



Greater Tzaneen Municipality
Financial statements
for the year ended 30 June 2018

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

General Information

Nature of business and principal activities

Greater Tzaneen Municipality is a local municipality performing the functions as set out in the constitution (Act no 105 of 1996).

Greater Tzaneen Economic Development Agency (GTEDA) is a municipal entity performing the functions consistent with that of an entity.

Jurisdiction within which the Municipality operates

The Greater Tzaneen Municipality is situated in the eastern quadrant of the Limpopo Province in the Mopani District Municipality Area of Jurisdiction. It extends from Haenertsburg in the west, to Rubbervale in the east, and just south of Modjadjiskloof in the north, to Trichardtsdal in the South.

Executive committee

Mayor

Members of the Executive Committee

Councillor M. Mangena

Councillor M. Mangena

Councillor TT. Maunatlala (Finance)

Councillor M. Letsoalo (Sports, Recreation, Art and Culture)

Councillor G. Ntimbane (Infrastructure)

Councillor M. Hlangwane (Health, Environment and Social Development)

Councillor S. Tiba (Economic Development, Housing and Spatial Development Plan)

Councillor C. Machimana (Public Transport and Safety and Security)

Councillor S. Mbhalati (Corporate Gov. and Share Services)

Councillor DJ. Mmetle (Speaker)

Councillor C. Nhemo (Chief Whip)

Councillor M. Prinsloo (Exco)

Councillor S. Sekwela (Exco)

Ordinary Councillors

Councillor DJ. Mmetle (Speaker)

Councillor MG. Mangena (Mayor)

Councillor CS. Nhemo (Chief Whip)

Councillor MM. Letsoalo

Councillor C. Machimana

Councillor TT. Maunatlala

Councillor NJ. Mbhalati

Councillor GE. Ntimbane

Councillor M. Prinsloo

Councillor MM. Sekhwela

Councillor MS. Tiba

Councillor ML. Hlangwane

Councillor MS. Baloyi

Councillor J. Banyini

Councillor OK. Banyini

Councillor PW. Cronje

Councillor DG. Kgafane

Councillor MR. Kgatla

Councillor LK. Lepulana

Councillor MJ. Maake

Councillor MH. Mafokwane

Councillor NM. Mahasha

Councillor JT. Makhubele

General Information

Councillor GP. Makhubele
Councillor MM. Makwala
Councillor SC. Makwala
Councillor MA. Makwela
Councillor MM. Makwela
Councillor TE. Malatji
Councillor GM. Malatji
Councillor DO. Malamela
Councillor SM. Mapitja
Councillor SP. Masetla
Councillor NA. Masila
Councillor NP. Mathebula
Councillor MM. Mathekga
Councillor TL. Matita
Councillor NG. Maunatlala
Councillor MF. Mbhalati
Councillor TJ. McClintock
Councillor DG. Mkhabele (MPAC Chairperson)
Councillor MF. Mochabela
Councillor F. Mohlaba
Councillor SN. Mohonone
Councillor MJ. Makgoloboto
Councillor MC. Morwatshehla
Councillor T. Mpenyana
Councillor NG. Mukansi
Councillor TH. Mushwana
Councillor ET. Ngobeni
Councillor SE. Ngobeni
Councillor JL. Ngobeni
Councillor MC. Nkwashu
Councillor N. Nkwashu
Councillor ME. Phakula
Councillor RE. Pohl
Councillor ML. Pudikabekwa
Councillor MS. Rakganya
Councillor PJ. Ramodipa
Councillor SB. Ramoshaba
Councillor O. Raolane
Councillor KI. Rapatsa
Councillor RS. Rapitsi
Councillor JM. Ratopola
Councillor CT. Shisinga
Councillor O. Sithole
Councillor NH. Zandamela

Grading of local authority

Grade 4: High Capacity

Chief Finance Officer (CFO)

Mikateko Palesa Makhubela

Accounting Officer

Bartholomew Serapelo Matlala

Registered office

38 Agatha Street

General Information

	Civic Center Tzaneen 0850
Business address	38 Agatha Street Civic Center Tzaneen 0850
Postal address	PO Box 24 Tzaneen 0850
Bankers	ABSA
Website address	www.tzaneen.gov.za
Audit committee	SAB Ngobeni (Chairperson) HN Masedi L Lankalebalela JM Mofokeng
Level of rounding	Rounding to the nearest Rand
Auditor	Auditor General of South Africa (AGSA) Polokwane Office Telephone number: 015 283 9338

Greater Tzaneen Municipality

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
GTEDA	Greater Tzaneen Economic Development Agency
RAL	Roads Agency Limpopo
VAT	Value Added Tax

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

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

The financial statements are prepared on the basis that the municipality is a going concern and that the Greater Tzaneen 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, the municipality's external auditors are responsible for expressing an opinion on the financial statements.

The financial statements set out on pages 7 to 119, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2018 and were signed on its behalf by:


B.S Matlala
Municipal Manager

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Introduction

Main business and operations

The Greater Tzaneen Municipality is situated in the eastern quadrant of the Limpopo Province within the Mopani District Municipality Area of Jurisdiction. It comprises a land area of approximately 3240 km, and extends from Haenertsburg in the West, to Rubbervale in the East, and just South of Modjadjiskloof in the North, to Trichardsdal in the South.

The long-term goal of Greater Tzaneen Municipality is to ensure that the municipality is financially sustainable, to stimulate economic growth and to improve the quality of life of all residents in the area of jurisdiction.

2. Operational responsibility

It is the responsibility of the municipality to present the statement of financial position, statement of financial performance and cash flow statement for the year ended 30 June 2018 in accordance with applicable legislation which includes the standards of GRAP.

In an attempt to obtain a clean audit opinion for the 2017/2018 financial year the municipality has institutionalised the concept of operation clean audit (OPCA) to the extent that a compliance officer has been appointed and weekly meetings are held by the municipality's audit steering committee to address previous audit findings and year-end activities.

3. Review of operating results

This review highlights the municipality's performance for the past year but does not in any way attempt to provide detail of the performance. Full details appear in the annual financial statements.

Overview of the municipality's results:

The municipality's overall actual operating results against the corresponding approved budget figures are scheduled in Appendix E1 of the annual financial statements.

The statement of financial performance reflects a summary of income and expenditure items, while the segmental operating results per service are shown in appendix D of the annual financial statements. Over the past financial year the operating revenue increased from R 1 132 103 675 to R 1 126 982 042 while the operating expenditure increased from R 1 117 802 742 to R 1 195 776 660.

The municipality reported a net operating deficit of R (84 274 679) for the financial year under review, (2017 R 13 920 424).

The main revenue sources of the municipality are:

- Property rates;
- Service charges and
- Government grants and subsidies

Whilst the highest expenditure items are:

- Employee related costs;
- Bulk purchases and
- Repairs and maintenance

Council has embarked on implementing a range of revenue collecting strategies to optimise the collection of debt owed by consumers. The outstanding consumer debtors as at 30 June 2018 amounts to R 426 306 198 (2017: R 365 669 046) of which R 290 964 814 (2017: R 258 633 917) were impaired. Indigent debtors to the amount of R 9 978 766 (2017: R -) have been written off as uncollectable. The total provision for impairment amounts to R 290 964 814 (2017: R 258 633 917).

Unspent conditional grants and receipts decreased from R 20 340 229 in the previous financial year to R 2 924 848 in the current financial year with a 100% spending on the Municipal Infrastructure Grant.

With regards to expenditure management the cost containment measures approved by cabinet on 23 October 2013 has been annually updated from 2014/2015 through the budget process and are being complied with.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The actual expenditure amounts to R 1 195 776 660 compared to the budgeted amount of R 1 117 685 742. The overspending is largely due to overspending on the following votes:

- Provision for bad debt
- Roads transferred to RAL
- Legal fees.

The expenditure amount includes R 282 016 266 for salaries, R 44 932 114 for repairs and maintenance and R 325 455 993 for the purchase of bulk electricity.

The 2017/2018 budget of the municipality was amended by means of three adjustment budgets through the financial year.

- Adjustment budget approved by Council on 27 February 2018
- Adjustment budget approved by Council on 25 May 2018 to accommodate an additional MIG transfer of R 5.8 million.
- Adjustment budget approved by Council on 31 July 2018 to accommodate an amount of R 230 000 price money for the Greenest Town Competition allocated by the Department of Economic Development, Environmental and Tourism.

The outstanding loans which have been taken-up to finance capital projects amount to R 101 901 213 (2017: R 119 737 242) and the detail of this amount is contained in Note 12 and Appendix A.

4. Going concern

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

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

5. Subsequent events

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

6. Accounting Officer

The Accounting Officers of the municipality for the year under review were as follows:

Name	Nationality
B Mathebula (July)	South African
MS Lelope (August to October)	South African
MS Lelope (November to January)	South African
W Shibamba (February to April)	South African

The Accounting Officer of the municipality at the date of this report is:

Name	Nationality
BS Matlala	South African

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	3	19 164 420	14 753 202
Other financial assets	4	2 447 887	2 669 089
Operating lease asset	5.2	173 357	149 816
Receivables from exchange transactions	6	252 892 827	220 788 581
Receivables from non-exchange transactions	5.1	43 961 106	75 870 945
Consumer debtors	7	135 341 384	107 035 129
Cash and cash equivalents	8	7 490 664	31 839 163
		461 471 645	453 105 925
Non-Current Assets			
Investment property	9	183 057 053	173 182 753
Property, plant and equipment	10	1 501 923 099	1 610 522 177
Intangible assets	11	1 603 468	1 135 042
Other financial assets	4	26 887 399	25 174 276
		1 713 471 019	1 810 014 248
Total Assets		2 174 942 664	2 263 120 173
Liabilities			
Current Liabilities			
Other financial liabilities	12	9 585 798	17 075 913
Finance lease obligation	13	824 306	1 758 832
Payables from exchange transactions	14	207 036 227	178 361 461
VAT payable	15	36 353 082	33 376 034
Consumer deposits	16	26 858 463	23 129 385
Unspent conditional grants and receipts	17	2 924 848	20 340 228
Provisions	18	445 724	606 890
		284 028 448	274 648 743
Non-Current Liabilities			
Other financial liabilities	12	92 315 415	102 661 329
Finance lease obligation	13	602 667	3 558 300
Employee benefit obligation	19	83 821 523	84 223 104
Provisions	18	4 626 520	4 205 927
		181 366 125	194 648 660
Total Liabilities		465 394 573	469 297 403
Net Assets		1 709 548 091	1 793 822 770
Accumulated surplus		1 709 548 091	1 793 822 770

* See Note 59

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	485 060 405	447 481 235
Rental of facilities and equipment		1 781 896	1 644 365
Interest received (trading)	53	18 395 501	15 321 021
Agency services		7 988 116	6 304 686
Licences and permits		1 005 867	824 244
Other income	21	34 101 806	46 130 799
Interest received - investment	53	4 427 275	8 253 077
Total revenue from exchange transactions		552 760 866	525 959 427
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	99 289 523	80 787 849
Property rates - penalties imposed	22	8 203 616	8 157 882
Transfer revenue			
Government grants & subsidies	23	428 692 119	473 555 256
Public contributions and donations		49 272	-
Fines, penalties and forfeits	54	37 986 646	43 643 261
Total revenue from non-exchange transactions		574 221 176	606 144 248
Total revenue	25	1 126 982 042	1 132 103 675
Expenditure			
Employee related costs	26	282 016 266	267 338 994
Remuneration of councillors	27	24 432 412	22 457 384
Depreciation and amortisation	56	126 613 505	129 346 959
Impairment loss/ reversal of impairments	29	2 839 900	822 923
Finance costs	30	11 013 609	12 933 180
Debt impairment	57	116 939 752	58 399 127
Collection costs		1 770 028	421 406
Repairs and maintenance	31	44 932 114	35 018 928
Bulk purchases	32	325 455 993	321 519 584
Contracted services	33	48 050 548	46 904 302
Transfers and subsidies	34	113 263 619	123 608 707
General expenses	35	98 448 914	99 031 248
Total expenditure		1 195 776 660	1 117 802 742
Operating (deficit) surplus		(68 794 618)	14 300 933
Loss on disposal/ write off of property, plant and equipment	55	(25 924 361)	(923 404)
Fair value adjustments	52	10 444 300	-
Gain (loss) on disposal of stands held for sale (inventories)	55	-	542 895
		(15 480 061)	(380 509)
(Deficit) surplus for the year		(84 274 679)	13 920 424

* See Note 59

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Note	Accumulated surplus	Total net assets
Opening balance as previously reported		1 713 903 805	1 713 903 805
Adjustments			
Prior year adjustments	59	65 998 541	65 998 541
Balance at 01 July 2016 as restated*		1 779 902 346	1 779 902 346
Changes in net assets			
Surplus for the year		13 920 424	13 920 424
Total changes		13 920 424	13 920 424
Opening balance as previously reported		1 721 823 444	1 721 823 444
Adjustments			
Prior year adjustments	59	71 999 326	71 999 326
Restated* Balance at 01 July 2017 as restated*		1 793 822 770	1 793 822 770
Changes in net assets			
Surplus for the year		(84 274 679)	(84 274 679)
Total changes		(84 274 679)	(84 274 679)
Balance at 30 June 2018		1 709 548 091	1 709 548 091
Note(s)			

* See Note 59

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Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Taxation		79 408 159	69 332 445
Sale of goods and services		516 008 070	509 840 178
Grants		481 222 495	476 565 836
Interest income	53	4 427 275	8 253 077
		<u>1 081 065 999</u>	<u>1 063 991 536</u>
Payments			
Employee costs		(306 850 259)	(291 337 034)
Suppliers		(717 655 411)	(670 754 665)
Finance costs	30	(10 217 081)	(12 489 696)
Transfer of property, plant and equipment (non-cash item)	10	75 728 464	54 400 868
		<u>(958 994 287)</u>	<u>(920 180 527)</u>
Net cash flows from operating activities	36	<u>122 071 712</u>	<u>143 811 009</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(124 516 144)	(122 747 827)
Proceeds from sale of property, plant and equipment	10	2 691 367	185 000
Purchase of investment property	9	-	(7 141 753)
Sale of investment property	9	570 000	-
Purchase of other intangible assets	11	(1 150 797)	(631 368)
Proceeds from sale of financial assets		(1 491 921)	(4 757 914)
Net cash flows from investing activities		<u>(123 897 495)</u>	<u>(135 093 862)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(17 836 029)	(35 867 227)
Finance lease payments		(4 686 687)	4 619 823
Net cash flows from financing activities		<u>(22 522 716)</u>	<u>(31 247 404)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(24 348 499)</u>	<u>(22 530 257)</u>
Cash and cash equivalents at the beginning of the year		31 839 163	54 369 420
Cash and cash equivalents at the end of the year	8	<u>7 490 664</u>	<u>31 839 163</u>

* See Note 59

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	532 683 153	-	532 683 153	485 060 405	(47 622 748)	Note 51
Rental of facilities and equipment	1 372 100	-	1 372 100	1 781 896	409 796	Note 51
Interest received - outstanding receivables	13 000 000	-	13 000 000	18 395 501	5 395 501	
Income from agency services	50 264 291	-	50 264 291	7 988 116	(42 276 175)	Note 51
Licences and permits	701 000	-	701 000	1 005 867	304 867	Note 51
Other income	10 235 046	-	10 235 046	34 101 806	23 866 760	Note 51
Interest received - external investment	3 501 000	-	3 501 000	4 427 275	926 275	Note 51
Total revenue from exchange transactions	611 756 590	-	611 756 590	552 760 866	(58 995 724)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	84 000 000	-	84 000 000	99 289 523	15 289 523	Note 51
Property rates - penalties imposed	6 500 000	-	6 500 000	8 203 616	1 703 616	Note 51
Transfer revenue						
Government grants and subsidies	439 982 000	21 860 308	461 842 308	428 692 119	(33 150 189)	Note 51
Public contributions and donations	-	-	-	49 272	49 272	
Fines	5 503 136	-	5 503 136	37 986 646	32 483 510	Note 51
Total revenue from non-exchange transactions	535 985 136	21 860 308	557 845 444	574 221 176	16 375 732	
Total revenue	1 147 741 726	21 860 308	1 169 602 034	1 126 982 042	(42 619 992)	
Expenditure						
Employee cost	(316 680 113)	-	(316 680 113)	(282 016 266)	34 663 847	Note 51
Remuneration of councillors	(24 683 925)	-	(24 683 925)	(24 432 412)	251 513	
Depreciation and amortisation	(128 908 633)	-	(128 908 633)	(126 613 505)	2 295 128	
Impairment loss/ Reversal of impairments	-	-	-	(2 839 900)	(2 839 900)	Note 51
Finance costs	(12 771 030)	-	(12 771 030)	(11 013 609)	1 757 421	Note 51
Debt impairment	(27 351 000)	-	(27 351 000)	(116 939 752)	(89 588 752)	Note 51
Collection costs	(400 000)	-	(400 000)	(1 770 028)	(1 370 028)	Note 51
Repairs and maintenance	(41 059 862)	(12 806 413)	(53 866 275)	(44 932 114)	8 934 161	Note 51
Bulk purchases	(345 000 000)	-	(345 000 000)	(325 455 993)	19 544 007	Note 51
Contracted services	(49 612 372)	-	(49 612 372)	(48 050 548)	1 561 824	Note 51
Transfer and subsidies paid	(39 178 999)	-	(39 178 999)	(113 263 619)	(74 084 620)	Note 51
General Expenses	(119 233 395)	-	(119 233 395)	(98 448 914)	20 784 481	
Total expenditure	(1 104 879 329)	(12 806 413)	(1 117 685 742)	(1 195 776 660)	(78 090 918)	
Operating deficit	42 862 397	9 053 895	51 916 292	(68 794 618)	(120 710 910)	
Gain (Loss) on disposal of assets	2 200 000	-	2 200 000	(25 924 361)	(28 124 361)	Note 51
Fair value adjustments	-	-	-	10 444 300	10 444 300	
	2 200 000	-	2 200 000	(15 480 061)	(17 680 061)	

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

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						
Deficit before taxation	45 062 397	9 053 895	54 116 292	(84 274 679)	(138 390 971)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	45 062 397	9 053 895	54 116 292	(84 274 679)	(138 390 971)	

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

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						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	20 235 618	-	20 235 618	19 164 420	(1 071 198)	Note 51
Other financial assets	2 410 944	-	2 410 944	2 447 887	36 943	Note 51
Operating lease asset	91 164	-	91 164	173 357	82 193	
Receivables from exchange transactions	223 061 967	-	223 061 967	252 892 827	29 830 860	Note 51
Receivables from non-exchange transactions	2 604 326	-	2 604 326	43 961 106	41 356 780	Note 51
Consumer debtors	114 762 395	-	114 762 395	135 341 384	20 578 989	Note 51
Cash and cash equivalents	11 457 490	(2 510 000)	8 947 490	7 490 664	(1 456 826)	Note 51
	374 623 904	(2 510 000)	372 113 904	461 471 645	89 357 741	
Non-Current Assets						
Investment property	200 099 000	-	200 099 000	183 057 053	(17 041 947)	Note 51
Property, plant and equipment	1 794 632 000	22 006 396	1 816 638 396	1 501 923 099	(314 715 297)	Note 51
Intangible assets	513 482	-	513 482	1 603 468	1 089 986	Note 51
Other financial assets	23 700 000	-	23 700 000	26 887 399	3 187 399	Note 51
	2 018 944 482	22 006 396	2 040 950 878	1 713 471 019	(327 479 859)	
Total Assets	2 393 568 386	19 496 396	2 413 064 782	2 174 942 664	(238 122 118)	
Liabilities						
Current Liabilities						
Other financial liabilities	23 507 142	-	23 507 142	9 585 798	(13 921 344)	
Finance lease obligation	-	-	-	824 306	824 306	Note 51
Payables from exchange transactions	150 317 488	-	150 317 488	207 036 226	56 718 738	
VAT payable	31 050 038	-	31 050 038	36 353 082	5 303 044	
Consumer deposits	25 546 904	-	25 546 904	26 858 463	1 311 559	
Unspent conditional grants and receipts	1 415 052	-	1 415 052	2 924 848	1 509 796	Note 51
Provisions	773 638	-	773 638	445 724	(327 914)	Note 51
	232 610 262	-	232 610 262	284 028 447	51 418 185	
Non-Current Liabilities						
Other financial liabilities	129 560 818	-	129 560 818	92 315 415	(37 245 403)	Note 51
Finance lease obligation	-	-	-	602 667	602 667	
Employee benefit obligation	96 364 161	-	96 364 161	83 821 523	(12 542 638)	Note 51
Provisions	4 626 520	-	4 626 520	4 626 520	-	
	230 551 499	-	230 551 499	181 366 125	(49 185 374)	
Total Liabilities	463 161 761	-	463 161 761	465 394 572	2 232 811	
Net Assets	1 930 406 625	19 496 396	1 949 903 021	1 709 548 092	(240 354 929)	

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

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						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 930 406 625	19 496 396	1 949 903 021	1 709 548 092	(240 354 929)	Note 51

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

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						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation revenue	76 925 000	-	76 925 000	79 408 159	2 483 159	Note 51
Sale of goods and services	525 468 339	-	525 468 339	516 008 070	(9 460 269)	Note 51
Grants	439 982 000	6 030 000	446 012 000	481 222 495	35 210 495	
Interest income	11 550 700	-	11 550 700	4 427 275	(7 123 425)	Note 51
	1 053 926 039	6 030 000	1 059 956 039	1 081 065 999	21 109 960	
Payments						
Employee costs	(315 102 089)	-	(315 102 089)	(306 850 259)	8 251 830	Note 51
Suppliers	(597 499 605)	-	(597 499 605)	(717 655 411)	(120 155 806)	Note 51
Finance costs	(12 771 030)	-	(12 771 030)	(10 217 081)	2 553 949	Note 51
Transfer of property, plant and equipment	-	-	-	75 728 464	75 728 464	Note 51
	(925 372 724)	-	(925 372 724)	(958 994 287)	(33 621 563)	
Net cash flows from operating activities	128 553 315	6 030 000	134 583 315	122 071 712	(12 511 603)	
Cash flows from investing activities						
Additions to property, plant and equipment	(140 889 514)	(28 036 396)	(168 925 910)	(124 516 144)	44 409 766	Note 51
Proceeds on disposal of property, plant and equipment	2 200 000	-	2 200 000	2 691 367	491 367	Note 51
Loss on disposal of property, plant and equipment	-	-	-	(1 150 797)	(1 150 797)	Note 51
Disposal of property, plant and equipment written off	-	-	-	570 000	570 000	Note 51
Proceeds from sale of financial assets	(920 000)	-	(920 000)	(1 491 921)	(571 921)	Note 51
Net cash flows from investing activities	(139 609 514)	(28 036 396)	(167 645 910)	(123 897 495)	43 748 415	
Cash flows from financing activities						
Long term liabilities	34 744 788	-	34 744 788	-	(34 744 788)	Note 51
Repayment of other financial liabilities	(23 074 597)	-	(23 074 597)	(17 836 029)	5 238 568	Note 51
Finance lease payments	(1 500 000)	-	(1 500 000)	(4 686 687)	(3 186 687)	Note 51
Net cash flows from financing activities	10 170 191	-	10 170 191	(22 522 716)	(32 692 907)	
Net increase/(decrease) in cash and cash equivalents	(886 008)	(22 006 396)	(22 892 404)	(24 348 499)	(1 456 095)	Note 51
Cash and cash equivalents at the beginning of the year	12 342 983	19 496 188	31 839 171	31 839 163	(8)	Note 51
Cash and cash equivalents at the end of the year	11 456 975	(2 510 208)	8 946 767	7 490 664	(1 456 103)	

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1. Basis of preparation

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

These 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.

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

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

1.1 Presentation currency

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

1.2 Rounding

All financial figures have been rounded off to the nearest Rand.

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

Subsequent to initial measurement, investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date, determined by the external valuator.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.4 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.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates, supply demand, together with economic factors such as inflation interest and economic conditions.

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 18 - Provisions.

Post-retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

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

Allowance for doubtful debts

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

1.5 Investment property

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

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

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

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

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.5 Investment property (continued)

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

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

Derecognition

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefit or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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.

1.6 Property, plant and equipment

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

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

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

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 is carried at cost less accumulated depreciation and any impairment losses which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

Item	Depreciation method	Average useful life in years
Infrastructure	Straight line	
• Roads and paving		10 -30
• Pedestrian malls		20
• Electricity		10 - 30
• Water		15-20
• Sewage		15-20
• Housing		30
Community	Straight line	
• Improvements		30
• Recreational facilities		20
• Security		3 - 5
Other assets	Straight line	
• Buildings		30
• Specialist vehicles		20
• Other vehicles		5 - 7
• Office equipment		3-5
• Furniture and fittings		7-10
• Watercraft		15
• Bins and containers		5-10
• Specialised plant and equipment		5-15
• Other items of plant and equipment		5

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.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.6 Property, plant and equipment (continued)

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).

1.7 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.

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

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

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

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

Derecognition

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).

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments

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

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

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

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

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

A financial asset is:

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

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

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

Classification

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

Class

Consumer debtors
Receivables from exchange transactions
Cash and cash equivalents
Other financial assets

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at fair value

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

Class

Other financial liabilities
Finance lease obligation
Payables from exchange transactions
Consumer deposits

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

1.9 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.

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Notes to the Financial Statements: Accounting Policies

1.9 Leases (continued)

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 municipality's incremental borrowing rate.

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

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

Operating leases - 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

Consumable and stands inventories consist of work in progress, consumables and finished goods. Inventory is measured at lower of cost, and net realisable value. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at cost.

The cost of consumable inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Redundant and slow moving inventories are identified and written down with regard to their cost. Consumables are written down according to their age, condition and utility.

Stands available for sale during the next 12 months are recognised as inventory.

1.11 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

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

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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 municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

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.

An impairment loss is recognised immediately in surplus or deficit.

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.

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

The municipality 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.

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.

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

Non-cash-generating assets are assets other than 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.

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 reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized 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.

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Notes to the Financial Statements: Accounting Policies

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

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.

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.

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 Share capital / contributed capital

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

1.14 Employee benefits

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 employee 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 employee render the related service; and

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Notes to the Financial Statements: Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are benefits (other than termination benefits) 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 the employee services in the current and prior periods

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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Notes to the Financial Statements: Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.16 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.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

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Notes to the Financial Statements: Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and revenue is recognized when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognized as revenue in the invoicing period.

Revenue arising from application of the approved tariff of changes in recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licenses and permits.

Service charges relating to solid waste, sanitation and sewerage are levied monthly in terms of the approved tariffs.

Interest

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

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

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

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

1.18 Revenue from non-exchange transactions

Revenue from non-exchange transaction refers to transaction where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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.

Taxes

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

Greater Tzaneen Municipality

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Notes to the Financial Statements: Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

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.

Bequests

Bequests that satisfy the definition of an asset 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.

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.

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.20 Comparative figures

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

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Notes to the Financial Statements: Accounting Policies

1.21 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 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.

1.23 Irregular expenditure

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

1.24 Departmental information

A departmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendixes C and D. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

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

1.25 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

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

The 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.

Comparative information is not required.

1.26 Related parties

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

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

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements: Accounting Policies

1.27 Events after reporting date

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

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

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

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

1.28 Value Added Tax (VAT)

The municipality accounts for VAT on the payment basis. Output VAT is only payable as and when the purchase consideration is received and input tax can be claimed as and when payments are made.

1.29 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. The liability is transferred to revenue as and when the conditions attached to the grants are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this standard is currently being assessed.

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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's 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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's 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 municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The impact of this interpretation is currently being assessed.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

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

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:

- 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 amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's 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 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.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

- 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 not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's 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 municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's 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.

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 municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

IGRAP19 Liabilities to Pay Levies

This interpretation contains 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.

This Interpretation addresses the recognition of a liability to pay a levy if that liability is within the scope of GRAP 19. It also addresses the recognition of a liability to pay a levy whose timing and amount is certain. The measurement of a liability to pay a levy is not addressed in this Interpretation, instead an entity refers to GRAP 19.

This Interpretation does not address the accounting for the costs that arise from recognising a liability to pay a levy. Entities should apply other Standards of GRAP to decide whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

Items that may be considered levies within the scope of this Interpretation are referred to as levies or some other term in legislation or similar means, for example, taxes (including non-refundable purchase taxes), fees (including licence fees), concessions, tolls, duties, royalties, tariffs, payments, charges, etc. An entity should assess, based on the substance of the transaction rather than the legal form, whether the item is a levy as defined in this Interpretation

In determining whether a liability to pay a levy imposed by government meets the definition of a levy in this Interpretation, an entity assesses whether the levy is a non-exchange or exchange transaction by considering whether there has been a direct exchange of approximately equal value. This assessment requires judgement, and a detailed consideration of the legislation or similar means as well as the specific facts and circumstances of the levy being paid. Such an assessment is made irrespective of whether an entity makes a payment directly to the government or to a third party acting on behalf of government. For instance, when the levy is payable to a collecting agent, the levy may be a non-exchange transaction even though there has not been a direct exchange between the entity and government.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

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.

An entity shall apply this Interpretation for annual financial statements covering periods beginning on or after 1 April 2019. Earlier application is encouraged. If an entity applies this Interpretation for a period beginning before 1 April 2019, it shall disclose that fact

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the economic entity's operations.

The impact of this interpretation is currently being assessed.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
3. Inventories		
Consumable stores	13 744 420	9 333 202
Stands	5 420 000	5 420 000
	19 164 420	14 753 202

The carrying value of inventories is disclosed at lower of cost or net realisable value.

4. Other financial assets

At amortised cost

Stand sale arrangements	2 447 887	2 669 089
Fixed deposits - listed	26 887 399	25 174 276
	29 335 286	27 843 365

The 'stand sale arrangements' 2017 comparative amount of R 2.6 million has been restated from R 2.9 million. (See note 60)

Non-current assets

At amortised cost	26 887 399	25 174 276
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Current assets

At amortised cost	2 447 887	2 669 089
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Financial assets at amortised cost

Council's valuation of listed investments

Liberty Group limited	10 762 079	9 635 115
Standard Bank	16 125 319	15 539 163
	26 887 398	25 174 278

Reconciliation of stand sale arrangements

Stand sale arrangement	2 447 887	2 669 089
Less: Current portion	(2 447 887)	(2 669 089)
Non-current portion of stand sale arrangements	-	-

Fair value of investments are at book value as at 30 June 2018.

No non-current investments defaulted and no terms of any of the non-current investments were re-negotiated.

The maximum exposure to credit risk at the reporting date is the fair value of each class of financial asset mentioned above.

Fixed deposits of R 10 762 079 and R 16 125 319 have been made with Liberty and Standard Bank of South Africa respectively to repay loans of R 15 000 000 and R 30 000 000 on maturity date.

Loans to staff and the public

To comply with the requirements of the MFMA, no loan has been made after 1 March 2004.

Stand sale arrangements

As from 1 March 2004 no loan agreement has been entered into for the sale of stands. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into.

Arrangements were made to enable people to purchase stands from the Council. These arrangements are repayable within 60 days.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
5. Receivables from non-exchange transactions		
5.1 Traffic fines		
Fines	43 961 106	75 870 945
Reconciliation of traffic fines		
Opening balance	75 870 945	45 153 383
Less: Adjustments prior year	-	(270 909)
Issued	38 364 900	47 219 700
Less: Withdrawn	(913 400)	(3 237 571)
Less: Fines receipted	(5 018 102)	(4 796 500)
Less: Provision for impairment	(64 343 237)	(8 197 158)
Balance at the end of the year	43 961 106	75 870 945
Reconciliation of provision for traffic fines		
Opening balance	26 798 313	18 601 155
Provision for impairment	64 343 237	8 197 157
	91 141 550	26 798 312

Receivables from non-exchange transactions

The Accounting Standard Board amended GRAP 1 applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. GRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

Fine revenue of all fines issued during the current year amounted to R 37 451 500 (2017: R 43 711 220). The outstanding fines were assessed for impairment based on the payment history of fines issued and measures put in place to recover the outstanding amount.

The recovery of traffic fines is a protracted process due to the administrative and court procedures.

Credit quality of receivables from non-exchange transactions

Traffic fines are payable as determined by the fine. The credit period granted is considered to be consistent with the established practices and legislation.

The municipality's historical experience in collection of traffic fines fall within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's receivables from non-exchange transactions.

5.2. Operating lease asset (accrual)

Current assets	173 357	149 816
Municipality as lessor: Future minimum lease repayments receivable		
Less than one year	445 409	406 659
Between one year and five years	1 585 328	2 001 513
More than five years	110 026	139 250
	2 140 763	2 547 422

Operating leases relate to property owned by the municipality with lease terms of between one (1) and twenty (20) years, with an option to extend the lease. The lessee does not have an option to purchase the property at the expiry of the lease period. The properties are maintained by the tenant, at their cost.

The municipality has operating lease agreements for the following classes of assets which are only significant collectively.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
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- Municipal buildings
- Vacant land

Operating lease income and expenditure have been recognised on a straight line basis over the lease term. The effect of accounting for operating leases on the straight line basis had the above effect.

No restrictions have been imposed on the municipality in terms of the operating lease agreements

6. Receivables from exchange transactions

Trade debtors	243 531 193	207 385 192
Prepayments	6 615 132	7 890 298
Other receivables	29 056 132	27 281 662
Bursary loans	586 374	588 430
	279 788 831	243 145 582
Provision for impairment of receivables	(26 896 004)	(22 357 001)
	252 892 827	220 788 581

Reconciliation of provision for impairment of trade and other receivables

Opening balance	22 357 001	23 555 773
Provision for impairment	10 286 853	(1 198 772)
Amounts written off as uncollectible	(5 747 850)	-
	26 896 004	22 357 001

The impairment allowance mainly represents the outstanding amounts due to the municipality by indigent consumables.

Credit quality of receivables from exchange transactions

Trade and other debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivable on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

7. Consumer debtors

Gross balances		
Rates	159 747 326	131 662 346
Electricity	197 492 845	175 552 844
Refuse	69 066 027	58 453 856
	426 306 198	365 669 046
Less: Allowance for impairment		
Rates	(132 340 973)	(114 151 077)
Electricity	(98 941 880)	(92 784 584)
Refuse	(59 681 961)	(51 698 256)
	(290 964 814)	(258 633 917)
Net balance		
Rates	27 406 353	17 511 269
Electricity	98 550 965	82 768 260
Refuse	9 384 066	6 755 600
	135 341 384	107 035 129

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
Included in above is receivables from exchange transactions		
Electricity	98 550 965	82 768 260
Refuse	9 384 066	6 755 600
	107 935 031	89 523 860
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	27 406 353	17 511 269
Net balance	135 341 384	107 035 129
Rates		
Current (0 -30 days)	9 333 209	7 709 831
31 - 60 days	5 433 544	3 864 824
61 - 90 days	3 793 069	3 193 455
91 - 120 days	3 590 317	3 016 564
121 - 365 days	137 597 186	113 877 672
	159 747 325	131 662 346
Electricity		
Current (0 -30 days)	62 010 928	58 882 402
31 - 60 days	10 421 706	8 433 616
61 - 90 days	5 860 226	4 757 065
91 - 120 days	17 687 175	6 137 955
121 - 365 days	101 512 810	97 341 806
	197 492 845	175 552 844
Refuse		
Current (0 -30 days)	3 574 191	2 913 936
31 - 60 days	1 785 671	1 372 924
61 - 90 days	1 311 323	1 144 078
91 - 120 days	1 256 771	1 094 429
121 - 365 days	61 138 070	51 928 489
	69 066 026	58 453 856

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	25 018 711	26 455 989
31 - 60 days	7 811 301	6 264 761
61 - 90 days	4 837 055	4 364 409
91 - 120 days	4 103 348	4 186 060
121 - 365 days	191 386 528	156 002 950
	233 156 943	197 274 169
Industrial/ commercial		
Current (0 -30 days)	43 144 736	38 850 588
31 - 60 days	6 785 389	5 338 111
61 - 90 days	4 463 331	2 984 711
91 - 120 days	14 197 481	4 635 149
121 - 365 days	91 885 861	88 222 067
	160 476 798	140 030 626
National and provincial government		
Current (0 -30 days)	1 431 910	1 033 180
31 - 60 days	936 908	125 944
61 - 90 days	789 350	655 391
91 - 120 days	549 684	594 319
121 - 365 days	11 499 710	10 236 592
	15 207 562	12 645 426
Total		
Current (0 -30 days)	5 074 274	3 569 463
31 - 60 days	3 223 969	1 400 430
61 - 90 days	1 541 872	1 175 342
91 - 120 days	4 031 779	959 902
121 - 365 days	3 593 001	8 613 688
	17 464 895	15 718 825
Total	426 306 198	365 669 046

Consumer debtors pledged as security

No porting of accounts receivables was pledged as security for any financial liabilities

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor impaired can be assessed by reference to historical information about counterparty default rates:

Consumer debtors are payable within 30 days. This credit period is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of consumer debtors on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to consumer debtors are limited due to the municipality's large number of customers. The municipality's historical experience in collection of consumer debtors falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's consumer debtors.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand	2018	2017
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Fair value of consumer debtors

The fair value of accounts receivable approximates their carrying amounts.

Consumer debtors

No security is held for any of the accounts receivable.

Consumer debtors impaired

As of 30 June 2018, consumer debtors of R 290 964 813 (2017: R 258 633 917) were impaired and provided for.

An estimate is made for doubtful receivables based on the review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor may enter bankruptcy and default of delinquency in payments (more than 90 days overdue) are considered indicators that the consumer is impaired. An amount of R 9 978 766 (2017: 0) was written off during the year as uncollectable.

The amounts best represent the maximum exposure to credit risk at the end of the reporting period without taking into account of any collateral held or other credit enhancements.

Reconciliation of allowance for impairment of consumer debtors

Opening balance	258 633 917	207 233 176
Allowance for impairment	42 309 662	51 400 741
Amounts written off as uncollectible	(9 978 766)	-
	<u>290 964 813</u>	<u>258 633 917</u>

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	<u>7 490 664</u>	<u>31 839 163</u>
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No cash and cash equivalents, or portion thereof, was pledged as security for any financial liabilities.

No restrictions exist regarding the use of cash.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
Consolidated cash book balance	-	-	-	7 490 664	31 839 163	54 369 420
ABSA BANK - Cheque account number 126 085 0527 Primary Bank Account	-	-	-	-	-	-
ABSA BANK - Cheque account number - 404 896 4222	6 995 424	3 313 689	22 965 320	-	-	-
ABSA BANK - Cheque account number - 908 197 4990	487 580	1 510 568	317 479	-	-	-
ABSA BANK - Cheque account number - 405 144 4332	-	-	-	-	-	-
ABSA BANK - Liquidity plus account - 9312433930 (MIG)	4 692	22 534 572	8 228 881	-	-	-
ABSA BANK - Liquidity plus account - 9312434237 (INEP)	2 968	4 480 334	22 857 740	-	-	-
Total	7 490 664	31 839 163	54 369 420	7 490 664	31 839 163	54 369 420

The municipality has two bank accounts to control MIG and INEP funds separately.

An amount of R 2 724 847 (2017: R 30 523 329) of the unspent conditional grants is included in cash and cash equivalents.

Credit quality of Cash and cash equivalents

The credit quality of cash and cash equivalents that are neither past due nor impaired can be assessed by reference to the municipality's going concern ratio's which include current ratio, debt ratio and net income to net sales ratio.

9. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	183 057 053	-	183 057 053	173 182 753	-	173 182 753

Reconciliation of investment property - 2018

	Opening balance	Disposals	Change in valuation	Total
Investment property	173 182 753	(570 000)	10 444 300	183 057 053

Reconciliation of investment property - 2017

	Opening balance	Additions	Total
Investment property	166 041 000	7 141 753	173 182 753

Pledged as security

No investment properties was pledged as security for liabilities.

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand

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.

Details of valuation

The Greater Tzaneen Municipal valuations is based on the valuation roll which is reviewed every four years. The last valuation roll came into effect on 1 July 2017. Supplementary valuations are issued and processed annually to take into account changes in individual property value due to alterations and subdivisions.

10. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	124 398 446	-	124 398 446	125 358 946	-	125 358 946
Infrastructure	2 254 746 249	(1 079 971 648)	1 174 774 601	2 317 944 656	(1 030 424 263)	1 287 520 393
Community	191 922 931	(36 293 467)	155 629 464	143 875 196	(32 548 735)	111 326 461
Work in progress	30 985 479	-	30 985 479	58 988 033	-	58 988 033
Other assets	65 290 797	(52 065 292)	13 225 505	69 982 364	(50 124 148)	19 858 216
Leased assets	10 920 221	(8 010 617)	2 909 604	14 349 107	(6 878 979)	7 470 128
Total	2 678 264 123	(1 176 341 024)	1 501 923 099	2 730 498 302	(1 119 976 125)	1 610 522 177

- 2018

Opening balance	Additions	Write-Offs/ Disposals	Transfers	Depreciation	Impairment loss	Total
125 358 946	49 500	(1 010 000)	-	-	-	124 398 446
1 287 520 393	27 802 252	(23 642 192)	-	(114 065 952)	(2 839 900)	1 174 774 601
111 326 461	48 501 470	(88 140)	-	(4 110 327)	-	155 629 464
58 988 033	47 725 910	-	(75 728 464)	-	-	30 985 479
19 858 216	437 012	(1 284 682)	-	(5 785 041)	-	13 225 505
7 470 128	-	(2 590 714)	-	(1 969 810)	-	2 909 604
1 610 522 177	124 516 144	(28 615 728)	(75 728 464)	(125 931 130)	(2 839 900)	1 501 923 099

- 2017

Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
125 358 946	-	-	-	-	-	125 358 946
1 373 848 929	32 169 915	(213 379)	-	(117 462 149)	(822 923)	1 287 520 393
94 215 242	20 906 325	-	-	(3 795 106)	-	111 326 461
52 887 257	60 501 644	-	(54 400 868)	-	-	58 988 033
22 391 021	3 451 425	(153 203)	-	(5 831 027)	-	19 858 216
4 326 281	5 718 518	(741 822)	-	(1 832 849)	-	7 470 128
1 673 027 676	122 747 827	(1 108 404)	(54 400 868)	(128 921 131)	(822 923)	1 610 522 177

pledged as security for any liabilities.

on property, plant and equipment has been restated from R 1.560 billion

Greater Tzaneen Municipality

Financial Statements for the year ended 30 June 2018

Notes to the Financial Statements

Figures in Rand

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.

The prior period balances were restated for prior year errors. Refer to note 59 for detail.

A detailed breakdown of property plant and equipment by asset class can be found in Annexure "B".

11. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	3 605 102	(2 001 634)	1 603 468	2 454 305	(1 319 263)	1 135 042

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software and license	1 135 042	1 150 797	(682 371)	1 603 468

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software and license	929 501	631 368	(425 827)	1 135 042

Pledged as security

No intangible assets have been pledged as security for any liability.