amortisation		
Property, plant and equipment	23,434,217	28,374,274
28. Finance costs		
Trade and other payables	8,616,831	4,692,627
29. Debt impairment		
Debt impairment	10,356,452	58,919,798
30. Bulk purchases		
Electricity	29,732,460	28,002,893
Water	689,068	808,665
	30,421,528	28,811,558

Kgetlengrivier Local Municipality 2019

Annual Financial Statements for the year ended 30 June, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
31. General expenses		
Advertising	1,055,771	909,468
Auditors remuneration	3,095,508	1,063,842
Bank charges	731,410	492,171
Cleaning	1,326,771	1,425,349
Computer expenses	304	1,759
Consulting and professional fees	20,043,656	27,173,413
Consumables	1,313,346	141,007
Entertainment	448,964	154,703
Gifts	304,600	-
Insurance	596,135	478,311
Community development and training	74,866	-
Conferences and seminars	2,617	-
Fuel and oil	2,872,443	1,375,211
Postage and courier	719,381	924,225
Protective clothing	642,199	177,064
Repairs and maintenance	16,103,434	25,354,231
Security (Guarding of municipal property)	4,937,289	4,189,950
Software expenses	3,740,092	4,859,784
Staff welfare	63,927	32,456
Subscriptions and membership fees	6,367	5,136
Telephone and fax	(11,548)	2,721
Training	59,201	474,400
Travel - local	1,409,271	1,547,173
Valuation cost	-	192,398
Standby	4,265	-
Indigent subsidy - Freebas	-	127,715
Long service award	-	2,116,000
Other expenses	10,832,177	(1,653,795)
	70,372,446	71,564,692
32. Auditors' remuneration		
Fees	3,095,508	1,063,842
33. Cash generated from operations		
Surplus (deficit)	1,365,700	(23,549,120)
Adjustments for:		
Depreciation and amortisation	23,434,217	28,374,274
Gain on sale of assets and liabilities	848,021	5,953,787
Debt impairment	10,356,452	58,919,836
Consumer debtors adjustment	(92,548,791)	-
Movements in retirement benefit assets and liabilities	-	1,846,000
Movements in provisions	4,747,090	1,801,065
Movement in tax receivable and payable	(1,982,504)	102,381
Changes in working capital:		
Inventories	49,335,638	1,242,800
Receivables from exchange transactions	(8,816,169)	(3,855,836)
Consumer debtors	(22,654,806)	(56,020,800)
Other receivables from non-exchange transactions	(6,347,303)	1,038,500
Payables from exchange transactions	75,207,719	2,603,382
Unspent conditional grants and receipts	28,988,271	24,865,668
Consumer deposits	82,912	(4,657)
	62,016,447	43,317,280

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34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	<u>85,256,006</u>	<u>50,921,211</u>
Total capital commitments		
Already contracted for but not provided for	<u>85,256,006</u>	<u>50,921,211</u>
Authorised operational expenditure		
Already contracted for but not provided for		
• Operating lease rentals	<u>28,209,444</u>	<u>912,000</u>
Total operational commitments		
Already contracted for but not provided for	<u>28,209,444</u>	<u>912,000</u>

Kgetlengrivier Local Municipality 2019

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35. Contingencies		
Contingent liability		
Litigation is in the process against the Kgetlengrivier Local Municipality relating to a dispute with external parties who seek damages of R38 365 226. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.		
Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts to R38 365 226.		
Contingent liabilities	2019	2018
MJ Letsholo	-	250,000
Chgoshane Attorneys	-	470,000
Tax payer associations	35,000,000	35,000,000
Summit Ridge	-	450,000
Jacques Schoombie	-	17
Matlala properties t/a Gorogang Plant Hire	-	325
White Leopard Security CC	-	8,370,173
Bagaphala Project Trading CC	548,462	-
G.L Muller and Others	5,353	-
D.C Heymans and L.Heymans	6,767	-
SALGA	1,391,295	-
Standard Bank of S.A	697,076	-
J.H COMBRINK and M.M Combrink	6,102	-
Francois C. Botes (Henning Johannes Botes)	7,657	-
Francois C. Botes	9,087	-
J.M Botes	7,531	-
J.J.T Schutte and D.J Cilliers	9,413	-
J.L Breet	7,570	-
Smit (Werkswinkel) W.J	19,475	-
Boschoff (Boedel Wyle) CA	5,820	-
M.N.A Bulbulia t/a Astra Voyager Investment	1,966	-
M.N.A Bulbulia	10,995	-
C. Collins	2,920	-
G.J Rossouw	3,695	-
A. Geyer	9,239	-
H.C Lombaard	811	-
Wesari Projects	30,534	-
J. Geyer	6,268	-
B.S Daya	8,683	-
B. Daya	4,163	-
H.C Jansen Van Vuuren	5,948	-
P.C Le Roux	379	-
D.J Odendaal	14,490	-
E.A Venter	4,548	-
F Bhyat	18,517	-
J Smith	12,122	-
A.J Hugo	2,286	-
S Haffejee	9,548	-
C.E.M Nel	10,837	-
A.S Meintjies	5,790	-
S Haffejee	9,459	-
C.H Janse Van Vuuren	10,647	-
H.K.K Grove	9,070	-
J Teessen	14,106	-
Koster Bande	24,668	-
W.M.C Meyer	8,923	-
H.J.E Erasmus	11,860	-
L.M Louw	29,113	-
J.H. and A.J Hugo	17,873	-

Kgetlengrivier Local Municipality 2019

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35. Contingencies (continued)		
C. Van Der Wallt	22,719	-
H. Combrinck	25,441	-
B.M.N Van wyk and M.M Van wyk H. Combrinck	8,981	-
M.S Potgieter	9,725	-
G.C Janneke	12,157	-
P.c.M Schoonbee	2,095	-
R.P. Campher	16,896	-
Carel Van Heerden Familie Trust	63,545	-
S.M.C Horn	4,035	-
E. Van Der Merwe	5,295	-
S.M. Bulbulia	4,097	-
H.E Cocklin	8,353	-
H Coetzee	14,355	-
E.P Smith and A Smith	9,321	-
G.A Scutter and C.E.M Schutte	11,946	-
P.T.E Nel	15,490	-
S.E Du Plessis	15,684	-
H. Visser	6,583	-
P.T.E Nel	48,723	-
G Nortjie	8,603	-
D.J.H Van Den Berg	9,825	-
Jan Slabbert	9,842	-
A.S.P Slabbert	10,449	-
	38,365,226	44,540,515

Landfill sites:

A municipality might be fined and penalised for operating unlicensed landfill sites by the Department of Environmental Affairs.

However, the municipality could not reliably estimate the probable fine that might be incurred as there are no known similar cases against other municipalities.

36. Related parties

Relationships

Members of key management

Refer to Employee related cost note

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37. Prior period errors

Opening accumulated surplus or deficit:

A correction to opening accumulated surplus or deficit was effected in the current year to bring the opening balance in line with the Phoenix accounting system amounting to R10 195 174.00.

A schedule reconciling the amount above is available for inspection.

Library grant:

A correction to the Library grant vote was effected in the current year to account for prior year revenue which was not recognized on the Phoenix accounting system amounting to R1 106 117.00.

No revenue was recognized in the prior year, the grant was instead reported as unspent.

Property, plant and equipment:

Through a purification process, journals that were meant to be processed in the prior period were correctly processed in the current year - the net effect of the correction amounts to R48 887 275.49.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment	-	48,887,275
Opening Accumulated Surplus or Deficit	-	10,195,174
Library grant	-	1,106,117

Statement of financial performance

Revenue	-	(1,106,117)
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38. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Finance department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage risks facing the municipality in undertaking its activities.

The Department of Finance monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purpose.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

Risks and exposures are disclosed as follows:

Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

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38. Risk management (continued)

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

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.

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38. Risk management (continued)

Credit risk

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

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy. The municipality uses its own trading record to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

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

Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

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

Investments/Bank, Cash and Cash Equivalents

Refer to <http://www.fidfund.co.za/banking-options/bank-credit-ratings/> for the most updated ratings.

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an international accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded in spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on-going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water services rendered to them.

Trade Receivables consist of a large number of customers. Periodic credit evaluation is performed on the financial condition of accounts receivable. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. At this stage, the municipality only partially implement its credit control policy as there is no hand over of debtors.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained.

Kgetlengrivier Local Municipality 2019

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38. Risk management (continued)

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Financial instrument	2019	2018
Receivables from exchange transactions	17,368,770	8,552,601
Receivables from non exchange transactions	32,590,931	26,243,628
Other financial assets	1,318,753	1,212,521
Consumer debtors	49,916,948	37,618,594
Cash and cash equivalents	59,155,263	1,472,763
Vat receivable / (payable)	1,224,663	(757,841)
Consumer deposits	(1,975,246)	(1,892,334)
Unspent conditional grants	82,852,628	33,059,357
Employee benefit obligations	888,000	844,000

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with financial instrument will fluctuate in amount as a result of market interest charges.

Financial Assets and Liabilities that are sensitive to interest risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rate.

Potential concentration of interest rate risk consists mainly of variable rate deposit investments, long-term receivables, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Receivables comprise a widespread customer base. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavored to collect such accounts by "demand for payment", "restriction of services", and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy at this stage the municipality only partially implement its credit control policy as there is no hand over of debtors.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment/discounting where applicable.

The municipality is not exposed to interest rate risk as the municipality borrows funds at fixed interest rates.

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Kgetlengrivier Local Municipality 2019

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39. Unauthorised expenditure		
Opening balance	195,346,869	171,572,943
Add: Unauthorised expenditure - current year	81,341,675	23,773,926
	276,688,544	195,346,869
40. Fruitless and wasteful expenditure		
Opening balance	25,672,231	20,809,553
Add: Fruitless and wasteful expenditure - current year	7,889,339	4,862,678
	33,561,570	25,672,231
41. Irregular expenditure		
Opening balance	50,605,011	36,290,801
Add: Irregular Expenditure - current year	38,922,749	14,314,210
	89,527,760	50,605,011
Details of irregular expenditure – current year		
	Disciplinary steps taken/criminal proceedings	
Quotations: Non submission of tax clearance certificates	None	648,851
Quotations: No three written quotations (Deviation)	None	200,000
Tenders: Non compliance with SCM Regulation 32	None	3,741,155
Tenders: Procurement process not followed	None	2,389,766
Tenders: Limitation	None	17,791,316
Tenders: Irregular extension of expired contract	None	5,000,000
Tenders: Supplier with expired contract & PPFA points	None	9,151,661
		38,922,749
Details of irregular expenditure - prior year		
	Disciplinary steps taken/criminal proceedings	
Quotations: Non submission of tax clearance certificates	None	49,746
Quotations: No three written quotations (Deviation)	None	460,138
Tenders: Procurement process not followed	None	2,511,569
Tenders: Supplier with expired contract	None	11,292,833
		14,314,286
42. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	526,666	52,565
	82,703	511,282
Amount paid - current year	(27,230)	(37,181)
	582,139	526,666

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

PAYE and UIF

Opening balance	8,582,523	2,245,729
Current year subscription / fee	7,862,718	6,636,794
Amount paid - current year	(3,976,877)	(300,000)
	12,468,364	8,582,523

Pension and Medical Aid Deductions

Opening balance	1,669,974	5,528,717
Current year subscription / fee	14,873,109	13,417,975
Amount paid - current year	(13,786,622)	(17,276,718)
	2,756,461	1,669,974

VAT

VAT output payables and VAT input receivables are shown in Note 15 .

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2019:

30 June, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr TG Naledi	-	1,479	1,479
Cllr LD Modisane	3,210	33,511	36,721
Cllr OS Molusi	915	21,279	22,194
Cllr JP Snyman	731	-	731
Cllr NP Sole	-	-	-
Cllr MH Bhoola	9,750	99,112	108,862
Cllr ME Doyi	2,874	887	3,761
Cllr A Molefe	1,944	38,329	40,273
Cllr AA Selaledi	-	1,479	1,479
Cllr DJ Ramoenyana	1,110	29,373	30,483
	20,534	225,449	245,983

30 June, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr G Naledi	2,030	62,257	64,287
Cllr OD Medupe	13,745	31,005	44,750
Cllr OS Molusi	2,053	3,790	5,843
Cllr JP Snyman	9,771	24,990	34,761
Cllr N Sole	2,398	2	2,400
Cllr MH Bhoola	7,412	95,543	102,955
Cllr ME Doyi	7,366	12,999	20,365
Cllr A Molefe	1,669	20,084	21,753
	46,444	250,670	297,114

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

Deviation from supply chain management regulations

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

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 Municipal Manager and noted by Council.

Incident

Emergency waterpumps repairs	363,242	302,740
Emergency of electrical fitting	955,162	1,994,524
Draught disaster	17,665,968	7,628,270
Hire of equipment	-	37,620
Strategic planning	-	150,000
Accommodation for councillors during strike	234,379	46,200
Security services	1,380,000	163,374
Chlorine water treatment / Chlorine dosing system	937,049	-
Service of substation	87,370	-
TLB Hiring	46,170	-
Procurement of three heavy chemical storage tanks	63,240	-
	21,732,580	10,322,728

43. Loans from related parties

Short-term liabilities raised	-	-
Repayment agreement with National Treasury regarding unspent grant	20,805,000	-
	20,805,000	-

Short-term liability was raised as a result of a repayment agreement with the National Treasury regarding the unspent grant that was meant to be surrendered .