



## **IMPENDLE LOCAL MUNICIPALITY**

Annual Financial Statements  
for the year ended 30 June 2019

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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<b>Contact Numbers</b>	0339966000
<b>Website</b>	<a href="http://www.impendle.gov.za">www.impendle.gov.za</a>
<b>Demarcation Code</b>	KZN224
<b>Municipal Council</b>	
Mayor	Cllr. Ndlela SG (Speaker)
Councillors	Cllr. Dlamini DS Cllr. Dlamini K Cllr. Memela T Cllr. Mtolo P (MPAC Chairperson) Cllr. Mvelase NG Cllr. Ngubane S
<b>Grading of local authority</b>	Grade 1 Category B
<b>Chief Finance Officer (CFO)</b>	Mr. NS Mkhize
<b>Director</b>	Mr. ZC Tshabalala
<b>Registered office</b>	21 Mafahleni Street Impendle 3227
<b>Business address</b>	21 Mafahleni Street Impendle 3227
<b>Postal address</b>	Private Bag X512 Impendle 3227
<b>Bankers</b>	Amalgamated Banks of South Africa (ABSA) Chatterton Branch, Pietermaritzburg
<b>Auditors</b>	Auditor General South Africa

# Impendle Local Municipality

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

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

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### **Legislation**

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

### **Accounting Officer's Responsibilities and Approval**

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The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records; 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 director 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 were 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 including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal control established by the entity 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 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 entity is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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 ending 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue its operational existence for the foreseeable future.

The municipality is dependent on the grant allocations through the Division of Revenue Act (2016) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Chief Financial Officer.

Auditor General of South Africa is responsible for independent review of Annual Financial Statements and expressing an opinion on fair presentation.

The annual financial statements set out on page 6 to 85, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2019 and were signed on its behalf by:

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**Mr. ZC Tshabalala**

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting officer's Report

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The Accounting Officer submits his report for the year ended 30 June 2019.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in local government 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

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 130 492 248 and that the municipality's total assets exceed its liabilities by R 130 492 248.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continue to procure funding for the ongoing operations for the entity .

### 3. Subsequent events

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

### 4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 5.

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. ZC Tshabalala	South African

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	15 190	6 157
Operating lease asset	3	130 297	27 946
Receivables from exchange transactions	4&50	605 899	400 527
Receivables from non-exchange transactions	5&50	374 336	301 173
VAT receivable	6	282 798	1 100 253
Consumer debtors	7	6 795 673	6 385 098
Cash and cash equivalents	8	8 220 728	4 280 688
		<b>16 424 921</b>	<b>12 501 842</b>
<b>Non-Current Assets</b>			
Investment property	9	13 540 000	12 780 000
Property, plant and equipment	10	114 553 802	104 684 811
Intangible assets	11	240 893	740 453
		<b>128 334 695</b>	<b>118 205 264</b>
<b>Total Assets</b>		<b>144 759 616</b>	<b>130 707 106</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	3	41 656	175 009
Payables from exchange transactions	13	2 812 218	3 329 135
Unspent conditional grants and receipts	14	5 182 626	2 672 744
Provisions	15	4 865 694	2 777 248
Current Portion of Long term Loan	16	602 228	662 825
		<b>13 504 422</b>	<b>9 616 961</b>
<b>Non-Current Liabilities</b>			
Employee Benefit Obligations-Long Service Award	17	931 193	727 565
Long Term Loan	16	-	602 228
		<b>931 193</b>	<b>1 329 793</b>
<b>Total Liabilities</b>		<b>14 435 615</b>	<b>10 946 754</b>
<b>Net Assets</b>		<b>130 324 001</b>	<b>119 760 352</b>
Accumulated surplus		130 492 248	119 760 352

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods		60 128	49 710
Service charges	18	61 250	66 035
Rental of facilities and equipment	20	703 872	689 580
Licences and permits	48	34 330	27 414
Other income	21	540 396	734 048
Interest received - investment and debtors	22	1 011 451	1 051 262
<b>Total revenue from exchange transactions</b>		<b>2 411 427</b>	<b>2 618 049</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	4 941 003	4 694 465
<b>Transfer revenue</b>			
Government grants & subsidies	24	51 144 118	51 219 274
Fines, Penalties and Forfeits	49	-	1 350
<b>Total revenue from non-exchange transactions</b>		<b>56 085 121</b>	<b>55 915 089</b>
<b>Total revenue</b>	19	<b>58 496 548</b>	<b>58 533 138</b>
<b>Expenditure</b>			
Employee related costs	25	(28 791 983)	(26 412 965)
Remuneration of councillors	26	(2 490 359)	(2 394 492)
Administration	39	(1 331 673)	(1 411 677)
Depreciation and amortisation	27	(2 616 015)	(8 227 768)
Finance costs	29	(154 595)	(207 731)
Debt Impairment	30	1 002 488	(5 932)
Transfers and Subsidies	31	-	(67 826)
General Expenses	32	(14 160 754)	(14 005 192)
<b>Total expenditure</b>		<b>(48 542 891)</b>	<b>(52 733 583)</b>
<b>Operating surplus</b>	52	<b>9 953 657</b>	<b>5 799 555</b>
Gain on disposal of assets		26 886	-
Fair value adjustments	33	760 000	965 000
Impairment loss/ Reversal of Impairment	28	(8 647)	(1 613 992)
		<b>778 239</b>	<b>(648 992)</b>
<b>Surplus for the year</b>		<b>10 731 896</b>	<b>5 150 563</b>



## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	106 367 437	106 367 437
Adjustments		
Correction of errors	8 242 352	8 242 352
<b>Balance at 01 July 2017 as restated*</b>	<b>114 609 789</b>	<b>114 609 789</b>
Changes in net assets		
Surplus for the year	5 150 563	5 150 563
Total changes	5 150 563	5 150 563
<b>Restated* Balance at 01 July 2018</b>	<b>119 760 352</b>	<b>119 760 352</b>
Changes in net assets		
Surplus/ (Deficit) for the year	10 731 896	10 731 896
Total changes	10 731 896	10 731 896
<b>Balance at 30 June 2019</b>	<b>130 492 248</b>	<b>130 492 248</b>
Note(s)		

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from customers		5 532 914	2 967 756
Grants and subsidies received - operational		51 144 118	53 459 537
Service charges- Refuse		(144 122)	66 396
Interest income		1 011 451	1 051 545
Other receipts		876 403	723 844
		<u>58 420 764</u>	<u>58 269 078</u>
<b>Payments</b>			
Employee costs		(30 622 565)	(28 657 877)
Suppliers		(11 797 062)	(14 542 062)
Finance costs		(154 595)	(207 731)
		<u>(42 574 222)</u>	<u>(43 407 670)</u>
<b>Net cash flows from operating activities</b>	<b>34</b>	<b><u>15 846 542</u></b>	<b><u>14 861 408</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(11 659 723)	(12 999 741)
Proceeds from disposal of property, plant and equipment	10	416 046	-
Purchase of other intangible assets	11	-	(250 800)
<b>Net cash flows from investing activities</b>		<b><u>(11 243 677)</u></b>	<b><u>(13 250 541)</u></b>
<b>Cash flows from financing activities</b>			
Movement in Long Term Loan		(662 825)	(603 029)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>3 940 040</u></b>	<b><u>1 007 838</u></b>
Cash and cash equivalents at the beginning of the year		4 280 688	3 272 850
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b><u>8 220 728</u></b>	<b><u>4 280 688</u></b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Sale of goods	52 600	10 604	<b>63 204</b>	60 128	<b>(3 076)</b>	Note 45
Service charges	(217 636)	279 094	<b>61 458</b>	61 250	<b>(208)</b>	Note 45
Rental of facilities and equipment	644 621	105 679	<b>750 300</b>	703 872	<b>(46 428)</b>	Note 45
Licences and permits	35 626	4 610	<b>40 236</b>	34 330	<b>(5 906)</b>	Note 45
Other income	158 160	(51 254)	<b>106 906</b>	540 396	<b>433 490</b>	Note 45
Interest received - investment	837 200	(7 200)	<b>830 000</b>	1 011 451	<b>181 451</b>	Note 45
Interest received - Outstanding Debtors	363 120	(164 143)	<b>198 977</b>	-	<b>(198 977)</b>	Note 45
<b>Total revenue from exchange transactions</b>	<b>1 873 691</b>	<b>177 390</b>	<b>2 051 081</b>	<b>2 411 427</b>	<b>360 346</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	5 173 609	25	<b>5 173 634</b>	4 941 003	<b>(232 631)</b>	Note 45
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##### Transfer revenue

Government grants & subsidies	37 582 000	-	<b>37 582 000</b>	51 144 118	<b>13 562 118</b>	Note 45
Fines, Penalties and Forfeits	44 363	(43 363)	<b>1 000</b>	-	<b>(1 000)</b>	Note 45

<b>Total revenue from non-exchange transactions</b>	<b>42 799 972</b>	<b>(43 338)</b>	<b>42 756 634</b>	<b>56 085 121</b>	<b>13 328 487</b>	
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<b>Total revenue</b>	<b>44 673 663</b>	<b>134 052</b>	<b>44 807 715</b>	<b>58 496 548</b>	<b>13 688 833</b>	
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#### Expenditure

Employee Related Costs	(26 956 989)	(1 068 111)	<b>(28 025 100)</b>	(28 791 983)	<b>(766 883)</b>	Note 45
Remuneration of councillors	(2 553 230)	62 872	<b>(2 490 358)</b>	(2 490 359)	<b>(1)</b>	Note 45
Audit fees	(483 920)	(548 092)	<b>(1 032 012)</b>	(1 331 673)	<b>(299 661)</b>	Note 45
Depreciation and amortisation	(8 417 400)	-	<b>(8 417 400)</b>	(2 616 015)	<b>5 801 385</b>	Note 45
Impairment loss/ Reversal of impairments	-	-	-	(8 647)	<b>(8 647)</b>	45
Finance costs	(91 875)	-	<b>(91 875)</b>	(154 595)	<b>(62 720)</b>	Note 45
Bad debts	-	-	-	1 002 488	<b>1 002 488</b>	Note 45
Debt impairment	(1 552 083)	-	<b>(1 552 083)</b>	-	<b>1 552 083</b>	Note 45
General Expenses	14 577 583	503 098	<b>15 080 681</b>	(14 160 754)	<b>(29 241 435)</b>	Note 45

<b>Total expenditure</b>	<b>(25 477 914)</b>	<b>(1 050 233)</b>	<b>(26 528 147)</b>	<b>(48 551 538)</b>	<b>(22 023 391)</b>	
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<b>Operating surplus</b>	<b>19 195 749</b>	<b>(916 181)</b>	<b>18 279 568</b>	<b>9 945 010</b>	<b>(8 334 558)</b>	
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Gain on disposal of assets and liabilities	-	-	-	26 886	<b>26 886</b>	
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Fair value adjustments	-	-	-	760 000	<b>760 000</b>	Note 45
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	-	-	-	<b>786 886</b>	<b>786 886</b>	
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# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Surplus before Capital</b>	<b>19 195 749</b>	<b>(916 181)</b>	<b>18 279 568</b>	<b>10 731 896</b>	<b>(7 547 672)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>19 195 749</b>	<b>(916 181)</b>	<b>18 279 568</b>	<b>10 731 896</b>	<b>(7 547 672)</b>	

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	-	-	-	15 190	15 190	Note 45
Operating lease asset	-	-	-	130 297	130 297	Note 45
Receivables from exchange transactions	-	-	-	605 899	605 899	Note 45
Receivables from non-exchange transactions	550 000	-	550 000	374 336	(175 664)	Note 45
VAT receivable	-	-	-	282 798	282 798	Note 45
Consumer debtors	7 062 000	-	7 062 000	6 795 673	(266 327)	Note 45
Cash and cash equivalents	3 500 000	-	3 500 000	8 220 728	4 720 728	Note 45
	<b>11 112 000</b>	-	<b>11 112 000</b>	<b>16 424 921</b>	<b>5 312 921</b>	

##### Non-Current Assets

Investment property	11 900 000	-	11 900 000	13 540 000	1 640 000	Note 45
Property, plant and equipment	135 710 000	(26 710 000)	109 000 000	114 553 802	5 553 802	Note 45
Intangible assets	800 000	223 000	1 023 000	240 893	(782 107)	Note 45
	<b>148 410 000</b>	<b>(26 487 000)</b>	<b>121 923 000</b>	<b>128 334 695</b>	<b>6 411 695</b>	
<b>Total Assets</b>	<b>159 522 000</b>	<b>(26 487 000)</b>	<b>133 035 000</b>	<b>144 759 616</b>	<b>11 724 616</b>	

#### Liabilities

##### Current Liabilities

Operating lease liability	-	-	-	41 656	41 656	Note 45
Payables from exchange transactions	602 000	-	602 000	2 812 218	2 210 218	Note 45
Unspent conditional grants and receipts	-	-	-	5 182 626	5 182 626	Note 45
Provisions	750 000	-	750 000	4 865 694	4 115 694	
Current Portion of Long term Loan	-	-	-	602 228	602 228	
	<b>1 352 000</b>	-	<b>1 352 000</b>	<b>13 504 422</b>	<b>12 152 422</b>	

##### Non-Current Liabilities

Employee Benefit Obligations-Long Service Award	657 000	-	657 000	931 193	274 193	Note 45
Long Term Loan	629 000	-	629 000	-	(629 000)	Note 45
	<b>1 286 000</b>	-	<b>1 286 000</b>	<b>931 193</b>	<b>(354 807)</b>	
<b>Total Liabilities</b>	<b>2 638 000</b>	-	<b>2 638 000</b>	<b>14 435 615</b>	<b>11 797 615</b>	
<b>Net Assets</b>	<b>156 884 000</b>	<b>(26 487 000)</b>	<b>130 397 000</b>	<b>130 324 001</b>	<b>(72 999)</b>	

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	156 884 000	(26 487 000)	<b>130 397 000</b>	130 324 002	<b>(72 998)</b>	

- 1. Operating lease asset-** this relates to lease rental income which was budgeted for under rental of facilities. Receivables from exchanged transactions- budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.
- 2. VAT receivable-** a portion of VAT refund is included in the non-exchange receivables budget.
- 3. Consumer debtors-** new valuation roll commenced and property values increased which resulted in increase in debtors book.
- 4. Cash and cash equivalents-** budget projections relates to 100% expenditure incurred for the year relating to conditional grants.
- 5. Intangible assets-** this item was budgeted for under the property, plant and equipment line item.
- 6. Operating lease liability-** this item was budgeted for under the operating lease expenses.
- 7. Payables from exchanged transactions-** budget projections included anticipated unspent grant expenditure from previous financial year.
- 8. Unspent conditional grants and receipts-** item budgeted for under payables from exchange transactions budget.
- 9. Long-term loan-** a new loan was taken during the reporting period, processes for the approval of the loan were expected to be concluded during 2015/2016 financial year therefore the loan liability was budgeted for in the 2015/2016 financial year.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice, issued by the Accounting Standards Board.

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.

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 entity.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity 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.

##### Trade receivables and receivables

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

The impairment for trade receivables 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.

##### Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Impairment testing

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

#### 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 15 - Provisions.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

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

As described in Accounting Policies 1.5 and 1.7, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### Provision for Rehabilitation of Landfill Site

The municipality has an obligation to rehabilitate its refuse transfer station. Provision is made for this obligation based on the size / extent of the land to be rehabilitated. Current costs are projected based on the fair value calculations by the Engineering Consultants, using the average rate of inflation over the remaining period until rehabilitation.

#### Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

### 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.



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## Accounting Policies

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### 1.4 Investment property (continued)

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 entity, 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, the cost is its fair value as at the date of acquisition.

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

#### Fair value

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

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

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

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

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

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.

### 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.

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.

# Impendle Local Municipality

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## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	30
Plant and machinery	Straight line	10-15
Furniture and fixtures	Straight line	10
Motor vehicles	Straight line	5-7
Office equipment	Straight line	
• Computer Hardware		4
• Office Machinery		3-5
IT equipment	Straight line	3-5
Infrastructure- Roads	Straight line	10-15
Community	Straight line	
• Sportfields		30
• Community Halls		30
Other property, plant and equipment	Straight line	
• Security Measures		3
• Security Measures		5
Other equipment	Straight line	
• Kitchen Equipment		5-7
Communication equipment	Straight line	
• A/V Equipment		5

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

### 1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.7 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.

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.

# Impendle Local Municipality

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## Accounting Policies

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### 1.7 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	3- 5 Years

Intangible assets are derecognised:

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

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

### 1.8 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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

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

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

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

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

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# **Impendle Local Municipality**

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## **Accounting Policies**

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### **1.9 Leases**

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

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

#### **Finance leases - lessee**

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

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

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

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

#### **Operating leases - lessor**

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

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

#### **Operating leases - lessee**

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

### **1.10 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.

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

The cost of inventories comprises of all costs of purchase.



# **Impendle Local Municipality**

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## **Accounting Policies**

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### **1.10 Inventories (continued)**

When inventories are consumed, the carrying amounts of those inventories are recognised as an expense in the period in which 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.

## Accounting Policies

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### 1.11 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.

### Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable 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 a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

### Recognition and measurement (individual asset)

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

# Impendle Local Municipality

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## Accounting Policies

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued 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 cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

#### Reversal of impairment loss

The municipality assess 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.

#### Redesignation

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

### 1.12 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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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.

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:

#### 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 test 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.

## Accounting Policies

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### 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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.13 Employee benefits

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

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

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

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

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

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

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

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

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

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.13 Employee benefits (continued)

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

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

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

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

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

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

The municipality does not have post employment benefit plans. However, the municipality recognises its employees who have completed 10, 20, 30, 40 years of service in terms of the collective agreement.

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

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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



# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 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.

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.

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

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

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a 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.

### 1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.16 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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Measurement

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

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

### 1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an 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, an 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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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.

#### 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.

# **Impendle Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Taxes**

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

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

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

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

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

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

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

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

# **Impendle Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Services in-kind**

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

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

#### **Concessionary loans received**

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

### **1.18 Commitments**

The term commitments' is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

### **1.19 Investment income**

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

### **1.20 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.

### **1.21 Comparative figures**

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

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.22 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.

### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

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 which have not been condoned as the end of the year 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 No.56 of 2003), the Municipal Systems (Act No.32 of 2000), and the Public Office Bearers (Act No. 20 of 1998) or is in contravention of the economic municipality'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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.25 Revaluation reserve

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

### 1.26 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.

### 1.27 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

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 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.

### 1.28 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 an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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

### 1.29 Related parties

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

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.29 Related parties (continued)

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

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

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

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

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

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

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

### 1.30 Value Added Taxation

The Municipality accounts for Value Added Tax on payment basis. This means that VAT is declared to the South African Receiver of Revenue Services as input VAT or output VAT only when payments are made to suppliers or invoices made out to customers for goods and services. The net output VAT on debtors where money has not been received or creditors where payments has not yet been made is disclosed separately in the Statements of Financial Position in terms of GRAP 1.

### 1.31 Events after the Reporting Period

Adjusting and non-adjusting events may occur between the reporting date and the date the report is authorised for issue. Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed, i.e. a court case is settled after the reporting date and the contingency has previously been disclosed in a note, then a liability or provision will need to be recognised as follows:

- as a provision if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation; or
- as a liability if no uncertainties exist. Where a non-adjusting event occurs relating to liabilities, for example, the market value of a financial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event is material, the agency must disclose the following for each material category of non-adjusting event after the reporting date: the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.



# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>2. Inventories</b>		
Consumables	15 190	6 157
<b>3. Operating lease asset (accrual)</b>		
Current assets	130 297	27 946
Non-current liabilities	-	-
Current liabilities	(41 656)	(175 009)
	<b>88 641</b>	<b>(147 063)</b>
<p>The municipality has a rental agreements/operating lease for office equipments such as photocopiers and scanning machines. The operating lease agreement for office equipment resulted in a lease liability.</p>		
<b>Minimum lease payments due:</b>		
-due within one year	208 844	717 847
-due in 2 - 5 years	-	208 844
	<b>208 844</b>	<b>926 691</b>
<p>The municipality lets properties within Thusong Center under operating leases. Thusong Center is the main asset (Building-Investment Property) generating rental income through operating lease</p>		
<b>Operating lease - lessor (income)</b>		
<b>Minimum lease payments due</b>		
- within one year	340 756	251 431
-second to fifth year inclusive	1 468 243	253 450
	<b>1 808 999</b>	<b>504 881</b>
<b>4. Receivables from exchange transactions</b>		
Other receivables	605 899	400 527
<b>5. Receivables from non-exchange transactions</b>		
Fines	49 678	49 678
Other receivables from non-exchange - Debtors	360 810	201 647
Consumer debtors - Other	(36 152)	49 848
	<b>374 336</b>	<b>301 173</b>
<b>6. VAT receivable</b>		
VAT	282 798	1 100 253
<b>7. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	7 923 745	8 515 657
<b>Less: Allowance for impairment</b>		
Rates	(1 128 072)	(2 130 559)

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>7. Consumer debtors (continued)</b>		
<b>Net balance</b>		
Rates	6 795 673	6 385 098
<b>Rates</b>		
Current (0 -30 days)	175 166	102 764
31 - 60 days	159 212	307 768
61 - 90 days	144 435	135 288
91 - 120 days	171 195	122 070
121 - 365 days	174 708	143 253
> 365 days	6 285 629	5 573 955
	<b>7 110 345</b>	<b>6 385 098</b>
<b>Refuse</b>		
Current (0 -30 days)	-	5 590
31 - 60 days	3 148	4 658
61 - 90 days	2 435	3 453
91 - 120 days	1 738	3 274
121 - 365 days	1 505	2 431
> 365 days	16 801	10 559
	<b>25 645</b>	<b>29 965</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(2 130 560)	(2 131 942)
Contributions to allowance	-	(5 932)
Provision for debt impairment	1 002 487	7 314
	<b>(1 128 073)</b>	<b>(2 130 560)</b>
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	-	164
Bank balances	7 326 662	4 280 524
Short-term deposits	894 066	-
	<b>8 220 728</b>	<b>4 280 688</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019			2018		
8. Cash and cash equivalents (continued)						
The entity had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA BANK - Main Account - 4076240270	7 272 677	4 108 594	2 885 852	7 326 662	4 280 524	2 889 554
FNB BANK - Call Account - 62631786996	-	-	71 276	-	-	71 276
ABSA BANK - Call Account - 9344085210	828 707	-	-	828 707	-	-
ABSA Bank - Call Acocunt 9341782124	38 141	-	-	38 141	-	-
ABSA BANK - Call Account - 9344157980	27 218	-	-	27 218	-	-
FNB bank Account - Call Account - 62631790690	-	-	241 020	-	-	241 020
FNB Bank Account - 62631816660	-	-	70 838	-	-	70 838
Standard Bank – Housing services   258541326-016	-	-	-	-	-	1
Nedbank - Municipal Infrastructure Grant   03/7881012463/000058	-	-	-	-	-	1
Standard Bank - Cyber cadet  258541326-019	-	-	-	-	-	1
Standard Bank - Other General Investment   258541326-004	-	-	-	-	-	1
Standard Bank -Sport field Grant   258541326-017	-	-	-	-	-	1
FNB – EPWP   62778276305	-	-	-	-	-	1
NEDBANK - Finance Management Grant 03-7881012463-000059	-	-	-	-	-	1
Standard Bank -Other General Investment(Equitable share) 258541326-018	-	-	-	-	-	1
Petty Cash	-	-	-	-	164	162
<b>Total</b>	<b>8 166 743</b>	<b>4 108 594</b>	<b>3 268 986</b>	<b>8 220 728</b>	<b>4 280 688</b>	<b>3 272 858</b>

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 9. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	13 540 000	-	13 540 000	12 780 000	-	12 780 000

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	12 780 000	760 000	13 540 000

#### Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	11 815 000	965 000	12 780 000

#### Pledged as security

Carrying value of assets pledged as security:

Investment property 1 - Shops ERF 26	2 720 000	2 580 000
Terms and conditions		
Investment property 2 - Thusong Centre and Offices ERF 38	6 700 000	6 300 000
Terms and conditions		
Investment property 3 - Two Dwellings and Outside Building ERF 52	420 000	350 000
Investment property 4 - Community Hall and Creche ERF 165	3 050 000	2 900 000
Investment property 3 - Municipal land - ERF 33	650 000	650 000

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.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 10. 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	11 232 000	-	11 232 000	11 232 000	-	11 232 000
Buildings	4 947 389	(2 338 327)	2 609 062	4 947 389	(2 173 414)	2 773 975
Plant and machinery	623 575	(468 881)	154 694	1 634 868	(1 016 837)	618 031
Furniture and fixtures	1 138 038	(1 044 585)	93 453	1 314 920	(1 082 576)	232 344
Motor vehicles	1 297 427	(1 086 095)	211 332	1 844 113	(1 373 294)	470 819
IT equipment	1 048 275	(897 284)	150 991	1 099 633	(791 009)	308 624
Infrastructure	69 580 990	(26 063 749)	43 517 241	55 724 395	(25 628 610)	30 095 785
Community	54 830 409	(7 986 952)	46 843 457	40 398 755	(6 505 687)	33 893 068
Kitchen equipment	47 583	(43 400)	4 183	49 788	(38 262)	11 526
Communication equipment	131 967	(117 966)	14 001	131 967	(118 438)	13 529
Office Equipment	376 179	(339 691)	36 488	338 065	(309 703)	28 362
Assets under construction	9 633 825	-	9 633 825	24 995 520	-	24 995 520
Security equipment	382 033	(328 958)	53 075	417 236	(406 008)	11 228
<b>Total</b>	<b>155 269 690</b>	<b>(40 715 888)</b>	<b>114 553 802</b>	<b>144 128 649</b>	<b>(39 443 838)</b>	<b>104 684 811</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other movements	Depreciation	Impairment loss	Total
Land	11 232 000	-	-	-	-	-	-	-	11 232 000
Buildings	2 773 975	-	-	-	-	-	(164 913)	-	2 609 062
Plant and machinery	618 031	-	(352 518)	-	-	-	(110 819)	-	154 694
Furniture and fixtures	232 344	-	(26 980)	-	-	-	(111 434)	(477)	93 453
Motor vehicles	470 819	-	-	-	-	-	(259 487)	-	211 332
IT equipment	308 624	32 999	(4 053)	-	-	-	(178 477)	(8 102)	150 991
Infrastructure	30 095 785	-	-	13 251 834	-	468 921	(299 299)	-	43 517 241
Community	33 893 068	-	-	14 431 655	-	-	(1 481 266)	-	46 843 457
Kitchen equipment	11 526	-	(459)	-	-	-	(6 816)	(68)	4 183
Communications equipment	13 529	-	-	-	-	-	472	-	14 001
Office equipment	28 362	50 000	(4)	-	-	-	(41 870)	-	36 488
Assets under construction	24 995 520	12 321 794	-	-	(27 683 489)	-	-	-	9 633 825
Security measures	11 228	-	(5 125)	-	-	-	-	46 972	53 075
	<b>104 684 811</b>	<b>12 404 793</b>	<b>(389 139)</b>	<b>27 683 489</b>	<b>(27 683 489)</b>	<b>468 921</b>	<b>(2 653 909)</b>	<b>38 325</b>	<b>114 553 802</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Assets Written-off	Transfers received	Other changes, movements	Depreciation	Impairment loss	Total
Land	11 232 000	-	-	-	-	-	-	11 232 000
Buildings	2 938 888	-	-	-	-	(164 913)	-	2 773 975
Plant and machinery	878 343	-	(125 666)	-	-	(134 646)	-	618 031
Furniture and fixtures	316 355	-	(76)	-	-	(83 935)	-	232 344
Motor vehicles	733 777	-	(1)	-	-	(262 957)	-	470 819
IT equipment	430 324	34 885	(4)	-	(10 976)	(144 717)	(888)	308 624
Infrastructure	30 461 350	-	(554 005)	7 202 326	-	(5 399 894)	(1 613 992)	30 095 785
Community	35 205 993	-	(42 230)	-	-	(1 270 695)	-	33 893 068
Kitchen equipment	17 167	-	-	-	-	(5 641)	-	11 526
Communication equipment	27 096	-	-	-	-	(13 567)	-	13 529
Office equipment	50 302	-	(704)	-	-	(21 236)	-	28 362
Assets under construction	19 232 990	12 964 856	-	(7 202 326)	-	-	-	24 995 520
Security Measures	11 230	-	(2)	-	10 187	(10 187)	-	11 228
	<b>101 535 815</b>	<b>12 999 741</b>	<b>(722 688)</b>	<b>-</b>	<b>(789)</b>	<b>(7 512 388)</b>	<b>(1 614 880)</b>	<b>104 684 811</b>

#### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	11 761 703	13 233 817	24 995 520
Additions/capital expenditure	-	12 321 794	12 321 794
Transferred to completed items	(13 251 834)	(14 431 655)	(27 683 489)
	<b>(1 490 131)</b>	<b>11 123 956</b>	<b>9 633 825</b>

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 10. Property, plant and equipment (continued)

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

	Included within Infrastructure	Included within Community	Total
Opening balance	5 053 359	14 179 631	19 232 990
Additions/capital expenditure	6 853 447	-	6 853 447
<b>Totals</b>	<b>11 906 806</b>	<b>14 179 631</b>	<b>26 086 437</b>

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

#### 11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 482 134	(1 241 241)	240 893	2 399 769	(1 659 316)	740 453

##### Reconciliation of intangible assets - 2019

	Opening balance	Disposals	Impairment loss	Total
Computer software	740 453	(345 841)	(153 719)	240 893

##### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	1 047 874	250 800	157 848	(716 069)	740 453

#### Other information

A carrying amount of R454,154 with a remaining useful life of 32 months relating to a Financial System software (MSCOA) is considered to be material intangible asset in the financial statements.

#### 12. Repairs and Maintenance

Contracted Services	208 998	116 536
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## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>13. Payables from exchange transactions</b>		
Trade payables	908 457	1 465 389
Payments received in advanced	391 581	479 302
Accrued bonus	745 752	618 158
Commission	25 400	25 400
Deposits received	6 215	5 151
Retentions	734 813	735 735
	<b>2 812 218</b>	<b>3 329 135</b>

#### 14. Unspent conditional grants and receipts

The municipality received in total an amount of R21 005 000 for conditional grants during the 2018/19 financial year. The municipality had an unspent amount of R5 812 080 at the end of the financial year 2018/19.

**Unspent conditional grants and receipts comprises of:**

##### Unspent conditional grants and receipts

Sports Field - KwaNxamalala Grant	5 013 745	2 672 744
Library Grant	168 881	-
	<b>5 182 626</b>	<b>2 672 744</b>

##### Movement during the year

Balance at the beginning of the year	2 672 744	813 571
Additions during the year	21 005 000	21 984 000
Income recognition during the year	(18 495 118)	(20 124 827)
	<b>5 182 626</b>	<b>2 672 744</b>

These amounts are invested in a ring-fenced investment until utilised. Revenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 15. Provisions

##### Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	1 169 740	1 759 891	2 929 631
Leave pay provision	1 607 508	328 555	1 936 063
	<b>2 777 248</b>	<b>2 088 446</b>	<b>4 865 694</b>

##### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	891 000	278 740	-	1 169 740
Leave pay provision	1 730 965	261 960	(385 417)	1 607 508
	<b>2 621 965</b>	<b>540 700</b>	<b>(385 417)</b>	<b>2 777 248</b>

The provisions for the above relates to expenses directly attributed to the rehabilitation of landfill site and leave pay-out for staff leave days. The municipality expects to incur these expenses during the next financial year and the amount to be incurred is uncertain.

##### Environmental rehabilitation provision

In terms of the licencing of the Landfill refuse site, the municipality will incur licensing costs and rehabilitation costs estimated at R2 929 631 to restore the site at the end of its useful life. Provision has been made, taking into account the independent valuer's report, for the net present value of this cost, using the average cost of borrowing interest rate. The provision will be funded internally by internally generated revenue.

The municipality is not certain of the amount which might be incurred in the rehabilitation of the landfill site.

##### Employee benefit cost provision

The above provision for leave pay relates to the number of days accumulated by the employees during the reporting period. The leave pay provision is calculated on all outstanding leave balances as at 30 June 2019. This is the amount that the employees would be entitled to receive should the employees resign or cease employment with the municipality on 30 June 2019.

The municipality is not certain when will the leave days be paid out to employees as this depends on when will employees resign or cease employment with the municipality.

#### 16. Long Term Loan

##### Non-current

ABSA Loan	-	1 265 053
Less: Short - term portion transferred to current liabilities	-	(662 825)
	-	<b>602 228</b>

##### Current liabilities

Current portion of long term loan	602 228	662 825
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# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 17. Employee Benefit Obligations-Long Service Award

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Movement in the present value of the defined benefit obligation	2019	2018
Opening balance	727 565	666 126
Current service cost	80 399	77 024
Interest cost	62 720	56 059
Actuarial (gain)/losses	126 501	(71 644)
Benefit paid by the plan	(65 992)	-
	<b>931 193</b>	<b>727 565</b>

The actuarial valuation of the long service awards report has been performed by One Pangaea Financial. The Projected Unit Credit Method has been used to value the long service award and the effective date of this valuation is 30 June 2019.

#### Key assumptions used

Assumptions used at the reporting date: The expected inflation assumption of 4.64% was obtained from the differential between market yields on index-linked bonds (3.21%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.50\%-0.50\%)/(1+3.21\%))-1$ . Thus, a general salary inflation rate of 5.64% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 2.71%. It has been assumed that the next salary increase will take place on 1 July 2019.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's salary at the date of the award.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index than in absolute terms. Experience has shown that over the long term, salary inflation will exceed general inflation by 1.0%.

#### Key Financial Assumptions

Discount rate	8.50
CPI	4.64

The salaries used in the valuation include an assumed increase on 01 July 2019 of 5.64% as per the SALGBC Circular No: 02//2018. The next salary increase was assumed to take place on 01 July 2020.

#### Key Demographic Assumptions

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018	
<b>Withdrawal from Service (sample annual rate)</b>	Age	Female	Male
	20	24%	16%
	25	18%	12%
	30	15%	10%
	35	10%	8%
	40	6%	6%
	45	4%	4%
	50	2%	2%
	55	1%	1%
	60		
It has been assumed that male employees will retire at 62 and female at age 50.			
The mortality rate during employment in South Africa is 85 years to 90 years			
<b>18. Service charges</b>			
Service charges		61 250	66 035
<b>19. Revenue</b>			
Sale of goods		60 128	49 710
Service charges		61 250	66 035
Rental of facilities and equipment		703 872	689 580
Licences and permits		34 330	27 414
Other income		540 396	734 048
Interest received - investment		1 011 451	1 051 262
Property rates		4 941 003	4 694 465
Government grants and subsidies		51 144 118	51 219 274
Fines, Penalties and Forfeits		-	1 350
		<b>58 496 548</b>	<b>58 533 138</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>			
Sale of goods		60 128	49 710
Service charges		61 250	66 035
Rental of facilities and equipment		703 872	689 580
Licences and permits		34 330	27 414
Other income		540 396	734 048
Interest received		1 011 451	1 051 262
		<b>2 411 427</b>	<b>2 618 049</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>			
<b>Taxation revenue</b>			
Property rates		4 941 003	4 694 465
<b>Transfer revenue</b>			
Government grants & subsidies		51 144 118	51 219 274
Licences and permits		-	1 350
		<b>56 085 121</b>	<b>55 915 089</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 20. Rental of facilities and equipment

#### Facilities and equipment

Hall Hire	10 479	9 804
Rental Income - Thusong Center and Equipment	693 393	679 776
	<b>703 872</b>	<b>689 580</b>

### 21. Other income

Sundry Receipts	1 076	50 000
Tender Fees	59 508	143 167
Rates Certificates	5 609	1 279
Local Government SETA Refund	71 761	487 767
Income from Insurance	13 282	-
Copies, Fax and Printing	-	12 867
Thusong Grant- rollover	-	38 968
Proceeds on disposal of assets	389 160	-
	<b>540 396</b>	<b>734 048</b>

### 22. Interest received - investment and debtors

#### Interest revenue

Interest on Investments	852 616	849 752
Interest charged on trade and other receivables	158 835	201 510
	<b>1 011 451</b>	<b>1 051 262</b>

The amount included in Investment revenue arising from exchange transactions amounted to R852 616.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R158 835 (PY: R201 510 ).

### 23. Property rates

#### Rates accrued

Residential	383 622	737 775
Commercial property	5 856	277 753
Government	2 604 440	2 328 283
Small holdings and farms	1 933 984	1 704 947
Multi-purpose	13 101	11 566
Less: Income forgone	-	(365 859)
	<b>4 941 003</b>	<b>4 694 465</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	32 649 000	31 475 000
Finance Management Grant	1 900 000	1 900 000
Cyber Cadet Grant (Art & Culture)	197 000	188 000
Expanded Public Works Programme Grant	1 160 000	1 460 000
Library Grant	1 507 119	744 000
Sport Field Maintenance Grant	-	281 557
	<b>37 413 119</b>	<b>36 048 557</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	11 572 000	11 845 000
Electrification Grant	-	75 908
Sports Field Grant	2 158 999	3 249 809
	<b>13 730 999</b>	<b>15 170 717</b>
	<b>51 144 118</b>	<b>51 219 274</b>

### Equitable Share

In terms of the Constitution of the Republic of South Africa, the Equitable Share Grant is used to subsidise the provision of basic services to indigent community members and facilitation of service delivery.

All registered indigents receive a monthly free basic electricity which was allocated as a percentage of the Equitable Share.

### Free Basic Electricity Grant

Current-year receipts	-	3 367 557
Conditions met - transferred to revenue	-	(3 367 557)
	-	-

All conditions were met.

This grant is to be used to provide monthly subsidy of 50kW of electricity free to indigent people.

This amount is part of Equitable share.

The focus was to assist the municipality to subsidise indigent people in the community with free basic services.

As at 30 June 2018, implementation was 100% complete and the grant had been spent in full.

### Sports Field Grant

Balance unspent at beginning of year	2 672 744	75 015
Current-year receipts	4 500 000	5 847 538
Conditions met - transferred to revenue	(2 158 999)	(3 249 809)
	<b>5 013 745</b>	<b>2 672 744</b>

Conditions still to be met - remain liabilities (see note 14).

As at 30 June 2019, the implementation was not complete and the grant had been spent in full.

The grant is used for construction of Nxamalala Sports field.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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

This grant was transferred by the Department of Sports and Recreation

#### Cyber Cadet Grant

Current-year receipts	197 000	188 000
Conditions met - transferred to revenue	(197 000)	(188 000)
	-	-

Conditions to the grant were met in full - (see note 14).

The grant is to be used to pay Cyber Cadet's salary.

The grant was transferred by Provincial Library Services Department.

As at 30 June 2019, the implementation was 100% and the grant conditions had been spent in full.

#### Housing Fund Grant

Current-year receipts	-	381 091
Conditions met - transferred to revenue	-	(381 091)
	-	-

The grant was transferred back to the Department of Human Settlement.

#### Municipal Infrastructure Grant

Current-year receipts	11 572 000	11 845 000
Conditions met - transferred to revenue	(11 572 000)	(11 845 000)
	-	-

All conditions were met.

The grant was used for infrastructure development only.

The grant was transferred by National Treasury.

The grant intended focus is to provide specific capital finance for basic municipal infrastructure backlogs for the poor households to micro-enterprises and social institutions servicing poor communities.

The grant was 100% implemented and the grant had been spent in full.

#### Electrification Grant

Current-year receipts	-	75 908
Conditions met - transferred to revenue	-	(75 908)
	-	-

The grant is used for the implementation of the integrated national electrification by providing capital subsidies to Eskom to address the electrification backlogs of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

This grant was transferred by the Department of Energy.

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
<b>Expanded Public Works Programme Grant</b>		
Current-year receipts	1 160 000	1 460 000
Conditions met - transferred to revenue	(1 160 000)	(1 460 000)
	-	-

The conditions of this grant were met in full.

As at 30 June 2019, the implementation was 100% and the conditions of the grant had been met in full.

The EPWP Grant creates work opportunities in four sectors, namely; increasing the labour intensity of government- funded by infrastructure projects.

The grant was transferred by the Department of Public Works.



# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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

#### Thusong Grant

Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	-	-

Conditions still to be met - remain liabilities (see note 14).

This is an ongoing initiative that focuses in the rural areas and under-serviced areas with the following key objectives:

- To bring government information and services closer to the people and to promote cost-effective, integrated, efficient and sustainable service provision to better serve the needs of citizens;
- To promote access to opportunities as a basis for improved livelihoods;
- To create a platform for greater dialogue between citizens and government.

#### Finance Management Grant

Current-year receipts	1 900 000	1 900 000
Conditions met - transferred to revenue	(1 900 000)	(1 900 000)
	-	-

The grant is to be used to finance the cost for the establishment of budget and treasury office, establishment of supply chain management, internal audit and audit committee, appointment and training of finance interns, preparing and timely submission of annual financial statements, implement corrective actions to address audit findings and the implementation of a financial recovery plan and implementation thereof where appropriate.

The grant was transferred by National Treasury.

The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act No.56 of 2003.

As at 30 June 2019, implementation was 100% and the conditions of the grant had been spent in full.

#### Municipal Systems Improvement Grant

Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	-	-

All conditions of the grant were met.

This grant is to be used for municipal systems improvement.

The grant was transferred by National Cooperative Governance and Traditional Affairs.

The focus of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems that support effective service delivery as required in the Municipal Systems Act, 2000 and related legislations and policies.

#### Library Grant (Art and Culture)

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>24. Government grants and subsidies (continued)</b>		
Current-year receipts	1 676 000	744 000
Conditions met - transferred to revenue	(1 524 870)	(744 000)
	<b>151 130</b>	<b>-</b>

All conditions were met.

This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives. The grant was transferred by Provincial Library Department

The focus for this grant was to assist the municipality to finance the salary of the library staff

As at 30 June 2019, implementation was 52% and the conditions of the grant had been met in full.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue (Act of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years, except for the Municipal Systems Improvement Grant which will cease to exist as at the 2016/17 financial year.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Employee related costs</b>		
Basic	20 569 705	20 232 891
Bonus	2 307 164	1 053 162
Medical aid - company contributions	821 134	845 291
UIF	194 586	156 748
SDL	238 609	202 865
Bargaining Council Levies	251 221	336 152
Leave pay provision charge	486 745	202 374
Defined contribution plans	2 528 132	1 987 709
Travel, motor car, accommodation, subsistence and other allowances	478 051	741 021
Overtime payments	51 227	23 721
Long-service awards	-	59 586
Acting allowances	90 864	26 415
Car allowance	365 601	340 000
Housing benefits and allowances	135 693	129 565
Cellphone Allowance	244 703	65 241
Standby Allowances	21 498	21 918
Non-Pensionable Allowance	7 050	59 950
Actuarial Gains and Losses	-	(71 644)
	<b>28 791 983</b>	<b>26 412 965</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	111 058	625 476
Other (Travell and other Allowances)	134 709	302 747
	<b>245 767</b>	<b>928 223</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	393 238	633 469
Other (Travel and other allowances)	180 680	263 743
	<b>573 918</b>	<b>897 212</b>
<b>Remuneration for Community and Corporate Services Manager</b>		
Annual Remuneration	643 772	674 632
Other (Travel and other allowances)	169 417	301 422
	<b>813 189</b>	<b>976 054</b>
<b>Remuneration for Infrastructure &amp; Planning Services Manager</b>		
Annual Remuneration	635 247	740 168
Other (Travel and other allowances)	316 872	241 368
	<b>952 119</b>	<b>981 536</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Remuneration of councillors</b>		
Mayor	796 883	767 941
MPAC Chairperson	282 246	273 098
Councillors (All councillors except MPAC Chairperson are in the same bracket)	1 411 230	1 353 453
	<b>2 490 359</b>	<b>2 394 492</b>
There were no councillors who had arrear accounts outstanding for more than 90 days during the reporting period.		
<b>In-kind benefits</b>		
The remuneration of the Political Office Bearers and Councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.		
The Mayor is full-time. He is provided with an office, cellphone, 3G modem and a laptop at the cost of the Council.		
The Mayor utilises Council owned vehicle for official duties.		
The Mayor has two full-time mayoral aids sourced within municipal security section.		
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	2 616 015	8 227 768
<b>28. Impairment</b>		
<b>Impairments</b>		
Property, plant and equipment	8 647	1 613 992
Infrastructure assets were assessed for impairment during the reporting period Certain assets within the infrastructure was subsequently impaired by R 8 647 in 2019 :(2018:R1 613 992).		
<b>29. Finance costs</b>		
Non-current borrowings	154 595	207 731
<b>30. Provisions</b>		
Provision for Debt Impairment	(1 002 488)	5 932
<b>31. Grants funded expenditure</b>		
<b>Other subsidies</b>		
Electrification projects	-	67 826

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>32. General expenses</b>		
Advertising	109 858	190 372
Bank charges	135 228	89 593
Cleaning Material	117 418	57 375
Consulting and professional fees	6 783 470	5 992 153
Scrapping loss	-	127 488
Insurance	182 366	217 908
Legal Fees	90 114	-
Motor vehicle licence fees	9 080	22 746
Fuel and oil	611 168	520 110
Printing and stationery	73 870	93 525
Achievements and Awards	16 500	77 024
Protective clothing	626	187 725
Employee Assistant Program	4 967	-
Subscriptions and membership fees	520 239	500 000
Telephone and fax	630 333	546 871
Subsistence & Travelling	168 824	300 835
Bursaries	167 729	420 690
Donations	101 944	148 467
Travel and accomodation	117 894	80 099
Sports and recreation	196 873	185 362
Indigent relief	3 076 802	3 367 558
Art tourism culture	92 113	92 561
Elderly support	37 842	30 959
Other expenses	915 496	755 771
	<b>14 160 754</b>	<b>14 005 192</b>
<b>33. Fair value adjustments</b>		
Investment property (Fair value model)	760 000	965 000
<b>34. Cash generated from operations</b>		
Surplus	10 731 896	5 150 563
<b>Adjustments for:</b>		
Depreciation and amortisation	2 616 015	8 227 768
Gain on disposal of assets	(26 886)	-
Fair value adjustments	(760 000)	(965 000)
Impairment deficit	8 647	1 613 992
Bad Debts	(1 002 488)	5 932
Movements in operating lease assets and accruals	(235 704)	(42 148)
Movements in provisions	2 088 446	155 283
Assets written off	-	5 470
<b>Changes in working capital:</b>		
Inventories	(9 033)	(6 157)
Receivables from exchange transactions	(205 372)	3 411
Consumer debtors	(35 635)	(1 044 036)
Other receivables from non-exchange transactions	(73 163)	57 039
Payables from exchange transactions	(516 921)	(166 052)
VAT	817 455	(29 383)
Unspent conditional grants and receipts	2 509 882	1 859 173
Current Portion of Long term Loan	(60 597)	35 553
	<b>15 846 542</b>	<b>14 861 408</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>35. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	2 040 504	4 109 225
<b>Total capital commitments</b>		
Already contracted for but not provided for	2 040 504	4 109 225
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	2 040 504	4 109 225

This committed expenditure relates to infrastructure projects and will be financed by available Municipal Infrastructure Grant Allocation gazetted in the 2018/19 DORA Allocation.

Capital commitment figure includes VAT and excludes professional fees for consulting engineers.

### Operating leases - as lessee (expense)

<b>Minimum lease payments due</b>		
- within one year	208 845	717 847
- in second to fifth year inclusive	-	208 845
	<b>208 845</b>	<b>926 692</b>

Operating lease payments represent rentals payable by the entity for certain of its office photocopying machines. Leases are negotiated for an average term of five years and rentals have straightlined for the lease term duration. No contingent rent is payable.

### Operating leases - as lessor (income)

<b>Minimum lease payments due</b>		
- within one year	-	251 431
- in second to fifth year inclusive	-	128 299
	<b>-</b>	<b>379 730</b>

Certain of the entity's facilities is held to generate rental income. Rental of these facilities is expected to generate rental on an ongoing basis. Lease agreements are cancelable with three months written notice by either party and have terms from 1 to 5 years. There are no contingent rents receivable.

## Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

### Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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#### 36. Related parties

##### Compensation to director and other key management

Short-term employee benefits	293 974	362 548
Defined contribution plans	365 601	340 000
	<b>659 575</b>	<b>702 548</b>

##### Remuneration of management

##### Councillors/Mayoral committee members

#### 2019

	Basic salary	Other short-term employee benefits	Post-employment benefits	Total
<b>Name</b>				
Councillors	1 307 735	855 690	326 934	2 490 359

#### 2018

	Basic salary	Other short-term employee benefits	Total
<b>Name</b>			
Councillors	1 626 551	767 941	2 394 492

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 37. Prior period errors

During 2018/19 Financial Year, management restated opening balances for Infrastructure and community assets. The prior period error was adjusted retrospectively. Below is a summary of the total effect that prior period error had on the amounts that were previously audited in the Annual Financial Statements.

The Municipality identified prior period errors relating to the following items:

1. Infrastructure of R4,589,804
2. Community assets R1,345,227
3. IT Equipment -R10,088 and Security Equipment R10,187
4. Intangible Asset R157,848

#### Statement of Financial Position

	2017 Audited Figures	Correction of error (Accumulated Surplus)	Restated 2018 Balance
Opening Accumulated Surplus Balance	-	113 667 379	-
Cost - Infrastructure	69 896 694	(14 172 299)	55 724 395
Cost - Community Assets	38 407 693	1 991 062	40 398 755
Cost - Furniture and Fittings	1 316 029	(1 109)	1 314 920
Cost - IT Equipment	479 447	-	1 099 633
Cost - Intangible Asset	582 605	157 848	740 453
Consumer Debtors	400 527	-	401 916
Accumulated Depreciation and Impairment - Community	(5 859 852)	(645 835)	(6 505 687)
Accumulated Depreciation and Impairment - Infrastructure	(44 390 713)	18 762 103	(25 628 610)
Accumulated Depreciation and Impairment - IT Equipment	(780 921)	(10 088)	(791 009)
Accumulated Depreciation and Impairment - Security Measures	(416 195)	10 187	(406 008)
Accumulated Depreciation and Impairment - Furniture and Fixtures	(1 083 684)	1 108	(1 082 576)
	<b>58 551 630</b>	<b>119 760 356</b>	<b>65 266 182</b>

#### Statement of Financial Performance

	Audited Figures	Correction of error (Accumulated Surplus)	Restated 2018 Balance
Depreciation Reversal IT Equipment	8 228 655	(887)	8 227 768
Impairment Loss	13 411 232	(15 025 244)	(1 613 992)
	<b>21 639 887</b>	<b>(15 026 131)</b>	<b>6 613 776</b>

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

#### Contributions to organised local government

Current year subscription / fee	500 000	500 000
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#### Audit fees

Amount paid - current year	1 331 673	1 411 677
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# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>38. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Current year subscription / fee	4 025 472	159 960
<b>Pension and Medical Aid Deductions</b>		
Amount paid - current year	5 124 338	2 833 100
<b>VAT</b>		
VAT receivable	282 798	1 100 253

VAT output payables and VAT input receivables are shown in note 6.

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

### Councillors' arrear consumer accounts

As of 30 June 2018, no Councillors had arrear accounts outstanding for more than 90 days:

### 39. Audit fees

Audit fees	1 331 673	1 411 677
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### 40. Fruitless and wasteful expenditure

Opening balance as previously reported	14 061 642	14 061 642
<b>Opening balance as restated</b>	<b>14 061 642</b>	<b>14 061 642</b>
Add: Fruitless and Wasteful Expenditure - current	1 306	5 499
Less amount written off	-	(5 499)
<b>Closing balance</b>	<b>14 062 948</b>	<b>14 061 642</b>

Fruitless and wasteful expenditure in the current year relates to interest charged by Eskom for late payment of invoices

Prior year(2018) an amount of R14 062 948.00 is the fruitless and wasteful expenditure incurred during the construction of Mafahleni Road)

### 41. Irregular expenditure

Opening balance	17 841 336	10 772 953
Add: Irregular Expenditure - current year	4 228 182	7 068 383
<b>Opening balance as restated</b>	<b>22 069 518</b>	<b>17 841 336</b>
<b>Closing balance</b>	<b>22 069 518</b>	<b>17 841 336</b>

The current Year (2019) an amount of R4 228 182 is the irregular expenditure incurred as a result of non-compliance with SCM regulation on competitive bidding processes

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 42. Deviation from supply chain management regulations

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

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

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. All expenses incurred have been condoned by Council.

All deviations have been approved by Council and have been reported in terms of section 114 of the Municipal Finance Management Act, 56 of 2003.

#### Summary of deviations:

	MFMA Regulations	2018	2019
Transport services	36(1)(a)(ii)	57 384	64 270
Advertisement services	36(1)(a)(v)	266 979	27 766
Repairs of plant	36(1)(a)(ii)	39 007	66 825
Other	36(1)(a)(ii)	204 107	40 831
		<b>567 477</b>	<b>199 692</b>

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 43. Budget differences

The excess of actual expenditure over the final budget of 15% over or under approved budget is explained under this note.

#### Material differences between budget and actual amounts

**Interest received on investments** - Interest accrued on investments which relates to conditional grants is higher than budgeted for due to high rate of return on investments.

**Fines, penalties and forfeits** - budgeted for but not received during the financial year due to them not being received by the Magistrates Court as the municipality does not have a Traffic Unit.

**Administration**- A portion of administration expenditure budgeted for included as general expenses.

**Audit fees** - these were incurred in proportion to the contracted work undertaken by the Office of the Auditor General.

**Finance Costs**- interest on long service awards was not budgeted for during the reporting period.

**Bad debt** - these are current year bad debts written -off and were not budgeted for. These costs would form part of debt impairment calculation.

**Debt Impairment** - The favourable variance is due to over provision in the previous years and payment of long outstanding debt by other state department..

**General expenses** - the municipality applied stringent monitoring measure on general expenses to cut down costs.

**Fair value adjustments** - this relates to appraisal of investment properties owned by the municipality, this item is a non-cash item and as such it was not budgeted for during the reporting period.

**Operating lease asset** - this relates to lease rental expenditure for photocopier and printers.

**Inventory** - Inventory reflect an adverse variance due to no budget provision made in the current financial year.

**Receivables from exchanged transactions** - budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.

**VAT receivable** - relates to VAT refund due from South Africa Revenue Services for June 2019. Budget estimate higher than actual as it was perceived that MIG and operations claim would be high.

**Consumer debtors** - These relates to property rates and refuse, and the decrease is due to payment of accounts by consumers, especially the state and agriculture sectors.

**Cash and cash equivalents** - budget projections relates to 100% expenditure incurred for the year relating to conditional grants. Actual comprises of unspent sportsfield grant of more than R5m.

**Investment property**- actual amount relates to valuation estimates provided by the municipal valuer relating to investment property.

**Intangible assets**- relates to actual increase in computer software applications and licenses.for the financial year.

**Operating lease liability** - this item was budgeted for under the operating lease expenses.

**Payables from exchanged transactions** - budget projections included anticipated unspent grant expenditure from previous financial year.

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 43. Budget differences (continued)

**Unspent conditional grants** - relates to sportfield grant not exhausted during the financial year and has been budgeted for.

**Provisions** - increase in provisions relating to staff leave and landfill site rehabilitation and was under budgeted for.

**Employee benefit obligations** - relates to GRAP 25 long service award and was under budgeted for.

**Long term loan** - actual portion not reflected as the loan in its penultimate year of repayment.

### 44. Events after the reporting date

There were no events after the reporting period.

### 45. Change in estimate

#### Property, plant and equipment

The municipality has reassessed the remaining useful lives of certain Property Plant and Equipment assets in the current year. The effect of change in the accounting estimate has resulted in a decrease in the depreciation charge and future periods by R5,064,735.00. The change in estimate has been corrected prospectively

The following information is available regarding the depreciable Property, Plant, and Equipment assets:

#### Property, Plant and Equipment depreciation of existing assets

Depreciation as per original useful lives	(6 960 115)	3 827 747
Effect of change in useful lives	5 064 735	1 279 231
	<b>(1 895 380)</b>	<b>5 106 978</b>

### 46. Decommissioning, restoration and environmental rehabilitation funds

The entity is a contributor to the following fund(s): Fund 1 and Fund 2.

### 47. Financial instruments disclosure

#### Categories of financial instruments

##### 2019

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	605 899	605 899
Receivables from non-exchange transactions	374 336	374 336
	<b>980 235</b>	<b>980 235</b>

#### Financial liabilities

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>Financial instruments disclosure (continued)</b>		
	At amortised cost	Total
Long Term Loan	602 228	602 228
Payables from exchange transactions	2 812 218	2 812 218
	<b>3 414 446</b>	<b>3 414 446</b>
<b>2018</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	400 527	400 527
Receivables from non-exchange transactions	301 173	301 173
	<b>701 700</b>	<b>701 700</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Long Term Loans	602 228	602 228
Payables from exchange transactions	3 329 139	3 329 139
	<b>3 931 367</b>	<b>3 931 367</b>
<b>Financial instruments in Statement of financial performance</b>		
<b>2019</b>		
	At amortised cost	Total
Finance costs	(154 595)	(154 595)
<b>2018</b>		
	At amortised cost	Total
Finance costs	(207 731)	(207 731)
Debt impairment loss	(5 932)	(5 932)
	<b>(213 663)</b>	<b>(213 663)</b>
<b>48. Licences and permits (exchange)</b>		
Angling/Fishing	34 330	27 414
<b>49. Fines, Penalties and Forfeits</b>		
Building Fines	-	1 350

# Impendle Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>50. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Other (Specified)	(36 152)	49 848
<b>Net balance</b>		
Consumer debtors - Other (Specified)	(36 152)	49 848
<b>Other (specify)</b>		
> 365 days	(36 152)	49 848
<b>51. Other revenue</b>		
Other income - (rollup)	540 396	734 048
<b>52. Operating surplus</b>		
Operating surplus for the year is stated after accounting for the following:		
Gain on sale of property, plant and equipment	26 886	-
Impairment on property, plant and equipment	8 647	1 613 992
Depreciation on property, plant and equipment	2 616 015	8 227 768
Employee costs	31 282 342	28 807 457

### 53. New standards and interpretations

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

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

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

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

The most significant changes to the Standard are:

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

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

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

The impact of the amendment is not material.

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

## Notes to the Annual Financial Statements

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

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

The most significant changes to the Standard are:

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

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

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

The impact of the amendment is not material.

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

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

The most significant changes to the Standard are:

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

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

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

The impact of the amendment is not material.

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

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

The most significant changes to the Standard are:

## Notes to the Annual Financial Statements

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

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

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

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

The impact of the amendment is not material.

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

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

The most significant changes to the Standard are:

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

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

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

The impact of the amendment is not material.

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

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

The most significant changes to the Standard are:

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

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

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

The impact of the amendment is not material.

### **53.2 Standards and interpretations issued, but not yet effective**

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

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



## Notes to the Annual Financial Statements

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

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

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

The most significant changes to the Standard affect:

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

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

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

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

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

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

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

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

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

The impact of this standard is currently being assessed.

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

## Notes to the Annual Financial Statements

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

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

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

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

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

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

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

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

Summary of amendments are:

#### **Materiality and aggregation**

The amendments clarify that:

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

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

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

#### **Notes structure**

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

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

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

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

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

## Notes to the Annual Financial Statements

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

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

The impact of the amendment is not material.

#### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

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

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

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

#### **GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

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

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

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

#### **GRAP 36: Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

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

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

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

## Notes to the Annual Financial Statements

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

#### GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

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

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

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

#### GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

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

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

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

#### GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

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

The most significant changes to the Standard are:

## Notes to the Annual Financial Statements

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

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

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

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

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

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

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

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

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

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

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

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

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

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

## Notes to the Annual Financial Statements

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

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

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

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

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

### GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The entity expects to adopt the amendment for the first time in the 2019/2019 annual financial statements.

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

### GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

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

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

### GRAP 8 (as revised 2010): Interests in Joint Ventures

## Notes to the Annual Financial Statements

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

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

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

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

### Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
  - GRAP 105 Transfer of Functions Between Entities Under Common Control
  - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
  - GRAP 34 *Separate Financial Statements*
  - GRAP 35 *Consolidated Financial Statements*
  - GRAP 36 *Investments in Associates and Joint Ventures*
  - GRAP 37 *Joint Arrangements*
  - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after 01 April 2019.

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

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

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

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

## Notes to the Annual Financial Statements

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

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

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

The most significant changes to the Standard are:

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

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

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

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

#### **GRAP 20: Related parties**

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

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

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

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.



## Notes to the Annual Financial Statements

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

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

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

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

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

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

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

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

### **GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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

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

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

### **GRAP 106 (as amended 2016): Transfers of functions between entities not under common control**

### Notes to the Annual Financial Statements

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

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The subsequent amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

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

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

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

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

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

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

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

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

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

#### IGRAP 11: Consolidation – Special purpose entities

## Notes to the Annual Financial Statements

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

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

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

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

#### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

## Notes to the Annual Financial Statements

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

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

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

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

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

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

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

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

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

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

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

#### **IGRAP 19: Liabilities to Pay Levies**

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

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

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

## Notes to the Annual Financial Statements

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

- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

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

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

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

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

### 54. Risk management

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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

# Impendle Local Municipality

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Figures in Rand	2019	2018
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### 54. Risk management (continued)

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2019	2018
Cash and Cash Equivalent	8 220 728	4 280 688
Trade and othe receivables	980 235	701 700

#### Market risk

##### Interest rate risk

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