



CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality
Annual Financial Statements
for the year ended 30 June 2018

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Nature of business and principal activities

Chris Hani District Municipality is a South African Category C Municipal (District Municipality) as defined by the Municipal Structure Act. (Act no 117 of 1998)

The Municipality's operations are governed by:

- Municipal Finance Management Act 56 of 2003.
- Municipal Structure Act 117 of 1998.
- Municipal Systems Act 32 of 2000 and various other acts and regulations.

Mayoral committee

Executive Mayor

K. Vimbayo

M.C Koyo: Speaker

B. Van Heerden: Chief Whip

S. Mbotshane: Portfolio Head - Integrated Planning & Economic Development

N. Makanda: Portfolio Head - Budget & Treasury (Resigned: March 2018)

M. Jack: Portfolio Head - Budget and Treasury (Appointed: April 2018)

S. Zangqa: Portfolio Head - Engineering

N. September-Caba: Portfolio Head - Health & Community Services

N. Matiwane: Portfolio Head: Special Programmes Unit

M. Jack: Portfolio Head - Corporate Services (Resigned: March 2018)

N. Koni: PortfolioHead - Corporate Services (Appointed: April 2018)

Councillors

W. Gela

M. Xheliso

K. Mjezu

S. Tame

N.C Goniwe

E.G. Bomela

B. Ntsere

M. Adonisi

N. Mtyobile

F.A.N. Hendricks

S. Kula

E.L. Gubula

S.E. Mvana

N.A. Dayisi

S.A. Nxози

S. Myataza

Z. Qayiya

Z.N.E. Ralane

L.N. Tyali

S.B. Nxawe

N. Nkota

N. Nyukwana

T. Bikwana

L. Gunuza-Nkwentsha

N.C. Lali

X.P. Xelo

J. Cengani

Z.R. Shweni

Chris Hani District Municipality

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General Information

	M. Kondile
	K. Bizana
	Z. Deliwe
	R. Venske
	M. Desha
Grading of local authority	Grade 5
Accounting Officer	B.J. Mthembu
Registered office	15 Bells Road Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa

Chris Hani District Municipality

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

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CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
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

Chris Hani District Municipality

Annual 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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

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

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

Improved revenue collection through implementation of data cleansing and meter audit projects would ensure decrease in outstanding debtors and increase in cash reserves available to fund budgeted expenditure.

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

The annual financial statements set out on pages 5 to 81, 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.J. Mthembu
Acting Municipal Manager

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 Restated* R
Assets			
Current Assets			
Prepayments	7	10,765,507	10,765,507
Inventories	8	16,342,214	11,041,750
Receivables from non-exchange transactions	9	50,419,800	77,864,354
VAT receivable	10	-	62,888,377
Receivables from exchange transactions	11	113,268,047	159,487,972
Cash and cash equivalents	12	274,268,498	235,792,713
		465,064,066	557,840,673
Non-Current Assets			
Property, plant and equipment	3	4,224,894,355	3,949,085,102
Intangible assets	4	2,150,140	3,527,323
Investments in controlled entities	5	1,500,000	1,500,000
		4,228,544,495	3,954,112,425
Total Assets		4,693,608,561	4,511,953,098
Liabilities			
Current Liabilities			
Employee benefit obligation	13&15	11,071,824	9,365,862
Consumer deposits	16	329,186	214,960
Operating lease liability	6	63,489	64,595
Payables from exchange transactions	17	153,914,522	208,386,512
VAT payable		3,536,576	-
Unspent conditional grants and receipts	18	114,249,016	70,046,383
Bank overdraft	12	13,422,606	33,854,007
		296,587,219	321,932,319
Non-Current Liabilities			
Employee benefit obligation	13	59,231,495	42,323,225
Total Liabilities		355,818,714	364,255,544
Net Assets		4,337,789,847	4,147,697,554
Accumulated surplus	19	4,337,789,847	4,147,697,554

* See Note 45

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	21	275,035,828	223,923,199
Operating income	22	3,296,438	2,573,172
Interest income	23	40,191,999	36,321,338
Total revenue from exchange transactions		318,524,265	262,817,709
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	24	1,088,406,807	1,289,452,959
Total revenue	20	1,406,931,072	1,552,270,668
Expenditure			
Employee related costs	25	(293,468,166)	(249,004,211)
Remuneration of councillors	26	(11,161,776)	(9,577,450)
Depreciation and amortisation	27	(140,520,650)	(121,362,809)
Finance costs	28	(117,085)	(271,493)
Debt Impairment	29	(267,391,721)	(177,155,621)
Bad debts written off	29	-	-
Bulk purchases	30	(16,178,054)	(21,588,920)
Contracted services	31	(96,770,768)	(78,782,615)
Transfers and Subsidies	32	(192,208,870)	(246,619,431)
General Expenses	33	(184,018,110)	(224,652,498)
Total expenditure		(1,201,835,200)	(1,129,015,048)
Operating surplus		205,095,872	423,255,620
(Loss) gain on disposal of assets and liabilities		(106,688)	891,155
Actuarial gains/losses	13	(12,417,677)	6,097,564
		(12,524,365)	6,988,719
Surplus for the year		192,571,507	430,244,339

* See Note 45

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	3,654,232,812	3,654,232,812
Adjustments		
Prior year adjustments	63,220,403	63,220,403
Balance at 01 July 2016 as restated*	3,717,453,215	3,717,453,215
Changes in net assets		
Surplus for the year	430,244,339	430,244,339
Total changes	430,244,339	430,244,339
Restated* Balance at 01 July 2017	4,147,697,552	4,147,697,552
Changes in net assets		
Surplus for the year	192,571,507	192,571,507
Prior period adjustments	(2,479,212)	(2,479,212)
Total changes	190,092,295	190,092,295
Balance at 30 June 2018	4,337,789,847	4,337,789,847
Note(s)		

* See Note 45

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		84,605,028	27,043,006
Grants		1,088,406,807	1,289,452,959
Interest income		40,191,999	36,321,338
		<u>1,213,203,834</u>	<u>1,352,817,303</u>
Payments			
Employee costs		(304,629,942)	(257,722,658)
Suppliers		(440,685,662)	(805,059,598)
Finance costs		(117,085)	(271,493)
		<u>(745,432,689)</u>	<u>(1,063,053,749)</u>
Net cash flows from operating activities	35	<u>467,771,145</u>	<u>289,763,554</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(415,059,408)	(449,315,912)
Purchase of other intangible assets	4	-	(2,585,109)
Net cash flows from investing activities		<u>(415,059,408)</u>	<u>(451,901,021)</u>
Cash flows from financing activities			
Net employee benefit obligation		6,196,555	5,891,748
Net lease liability		(1,106)	13,862
Net cash flows from financing activities		<u>6,195,449</u>	<u>5,905,610</u>
Net increase/(decrease) in cash and cash equivalents		58,907,186	(156,231,857)
Cash and cash equivalents at the beginning of the year		201,938,706	358,170,563
Cash and cash equivalents at the end of the year	12	<u>260,845,892</u>	<u>201,938,706</u>

* See Note 45

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	187,499,903	32,141,840	219,641,743	275,035,828	55,394,085	Note 48
Other income	85,501,655	(318,000)	85,183,655	3,296,438	(81,887,217)	Note 48
Interest income	136,388,022	(96,763,337)	39,624,685	40,191,999	567,314	Note 48
Total revenue from exchange transactions	409,389,580	(64,939,497)	344,450,083	318,524,265	(25,925,818)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,194,451,000	(9,633,000)	1,184,818,000	1,088,406,807	(96,411,193)	Note 48
Total revenue	1,603,840,580	(74,572,497)	1,529,268,083	1,406,931,072	(122,337,011)	
Expenditure						
Personnel	(349,186,660)	23,526,278	(325,660,382)	(293,468,166)	32,192,216	Note 48
Remuneration of councillors	(12,578,110)	2,033,845	(10,544,265)	(11,161,776)	(617,511)	Note 48
Depreciation and amortisation	(180,000,000)	-	(180,000,000)	(140,520,650)	39,479,350	Note 48
Finance costs	(1,200,000)	-	(1,200,000)	(117,085)	1,082,915	Note 48
Debt Impairment	(200,000,000)	-	(200,000,000)	(267,391,721)	(67,391,721)	Note 48
Bad debts written off	-	-	-	(213,181)	(213,181)	Note 50
Bulk purchases	(24,893,843)	-	(24,893,843)	(16,178,054)	8,715,789	Note 48
Contracted Services	(32,955,760)	(73,880,690)	(106,836,450)	(96,770,768)	10,065,682	Note 48
Transfers and Subsidies	(20,198,020)	(158,966,621)	(179,164,641)	(192,208,870)	(13,044,229)	Note 48
General Expenses	(476,427,126)	227,725,194	(248,701,932)	(183,804,929)	64,897,003	Note 48
Total expenditure	(1,297,439,519)	20,438,006	(1,277,001,513)	(1,201,835,200)	75,166,313	
Operating surplus	306,401,061	(54,134,491)	252,266,570	205,095,872	(47,170,698)	
Loss on disposal of assets and liabilities	200,000	-	200,000	(106,688)	(306,688)	Note 48
Actuarial gains/losses	-	-	-	(12,417,677)	(12,417,677)	
	200,000	-	200,000	(12,524,365)	(12,724,365)	
Surplus before taxation	306,601,061	(54,134,491)	252,466,570	192,571,507	(59,895,063)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	306,601,061	(54,134,491)	252,466,570	192,571,507	(59,895,063)	
Reconciliation						

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	7,772,607	-	7,772,607	16,342,214	8,569,607	Note 48
Receivables from non-exchange transactions	128,034,064	-	128,034,064	50,419,800	(77,614,264)	Note 48
Prepayments	-	-	-	10,765,507	10,765,507	Note 48
Consumer debtors	35,148,393	-	35,148,393	113,268,047	78,119,654	Note 48
Cash and cash equivalents	399,841,743	-	399,841,743	274,268,498	(125,573,245)	Note 48
	570,796,807	-	570,796,807	465,064,066	(105,732,741)	
Non-Current Assets						
Property, plant and equipment	5,116,048,867	-	5,116,048,867	4,224,894,355	(891,154,512)	Note 48
Intangible assets	481,056	-	481,056	2,150,140	1,669,084	Note 48
Investments in controlled entities	1,500,000	-	1,500,000	1,500,000	-	Note 48
	5,118,029,923	-	5,118,029,923	4,228,544,495	(889,485,428)	
Total Assets	5,688,826,730	-	5,688,826,730	4,693,608,561	(995,218,169)	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	-	63,489	63,489	Note 48
Payables from exchange transactions	99,836,346	-	99,836,346	153,914,522	54,078,176	Note 48
VAT payable	-	-	-	3,536,576	3,536,576	
Consumer deposits	-	-	-	329,186	329,186	Note 48
Employee benefit obligation	9,555,031	-	9,555,031	11,071,824	1,516,793	Note 48
Unspent conditional grants and receipts	-	-	-	114,249,016	114,249,016	Note 48
Bank overdraft	-	-	-	13,422,606	13,422,606	Note 48
	109,391,377	-	109,391,377	296,587,219	187,195,842	
Non-Current Liabilities						
Employee benefit obligation	49,508,526	-	49,508,526	59,231,495	9,722,969	
Total Liabilities	158,899,903	-	158,899,903	355,818,714	196,918,811	
Net Assets	5,529,926,827	-	5,529,926,827	4,337,789,847	(1,192,136,980)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	5,529,926,827	-	5,529,926,827	4,337,789,847	(1,192,136,980)	

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	142,576,456	-	142,576,456	49,851,407	(92,725,049)	
Grants	1,146,289,736	38,527,710	1,184,817,446	1,088,406,807	(96,410,639)	
Interest income	33,153,996	-	33,153,996	40,191,999	7,038,003	
	1,322,020,188	38,527,710	1,360,547,898	1,178,450,213	(182,097,685)	
Payments						
Suppliers	(757,431,142)	40,794,269	(716,636,873)	(304,629,942)	412,006,931	
Finance costs	(1,200,000)	-	(1,200,000)	(117,085)	1,082,915	
Other payments	(20,198,020)	(158,966,621)	(179,164,641)	(400,926,371)	(221,761,730)	
	(778,829,162)	(118,172,352)	(897,001,514)	(705,673,398)	191,328,116	
Net cash flows from operating activities	543,191,026	(79,644,642)	463,546,384	472,776,815	9,230,431	
Cash flows from investing activities						
Purchase of property, plant and equipment	(598,536,187)	-	(598,536,187)	(420,065,078)	178,471,109	
Cash flows from financing activities						
Employee benefits	-	-	-	6,196,555	6,196,555	
Leases	-	-	-	(1,106)	(1,106)	
Net cash flows from financing activities	-	-	-	-	-	
Net increase/(decrease) in cash and cash equivalents	(55,345,161)	(79,644,642)	(134,989,803)	52,711,737	187,701,540	
Cash and cash equivalents at the beginning of the year	432,848,961	-	432,848,961	201,938,706	(230,910,255)	
Cash and cash equivalents at the end of the year	377,503,800	(79,644,642)	297,859,158	254,650,443	(43,208,715)	
Reconciliation						

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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 annual financial statements, are disclosed below.

1.1 Presentation currency

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

All figures have been rounded off to the nearest rand.

1.2 Going concern assumption

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

1.3 Comparative figures

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

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

1.4 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

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

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.

Impairment testing

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

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. In addition, goodwill is tested on an annual basis for impairment. 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosures of these estimates of provisions are included under the note - Provisions.

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 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.

Initial Recognition and measurement

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Subsequent measurement - Cost model

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

Depreciation

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

Chris Hani District Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land		Infinity
Buildings		5 - 100 years
Plant and machinery		2 - 17 years
Furniture and fixtures		3 - 18 years
Transport assets		4 - 20 years
Office equipment		3 - 18 years
IT equipment		3 - 13 years
Infrastructure		
• Roads and Paving		3 - 100 years
• Security measures		7 - 25 years
• Sewerage		7 - 100 years
• Water infrastructure		5 - 100 years
Community		
• Community facilities		5 - 30 years
• Recreational facilities		10 - 30 years
Emergency equipment		3 - 10 years
Bins and containers		5 - 15 years

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

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

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

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

Derecognition

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

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

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

Repairs and Maintenance

The municipality discloses expenditure to repair and maintain property, plant and equipment under contracted services in the notes to the financial statements (see note 3 and 31).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

Chris Hani District Municipality

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Accounting Policies

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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.

Initial Recognition

Intangible assets are initially recognised at cost.

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

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

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

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

Subsequent Measurement

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

Amortisation and Impairment

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

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Accounting Policies

1.6 Intangible assets (continued)

Item	Useful life
Licenses and franchises	2 - 5 years
Computer software, other	2 - 5 years

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).

1.7 Investments in associates

In the municipality's separate financial statements, investments in non-current investments are carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a dividend or similar distribution in surplus or deficit in its separate annual financial statements when its right to receive the dividend or similar distribution is established.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated financial statements, are accounted for in the same way in the controlling entity's separate financial statements.

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.

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

Classification

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

Class	Category
Prepayments	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value
Cash and Cash Equivalents	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	Category
Consumer deposits	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

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.

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.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Chris Hani District Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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.

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.

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.

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).

Chris Hani District Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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.

Policies relating to specific financial instruments

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

All trade and other receivables are assessed at least annually for possible impairment. Impairment adjustments are made through the use of an allowance account. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from reporting date and are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade and other payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

Cash and Cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

1.9 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Chris Hani District Municipality

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Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

Identification

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

The 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.

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

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the 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.

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.

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

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

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

Chris Hani District Municipality

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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.

Chris Hani District Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

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

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

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

Useful life is either:

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

Identification

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

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

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

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.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.13 Employee benefits

Short-term employee benefits

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

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

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

Leave Pay

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or in the case of non-accumulating absences, when the absence occurs. The liability is based on the total amount of leave days due to the employees at reporting date and on the total cost to the municipality of the employees.

Annual Bonuses

The municipality recognises the expected cost of bonus, incentive and performance, related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. The liability relating to anticipated bonuses payable is raised and is based on the total cost to the municipality.

Long Service Awards

The municipality provides long service awards to eligible employees, payable on completion of a certain number of years of employment ie 5 yrs, 10 yrs, 15 yrs, 20 yrs etc. A liability is raised to account for the expected long service awards due to be paid in future years.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Employee benefits (continued)

Defined contribution plans

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

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

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.

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

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

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

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

1.15 Revenue from exchange transactions

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

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable excluding indirect taxes, rebates and discounts.

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.

Chris Hani District Municipality

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Service Charges - Water

Service charges relating to water are based on consumption. Meters are read on a monthly basis and revenue is recognised providing that the benefits can be measured reliably. Provisional estimates of consumption are made monthly when meter readings have not been performed for whatever reason. The provisional amounts are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service Charges - Sewerage and sanitation Charges

Revenue relating to waste water management services are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property usage and are levied monthly.

Rental Income

Rental Income is recognised on a straight line basis over the term of the lease agreement.

Interest, royalties and dividends

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

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

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

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

1.16 Revenue from non-exchange transactions

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

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

Chris Hani District Municipality

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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

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

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

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

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

Recognition

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

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

Measurement

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

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

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.

Chris Hani District Municipality

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Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

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.

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

1.17 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.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

1.18 Investment income

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

1.19 Borrowing costs

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

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

1.20 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.21 Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the South African Revenue Services is included as part of receivables or payables in the Statement of Financial Position.

1.22 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements.

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.23 Unauthorised expenditure (continued)

Also included is 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)

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

1.24 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.

1.25 Irregular expenditure

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

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

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

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

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

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

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

1.26 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Chris Hani District Municipality

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Accounting Policies

1.27 Segment information

A segment is an activity of an entity:

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

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

1.28 Budget information

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

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

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

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

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.29 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be 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 in the annual financial statements.

Chris Hani District Municipality

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Accounting Policies

1.30 Transfer of functions between entities under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality's objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a municipality's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.30 Transfer of functions between entities under common control (continued)

Accounting by the entity as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.30 Transfer of functions between entities under common control (continued)

Accounting by the entity as transferor

Derecognition of assets transferred and liabilities relinquished

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

Until the transfer date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in accumulated surplus or deficit.

1.31 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.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018	2017
R	R

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and Interpretations Issued and Effective

The following accounting standards have been issued and are effective. These have been adopted by the municipality during the current financial period and the annual financial statements have been prepared in accordance with these:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Forex Exchange Rates
GRAP 5	Borrowing Costs
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-Cash- generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash Generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP105	Transfer of Functions Between Entities Under Common Control
GRAP106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

The following Interpretations have been issued and are effective. These have been adopted by the municipality during the current financial period and the financial statements have been prepared in accordance with these.

IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in Existing Decommissioning Restoration and Similar Assets
IGRAP 3	Determining whether an arrangement contains a Lease
IGRAP 4	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of Grap on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The limit on a Defined Benefit Asset, Minimum funding requirements and their interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets received from customers
GRAP 11	Consolidation - Special Purpose Entities
GRAP 12	Jointly Controlled Entities - Non- monetary Contributions
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the substance of transactions involving the Legal form of a Lease
IGRAP 15	Revenue - Barter Transactions involving advertising services
IGRAP 16	Intangible Assets - Website Cost

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 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 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources

The following Interpretations have been issued, but not yet effective

IGRAP 17	Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
IGRAP 18	Interpretation of the Standard of GRAP on Recognition and Derecognition of Land
IGRAP 19	Liabilities to Pay Levies

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	11,614,100	-	11,614,100	11,614,100	-	11,614,100
Buildings	57,744,985	(8,703,368)	49,041,617	49,545,708	(8,114,389)	41,431,319
Machinery and Equipment	18,380,889	(6,227,686)	12,153,203	14,064,527	(4,368,826)	9,695,701
Furniture and Office Equipment	22,804,694	(12,034,768)	10,769,926	22,173,415	(10,184,432)	11,988,983
Transport assets	79,124,602	(40,489,967)	38,634,635	69,904,199	(33,786,133)	36,118,066
Computer equipment	12,268,483	(7,973,911)	4,294,572	13,857,140	(8,985,867)	4,871,273
Infrastructure: Water	3,771,388,390	(853,855,131)	2,917,533,259	3,141,728,630	(787,672,278)	2,354,056,352
Infrastructure: Sanitation	432,443,504	(140,063,494)	292,380,010	372,580,183	(85,281,611)	287,298,572
Infrastructure: Roads	11,760,838	(1,869,712)	9,891,126	10,399,434	(166,358)	10,233,076
Work-in-progress: Water	647,165,539	-	647,165,539	958,326,700	-	958,326,700
Work-in-progress: Sanitation	203,354,786	-	203,354,786	202,001,755	-	202,001,755
Work-in-progress: Buildings	28,061,582	-	28,061,582	21,449,205	-	21,449,205
Total	5,296,112,392	(1,071,218,037)	4,224,894,355	4,887,644,996	(938,559,894)	3,949,085,102

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	11,614,100	-	-	-	-	11,614,100
Buildings	41,431,319	-	-	8,199,235	(588,937)	49,041,617
Machinery and Equipment	9,695,701	4,514,243	-	-	(2,056,741)	12,153,203
Furniture and Office Equipment	11,988,983	2,031,927	(141,254)	-	(3,109,730)	10,769,926
Transport assets	36,118,066	11,367,423	(22,466)	-	(8,828,388)	38,634,635
Computer equipment	4,871,273	1,368,841	(51,322)	-	(1,894,220)	4,294,572
Infrastructure: Water	2,354,056,352	-	-	668,942,167	(105,465,260)	2,917,533,259
Infrastructure: Sanitation	287,298,572	4,763,592	-	17,176,088	(16,858,242)	292,380,010
Other property, plant and equipment	-	-	-	-	-	-
Infrastructure: Roads	10,233,076	-	-	-	(341,950)	9,891,126
Work-in-progress: Water	958,326,700	357,781,010	-	(668,942,171)	-	647,165,539
Work-in-progress: Sanitation	202,001,755	18,529,115	-	(17,176,084)	-	203,354,786
Work-in-progress: Buildings	21,449,205	14,811,612	-	(8,199,235)	-	28,061,582
	3,949,085,102	415,167,763	(215,042)	-	(139,143,468)	4,224,894,355

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Prior year adjustments	Disposals	Transfers	Depreciation	Total
Land	11,614,100	-	-	-	-	-	11,614,100
Buildings	38,624,825	3,304,208	-	-	-	(497,714)	41,431,319
Machinery and Equipment	7,696,879	3,630,331	2,839	(3,583)	-	(1,630,765)	9,695,701
Furniture and office equipment	9,313,862	5,369,204	(492)	-	-	(2,693,591)	11,988,983
Transport assets	36,825,798	17,503,778	-	(481,200)	-	(17,730,310)	36,118,066
Computer equipment	6,130,984	1,808,839	(40,053)	(52,308)	-	(2,976,189)	4,871,273
Infrastructure: Water	2,233,819,324	74,298	-	-	204,138,198	(83,975,468)	2,354,056,352
Infrastructure: Sanitation	297,544,503	-	-	-	-	(10,245,931)	287,298,572
Infrastructure: Roads	7,284,551	-	-	-	3,193,608	(245,083)	10,233,076
Work-in-progress	803,903,300	554,887,059	(193,131,853)	-	(207,331,806)	-	958,326,700
Work-in-progress: Sanitation	164,966,275	46,368,176	(9,332,696)	-	-	-	202,001,755
Work-in-progress: Buildings	1,148,685	20,300,520	-	-	-	-	21,449,205
	3,618,873,086	653,246,413	(202,502,255)	(537,091)	-	(119,995,051)	3,949,085,102

Pledged as security

There are no assets that have been pledged as security during the current year.

Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services

74,917,084

68,939,200

Details of property

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

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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3. Property, plant and equipment (continued)

The municipality applies the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash generating Assets to assess whether items of Property, Plant and Equipment are impaired through a review of the carrying amounts of assets against the recoverable amounts for each asset. At 30 June 2018, no assets were assessed to be impaired.

4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	8,118,159	(5,968,019)	2,150,140	8,118,159	(4,590,836)	3,527,323

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	3,527,323	(1,377,183)	2,150,140

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	2,309,972	2,585,109	(1,367,758)	3,527,323

Pledged as security

There are no intangible assets that are pledged as security:

5. Investments in controlled entities

Name of company	Held by	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Investments in Associates		100.00 %	100.00 %	1,500,000	1,500,000

The carrying amounts of controlled entities are shown net of impairment losses.

Chris Hani Development Agency

The district municipality has a 100% shareholding in Chris Hani Development Agency. The purpose of the municipal entity is to carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District. The municipal entity was fully operational during the 12 months and all contributions made by the district municipality were treated as Grants and Subsidies paid, refer to Note 32.

6. Operating lease liability/asset

Current liabilities	(63,489)	(64,595)
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Operating Leases are recognised on a straight line basis as per the requirements of GRAP 13. In respect of Non-cancellable Operating Leases the following liabilities have been recognised:

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
6. Operating lease liability/asset (continued)		
Balance at the beginning of the year	64,595	50,732
Operating lease expense recorded	(1,106)	(4,546,774)
Operating lease payments effected	-	4,560,637
	<u>63,489</u>	<u>64,595</u>
7. Prepayments		
Prepayments relate to payments made to Eskom for connections. As at 30 June 2018, the connections paid for had not yet been done by Eskom.		
Payments made in advance	<u>10,765,507</u>	<u>10,765,507</u>
8. Inventories		
Inventory stores	15,950,362	10,649,898
Water	391,852	391,852
	<u>16,342,214</u>	<u>11,041,750</u>
9. Receivables from non-exchange transactions		
Sundry receivables - Roadworks subsidy	21,972,871	15,659,910
Local Municipalities	11,103,108	5,000,000
Rental and Eskom service deposits	8,617,179	7,333,258
Government grants and subsidies (See note 24)	1,589,215	15,725,808
Other Debtors	4,100,271	6,957,105
DHS Unblocking (See note 24)	-	23,037,220
RBIG debtor (See note 24)	-	2,149,195
Roads Subsidies (See note 24)	3,037,156	2,001,858
	<u>50,419,800</u>	<u>77,864,354</u>
Government grants and subsidies consists of debtors raised for MIG.		
Local municipalities consists of loans to Inxuba Yethemba Local Municipality and Sakhisizwe Local Municipality.		
Service deposits consists of rental deposits and Eskom service deposits.		
Other debtors consists of amounts receivable from bursary loan obligations, tax control, ACB rejections, etc.		
Fair value of receivables from non-exchange transactions		
Other receivables from non-exchange transactions	50,419,800	77,864,354
The fair value of other trade receivables from non-exchange transactions approximates their carrying amount.		
10. VAT receivable		
VAT	<u>-</u>	<u>62,888,377</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
11. Receivables from exchange transactions		
Gross balances		
Water	921,281,534	762,175,627
Sewerage	410,621,454	336,551,618
Sundry Debtors	3,467,280	15,471,227
	<u>1,335,370,268</u>	<u>1,114,198,472</u>
Less: Allowance for impairment		
Water	(827,700,246)	(682,985,734)
Sewerage	(393,222,018)	(265,640,595)
Sundry debtors	(1,179,957)	(6,084,171)
	<u>(1,222,102,221)</u>	<u>(954,710,500)</u>
Net balance		
Water	93,581,288	79,189,893
Sewerage	17,399,436	70,911,023
Sundry Debtors	2,287,323	9,387,056
	<u>113,268,047</u>	<u>159,487,972</u>
Water		
Current (0 -30 days)	23,105,367	26,065,537
31 - 60 days	29,099,908	16,017,269
61 - 90 days	15,335,721	13,796,481
91 - 120 days	36,154,802	14,179,354
121 - 365 days	101,345,139	106,330,857
> 365 days	716,240,597	585,786,129
Impairment allowance	(827,700,246)	(682,985,734)
	<u>93,581,288</u>	<u>79,189,893</u>
Sewerage		
Current (0 -30 days)	4,689,128	1,857,188
31 - 60 days	13,304,470	3,891,594
61 - 90 days	4,341,323	3,860,134
91 - 120 days	4,251,101	3,854,900
121 - 365 days	27,523,219	34,018,728
> 365 days	356,512,213	289,069,074
Impairment allowance	(393,222,018)	(265,640,595)
	<u>17,399,436</u>	<u>70,911,023</u>
Sundry Debtors		
Current (0 -30 days)	28,171	1,031,451
31 - 60 days	18,045	3,572
61 - 90 days	9,120	6,031
91 - 120 days	31,534	201,843
121 - 365 days	89,608	18,817
> 365 days	3,290,802	14,209,513
Impairment allowance	(1,179,957)	(6,084,171)
	<u>2,287,323</u>	<u>9,387,056</u>
Impairment allowance		
Current (0 - 1830 + days)	(1,176,077,519)	(954,710,500)

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
11. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(954,710,500)	(777,388,123)
Contributions to allowance	(267,391,721)	(177,322,377)
	<u>(1,222,102,221)</u>	<u>(954,710,500)</u>

Consumer debtors pledged as security

None of the financial assets as disclosed are held as collateral nor have they been used for any other credit enhancements.

Consumer debtors past due but not impaired

Consumer debtors that are identified as relating to government institutions have not been impaired as there is a general expectation that amounts owing will be settled. At 30 June 2018, Gross R 57 537 160, at 30 June 2017 Gross R55 802 840.

Consumer debtors impaired

None of the financial assets for the period ended 30 June 2018 have been determined individually for impairment.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,200	4,200
Short-term deposits	274,264,298	235,788,513
Bank overdraft	(13,422,606)	(33,854,007)
	<u>260,845,892</u>	<u>201,938,706</u>
Current assets	274,268,498	235,792,713
Current liabilities	(13,422,606)	(33,854,007)
	<u>260,845,892</u>	<u>201,938,706</u>

Short-term deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.50% to 6.70% per annum. Investments are made up of short-term deposits held for unspent conditional grants that are ringfenced until the conditions are met and utilised.

The bank overdraft was caused by systematic accruals that affected the Cash Book after year-end.

Cash and cash equivalents have been restated due to classification of Nedbank - Vote 037881076712030 of R133,687 to Receivables from non-exchange.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates: Excess cash is invested with reputable finance institutions with good credit ratings.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R			2017 R		
12. Cash and cash equivalents (continued)						
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
First National Bank - Current - 62002510693	75,220,724	80,515,606	132,326,812	(13,422,606)	(33,854,007)	16,627,715
First National Bank - Call Account - 62004499481	13,588,735	19,349,445	113,284,765	13,588,735	19,349,445	113,284,765
First National Bank - Call Account - 62190652521 (CRR)	242,754,637	86,217,296	110,951,667	242,754,637	86,217,296	110,951,667
First National Bank - Call Account - 62187939784 (Infrastructure)	7,506,142	115,876,841	30,031,899	7,506,142	115,876,840	30,031,899
First National Bank - Call Account - 62187936532 (National)	1,166,978	7,233,597	86,397,673	1,166,978	7,233,597	86,397,673
First National Bank - Call Account - 62187938538 (Provincial)	1,027,204	1,254,167	3,841	1,027,204	1,254,167	3,841
First National Bank - Public Sector Cheque Account 62610267602	8,220,867	5,857,987	835,822	8,220,603	5,857,167	735,315
Total	349,485,287	316,304,939	473,832,479	260,841,693	201,934,505	358,032,875

13. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(48,552,148)	(32,901,878)
Present value of the defined benefit obligation-partly or wholly funded	(13,567,990)	(12,018,079)
Bonus accrual	(7,024,337)	(5,701,462)
Performance bonus accrual	(1,158,844)	(1,067,668)
	(70,303,319)	(51,689,087)
Non-current liabilities	(59,231,495)	(42,323,225)
Current liabilities	(11,071,824)	(9,365,862)
	(70,303,319)	(51,689,087)

Refer to Note 14 for the disclosure relating to Long service bonus obligation.

Refer to Note 15 for the disclosure relating to the current portion of the staff leave accrual, staff bonus accrual and the performance bonus provision liabilities

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	32,901,878	35,070,544
Benefits paid	(1,287,658)	(1,298,129)
Net expense recognised in the statement of financial performance	16,937,928	(870,537)
	48,552,148	32,901,878

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
13. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	1,827,224	1,918,055
Interest cost	3,103,826	3,113,900
Actuarial (gains) losses	12,006,878	(5,902,492)
	16,937,928	(870,537)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	12,006,878	(5,902,492)
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Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.84 %	9.62 %
Expected rate of return on assets	2.05 %	1.58 %
Expected rate of return on reimbursement rights	6.13 %	6.41 %
Actual return on reimbursement rights	7.63 %	7.91 %

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	6,394,578	8,680,185
Effect on defined benefit obligation	6,200,495	(7,496,356)

Amounts for the current and previous four years are as follows:

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	48,552,148	32,901,878	35,070,544	32,216,006	27,957,000
Surplus (deficit)	48,552,148	32,901,878	35,070,544	32,216,006	27,957,000
Experience adjustments on plan liabilities	16,937,928	(870,537)	2,854,538	4,393,102	3,847,353

14. Long Service Awards

The municipality operates an undefined benefit plan for all its employees under the plan, a long service award is payable after 5 years of continuous service, and every 5 years thereafter, to 45 years of continuous service. The provision is an estimate of the long service based on historical staff turnover.

Reconciliation of long service awards - June 2018	Opening Balance	Additions	Utilised during the year	Total
Long Service Awards	12,018,079	2,858,985	(1,309,074)	13,567,990

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
14. Long Service Awards (continued)		
Reconciliation of long service awards - June 2017	Opening Balance	Additions
Long Service Awards	10,962,328	1,969,529
	Utilised during the year	Total
	(913,778)	12,018,079
<p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by One Pangaea Expertise & Solutions. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Credit Unit Method.</p> <p>At year end 871 (2017: 682) employees were eligible for the Long service awards.</p> <p>The current service cost for the year ending 30 June 2018 was estimated to be R1 490 523 whereas the cost of the ensuing year is estimated to be R732 152.</p> <p>The principle assumptions used for the purpose of the actuarial valuation were as follows:</p>		
Discount rate	8.87%	8.42%
Consumer price inflation	5.41%	5.24%
Normal salary increase rate	6.41%	6.24%
Net effective discount rate	2.31%	2.05%
	-	-
Changes in the present value of the long service awards are as follows:		
Opening balance	12,018,079	10,962,328
Current year service cost	1,490,523	1,277,322
Interest cost	957,663	887,279
Benefits paid	(1,309,074)	(913,778)
Actuarial (gains) or losses	410,799	(195,072)
	13,567,990	12,018,079
The amount recognised in the statement of financial position are as follows:		
Present value of the long service awards wholly unfunded	13,567,990	12,018,079
Next expense recognised in the statement of financial performance		
Current service cost	1,490,523	1,277,322
Interest cost	957,663	887,279
Actuarial (gains)/ losses	410,799	(195,072)
	2,858,985	1,969,529

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R	
15. Current Employee Benefits			
Staff Bonus Accrual	7,024,336	5,701,463	
Performance Bonus Accrual	1,158,846	1,067,668	
Current Portion of Post-Retirement Benefits	1,338,853	1,287,658	
Current Portion of Long Service Awards	1,549,790	1,309,074	
	<u>11,071,825</u>	<u>9,365,863</u>	
Other Current employee benefits - 2018			
	Opening Balance	Additions	Total
Staff Bonus Accrual	5,701,643	1,322,873	7,024,516
Performance Bonus Accrual	1,067,668	91,178	1,158,846
	<u>6,769,311</u>	<u>1,414,051</u>	<u>8,183,362</u>
Other Current Employee Benefits - 2017			
	Opening Balance	Additions	Total
Staff Bonus Accrual	4,989,860	711,603	5,701,463
Performance Bonus Accrual	917,955	149,713	1,067,668
	<u>5,907,815</u>	<u>861,316</u>	<u>6,769,131</u>
16. Consumer deposits			
Water	<u>329,186</u>	<u>214,960</u>	
17. Payables from exchange transactions			
Trade payables	56,371,947	131,019,474	
Payments received in advanced - contract in process	16,857,217	6,098,077	
Retentions	48,224,797	46,990,815	
Accrued leave pay	11,850,403	11,050,372	
Deposits received (held as Surety)	8,335	8,335	
Other payables	20,601,823	13,219,439	
	<u>153,914,522</u>	<u>208,386,512</u>	
Fair value of trade and other payables			
Trade payables	<u>92,551</u>	<u>626,818</u>	
The fair value of trade and other payables approximates their carrying amount.			

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
National: MSIG	(1)	-
National: Finance Management Grant	1	1
National: Rural Household Infrastructure Grant (RHIG)	-	(1)
National: Department of Transport - Rural Road Asset Mgt Grant	2,680,975	-
Provincial: RBIG	29,439,980	-
National : WSIG	32,991,649	27,109,971
	65,112,604	27,109,971
Unspent provincial and national funds		
Provincial: Department of Economic Affairs and Trade	360,655	360,655
Provincial: Office of the Premier	21,569	21,569
Provincial: Treasury	1,606,965	1,606,965
Provincial: Department of Transport	1,732,096	1,732,096
Provincial: Department of Economic Affairs	14,308,884	14,308,884
Other Spheres of Government	7,162,449	7,162,449
Lapesi Project	42,197	42,197
Provincial: Department of Housing, Local Gvt and Traditional Affairs	1,158,656	1,158,656
National: Department of Rural Development and Land Reform	402,614	402,614
National: Sport and Development	16,140,327	16,140,327
DEDEAT: Rural Sustainable Villages	6,200,000	-
	49,136,412	42,936,412
Total unspent conditional grants and receipts		
Unspent conditional grants and receipts	65,112,604	27,109,971
Unspent provincial and national funds	49,136,412	42,936,412
	114,249,016	70,046,383

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

19. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2018

	Capital replacement reserve	Accumulated surplus/ (deficit)	Total
Balance	50,896,894	4,286,892,954	4,337,789,848
Surplus	-	192,571,507	192,571,507
	50,896,894	4,286,892,954	4,337,789,848

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
19. Accumulated surplus (continued)		
Ring-fenced internal funds and reserves within accumulated surplus - 2017		
	Capital replacement reserve	Other
Opening balance	50,896,894	3,717,453,215
Surplus	-	430,244,339
	50,896,894	4,147,697,554
20. Revenue		
Service charges	275,035,828	223,923,199
Other income	3,296,438	2,573,172
Interest received	40,191,999	36,321,338
Government grants & subsidies	1,088,406,807	1,289,452,959
	1,406,931,072	1,552,270,668
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	275,035,828	223,923,199
Other income	3,296,438	2,573,172
Interest received	40,191,999	36,321,338
	318,524,265	262,817,709
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,088,406,807	1,289,452,959
21. Service charges		
Service charges	158,068	178,400
Sale of water	221,807,577	174,291,107
Sewerage and sanitation charges	53,070,183	49,453,692
	275,035,828	223,923,199
Services charges		
Previously reported	-	171,574,593
Sale of water	-	45,900,415
Sewerage and sanitation charges	-	6,448,191
	-	223,923,199
22. Operating Income		
Private telephone calls	41,371	59,103
Tender documents	367,512	315,967
Commission on collections	238,582	200,868
Sundry Revenue	1,361,315	1,997,234
Other income	1,287,658	-
	3,296,438	2,573,172

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018	2017
	R	R
<hr/>		
23. Interest Income		
Interest revenue		
Bank	1,568,502	2,181,505
Interest - investments	27,268,026	34,139,833
Interest - debtors	11,355,471	-
	<u>40,191,999</u>	<u>36,321,338</u>

The municipality had previously not charged interest on debtors, 2017/18 is the first year.

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
24. Government grants and subsidies		
Revenue from conditional grants		
Equitable share	-	-
National: Finance Management Grants	1,500,000	1,500,000
National: Municipal Infrastructure Grant	278,216,152	271,423,000
National: EPWP	10,037,000	7,797,000
National: Department of Transport- Rural Roads Asset Management	541,025	3,097,002
National: MWIG	-	34,529,643
WSIG Operational	-	4,500,000
	290,294,177	322,846,645
Revenue from conditional agency fees		
Provincial: Department of Human Settlement Unblocking	-	23,862,132
Provincial: Roads Subsidies	29,265,928	27,800,000
Provincial: DHLGTA	-	157,758
Provincial: Treasury -COGTA	9,994,496	21,700,000
DEDEAT	-	3,153,460
Water Services Infrastructure Grant	74,118,321	69,987,029
Regional Bulk Infrastructure Grant	176,910,825	335,055,195
	290,289,570	481,715,574
	580,583,747	804,562,219
Revenue from other Unconditional Grants and Subsidies		
Equitable share	507,459,000	484,455,262
LGSETA	364,060	435,478
	507,823,060	484,890,740
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	580,583,747	804,562,219
Unconditional grants received	507,823,060	484,890,740
	1,088,406,807	1,289,452,959
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Provincial: Treasury		
Balance unspent at beginning of year	1,606,965	1,606,965
Conditions still to be met - remain liabilities (see note 18).		
Provincial: COGTA		
Opening debtor balance	(15,725,808)	(8,060,462)
Current-year receipts	19,547,000	14,034,654
Conditions met - transferred to revenue	(9,994,497)	(21,700,000)
Transfer of debtor to MIG	6,173,305	15,725,808
	-	-

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
24. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 18).		
National: Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	-	-
Current-year receipts	292,340,000	271,423,000
Conditions met - transferred to revenue	(278,216,151)	(271,423,000)
Transfer to DHS unblocking debtor	(9,539,759)	-
Transfer to COGTA debtor	(6,173,305)	-
Transfer to debtor	1,589,215	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
National: Department of Rural Development and Land Reform		
Balance unspent at beginning of year	<u>402,614</u>	<u>402,614</u>
Conditions still to be met - remain liabilities (see note 18).		
National: Sport and Development		
Balance unspent at beginning of year	<u>16,140,327</u>	<u>16,140,327</u>
Conditions still to be met - remain liabilities (see note 18).		
Provincial: Office of the Premier		
Balance unspent at beginning of year	<u>21,569</u>	<u>21,569</u>
Conditions still to be met - remain liabilities (see note 18).		
Department of Transport		
Balance unspent at beginning of year	<u>1,732,096</u>	<u>1,732,096</u>
Conditions still to be met - remain liabilities (see note 18).		
Provincial: Department of Economic Affairs		
Balance unspent at beginning of year	<u>14,308,884</u>	<u>14,308,884</u>
Conditions still to be met - remain liabilities (see note 18).		
Provincial: Department of Housing, Local Gvt and Traditional Affairs		
Balance unspent at beginning of year	1,158,656	1,316,415
Conditions met - transferred to revenue	-	(157,759)

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
24. Government grants and subsidies (continued)		
	1,158,656	1,158,656
Conditions still to be met - remain liabilities (see note 18).		
National: Other Spheres of Government		
Balance unspent at beginning of year	7,162,449	7,162,449
Conditions still to be met - remain liabilities (see note 18).		
National: Department of Water Affairs and Forestry (WSOG)		
Balance unspent at beginning of year	-	65,445
Rollover deducted from equitable share	-	(65,445)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
Provincial: Lapesi Project		
Balance unspent at beginning of year	42,197	42,200
Other	-	(3)
	42,197	42,197
Conditions still to be met - remain liabilities (see note 18).		
National: EPWP		
Balance unspent at beginning of year	-	747,817
Current-year receipts	10,037,000	7,797,000
Conditions met - transferred to revenue	(10,037,000)	(7,797,000)
Rollover deducted from equitable share	-	(747,817)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
National: Municipal Water Infrastructure Grant		
Balance unspent at beginning of year	-	34,529,643
Conditions met - transferred to revenue	-	(34,529,643)
	-	-
Conditions still to be met - remain liabilities (see note 18).		
National: Rural Household Infrastructure Grant		
Balance unspent at beginning of year	(1)	(1)
Conditions still to be met - remain liabilities (see note 18).		

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
24. Government grants and subsidies (continued)		
Department of Human Settlement Unblocking		
Opening debtor balance	(23,037,221)	824,912
Current-year receipts	13,497,462	-
Conditions met - transferred to revenue	-	(23,862,133)
Transferred to debtors	-	23,037,221
Transfer to MIG	9,539,759	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
Provincial: DEDEAT		
Balance unspent at beginning of year	360,655	1,539,115
Current-year receipts	-	1,975,000
Conditions met - transferred to revenue	-	(3,153,460)
	<u>360,655</u>	<u>360,655</u>
Conditions still to be met - remain liabilities (see note 18).		
National: Finance Management Grant		
Balance unspent at beginning of year	1	1
Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,500,000)
	<u>1</u>	<u>1</u>
Conditions still to be met - remain liabilities (see note 18).		
Road Subsidies		
Opening balance debtor	(2,001,858)	-
Current-year receipts	21,917,670	25,798,142
Conditions met - transferred to revenue	(29,265,929)	(27,800,000)
Transferred to debtors	9,350,117	2,001,858
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
National: DOT - Rural Road Asset Management Grant		
Balance unspent at beginning of year	-	-
Current-year receipts	3,222,000	3,097,000
Conditions met - transferred to revenue	(541,025)	(3,097,000)
	<u>2,680,975</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
National: Regional Bulk Infrastructure Grant		
Opening debtor balance	(2,149,195)	-
Current-year receipts	208,500,000	332,906,000
Conditions met - transferred to revenue	(176,910,825)	(335,055,195)

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
24. Government grants and subsidies (continued)		
Transferred to debtors	-	2,149,195
	29,439,980	-
Conditions still to be met - remain liabilities (see note 18)		
.		
Water services Infrastructure Grant (WSIG)		
Balance unspent at beginning of year	27,109,971	-
Current-year receipts	80,000,000	97,097,000
Conditions met - transferred to revenue	(74,118,322)	(69,987,029)
	32,991,649	27,109,971
Conditions still to be met - remain liabilities (see note 18).		
Municipal Infrastructure Services Grant (WSIG) - Operational		
Current-year receipts	-	4,500,000
Conditions met - transferred to revenue	-	(4,500,000)
	-	-
Conditions still to be met - remain liabilities (see note 18).		

Chris Hani District Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
25. Employee related costs		
Basic	183,329,519	154,133,108
Bonus	13,876,194	13,968,969
Overtime payments	11,683,692	9,916,928
Medical aid - company contributions	18,145,483	14,717,243
Pension Fund Contributions	28,060,208	22,298,059
Group Life Insurance	817,289	638,381
UIF	1,503,887	1,374,001
Travel, motor car, accommodation, subsistence and other allowances	26,521,791	23,920,024
Housing benefits and allowances	1,866,978	1,875,440
Leave pay provision charge	4,992,463	3,278,679
Industrial Council Levies	71,140	54,635
Long-service awards	2,599,522	2,828,744
	293,468,166	249,004,211
Remuneration of municipal manager - M.A. Mene		
Annual Remuneration	801,890	1,168,200
Car Allowance	344,148	430,652
Contributions to UIF, Medical and Pension Funds	184,544	242,325
Service bonus	65,088	93,465
Other	190,507	41,485
	1,586,177	1,976,127
The municipal manager resigned on 13 March 2018.		
Remuneration of Chief Financial Officer - N. Fetsha		
Annual Remuneration	1,158,365	964,915
Car Allowance	281,197	400,791
Contributions to UIF, Medical and Pension Funds	8,473	168,911
Service bonus	127,776	79,242
Other	161,110	36,816
	1,736,921	1,650,675
Remuneration of Director: Corporate Services - Y. Matakane-Dakuse		
Annual Remuneration	978,643	964,865
Car Allowance	392,636	354,683
Contributions to UIF, Medical and Pension Funds	8,473	211,132
Service bonus	339,457	79,242
Other	232,509	35,094
	1,951,718	1,645,016
Remuneration of Director: Health Services - Y. Sinyanya		
Annual Remuneration	998,454	964,865
Car Allowance	400,420	373,137
Contributions to UIF, Medical and Pension Funds	213,892	195,353
Service Bonus	83,204	79,242
Other	6,923	128,196
	1,702,893	1,740,793
Remuneration of Director: Integrated Planning and Development - Z. Shasha		

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
25. Employee related costs (continued)		
Annual Remuneration	976,962	172,179
Car Allowance	393,738	63,746
Contributions to UIF, Medical and Pension Funds	208,279	34,976
Service Bonus	943	-
Other	95,618	1,095
	1,675,540	271,996
Remuneration of Director: Strategic Services - B. Mthembu		
Annual Remuneration	1,158,365	964,762
Car Allowance	377,924	366,562
Contributions to UIF, Medical and Pension Funds	43,737	208,417
Service bonus	5,602	79,242
Other	198,096	30,429
	1,783,724	1,649,412
Remuneration of Director: Technical Services - M. Dungu		
Annual Remuneration	1,158,365	964,865
Car Allowance	384,749	354,683
Contributions to UIF, Medical and Pension Funds	52,788	212,328
Service Bonus	29,395	79,242
Other	202,215	37,679
	1,827,512	1,648,797
26. Remuneration of councillors		
Executive Mayor	1,002,142	961,705
Mayoral Committee Members	5,096,343	5,113,696
Speaker	878,310	743,735
Councillors	3,417,091	2,134,031
Chief Whip	767,890	624,283
	11,161,776	9,577,450
27. Depreciation and amortisation		
Property, plant and equipment	139,143,467	119,995,051
Intangible assets	1,377,183	1,367,758
	140,520,650	121,362,809
28. Finance costs		
Interest cost	117,085	271,493
29. Debt impairment		
Debt impairment	267,391,721	177,155,621
30. Bulk purchases		
Water	16,178,054	21,588,920

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
31. Contracted services		
Outsourced services	22,549	26,040
Consultant and Professional Services	8,115,308	9,817,375
Other Services	18,233,825	8,954,361
Contractors - Repairs and Maintenance	70,399,086	59,984,839
	96,770,768	78,782,615
32. Transfers and subsidies		
Other subsidies		
Community support programmes (CSPS)	17,617,820	14,928,607
Community projects	76,915,739	107,479,941
Adopted schools	20,657	480,000
VIP Toilets Expenditure (MIG Operational)	64,974,419	83,957,397
Chris Hani Development Agency	22,480,000	33,280,000
International Strategy for Disasted Reduction (ISDR)	-	1,993,486
Sanitation (WSIG operational)	10,200,235	4,500,000
	192,208,870	246,619,431

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
33. General expenses		
Advertising	2,680,889	2,546,753
Auditors remuneration	5,878,066	5,611,139
Bank charges	1,463,108	1,065,463
Bad debt write off	213,181	43,499,855
Computer expenses	6,337,171	3,425,579
Consumables	466,340	496,091
Entertainment	1,453,734	1,133,253
Insurance	840,568	1,347,923
Education and marketing	1,070,006	1,157,749
Rentals / Rent (refer - Lease rentals)	5,855,300	5,048,990
Motor vehicle expenses	1,638,872	1,936,784
Fuel and oil	22,757,669	17,589,710
Postage and courier	1,126,484	268,746
Printing and stationery	7,589,073	876,279
Promotions activities and presentations	492,940	18,729
Protective clothing and uniforms	1,089,890	1,643,816
Hire	284,618	-
VIP Latrine Sucking	385,101	234,900
Software expenses	1,820,315	5,836,860
Staff welfare	834,040	216,697
Subscriptions and membership fees	3,808,520	3,425,380
Telephone and fax	4,406,677	4,401,451
Training	1,624,000	1,329,076
Travel - local	16,400,886	12,623,333
Tools and Equipment	863,883	(377,771)
Electricity	40,050,043	26,166,029
Rates	376,975	357,829
Water Sampling	516,551	523,544
Refuse	38,450	69,986
Strategic sessions	1,208,192	2,255,736
Public events / Imbizo	2,567,113	6,193,657
Purchase of samples	121,323	72,475
Study assistance reimbursements	160,570	76,449
Job Evaluation	12,674	-
Communication	967,051	1,508,451
Approved Course	189,440	133,865
Circumcision programme	-	94,500
Delegated Management- Water Services Authority	14,533,961	51,714,033
Assets Expensed	907,568	-
Chemicals	4,440,688	6,209,290
Meeting fees - Audit committee	779,094	583,521
Indigent Subsidy	23,447,875	11,394,796
Skills Development Levy	2,319,211	1,941,552
	184,018,110	224,652,498

34. Auditors' remuneration

Fees	5,878,066	5,611,139
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Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
35. Cash generated from operations		
Surplus	192,571,507	430,244,339
Adjustments for:		
Depreciation and amortisation	140,520,650	121,362,809
Loss on sale of assets and liabilities	106,688	(891,155)
Debt impairment	267,391,721	177,155,621
Movements in retirement benefit assets and liabilities	12,417,677	(6,097,564)
Changes in working capital:		
Inventories	(5,300,464)	(3,975,744)
Receivables from exchange transactions	(221,171,792)	(8,118,906)
Other receivables from non-exchange transactions	27,444,554	(228,565,198)
Prepayments	-	2,442,966
Payables from exchange transactions	(56,951,208)	(72,447,206)
VAT	66,424,953	(111,044,933)
Unspent conditional grants and receipts	44,202,633	(10,394,068)
Consumer deposits	114,226	92,593
	467,771,145	289,763,554

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
36. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	612,440,313	543,703,437
• Buildings	202,184,331	-
• Other	50,499,667	14,870,625
• Community	12,038,841	62,259,855
	877,163,152	620,833,917
Not yet contracted for and authorised by accounting officer		
• Infrastructure	8,913,344	-
• Buildings	-	191,340,706
• Other	2,445,300	1,221,397
	11,358,644	192,562,103
Total capital commitments		
Already contracted for but not provided for	877,163,152	620,833,918
Not yet contracted for and authorised by accounting officer	11,358,644	192,562,103
	888,521,796	813,396,021

This committed expenditure relates to plant and equipment and will mainly be financed by Infrastructure Grants (Municipal Infrastructure Grant, Regional Bulk Grant and Municipal Water Infrastructure Grant) as well as available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, internally generated funds, etc.

Total commitments

Total commitments		
Authorised capital expenditure	888,521,796	580,209,178

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (Buildings)

Minimum lease payments due		
- within one year	1,069,320	721,944
- in second to fifth year inclusive	653,336	504,648
	1,722,656	1,226,592

Operating leases - as lessee (Other Equipment)

Minimum lease payments due		
- within one year	-	417,466

Certain of the municipality's equipment is held to generate rental income. Rental of equipment is expected to generate rental yields of -% on an ongoing basis. Lease agreements are non-cancellable and have terms from 3 to 6 years. There are no contingent rents receivable.

The total future minimum lease payments expected to be received under non-cancellable sublease.	1,722,656	1,644,058
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Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
37. Contingencies		
Contingent liabilities		
The municipality is party to the following litigation matters		
Litigations		
Contractual claim by Ziphi-niphi Enterprise against Eyethu Engineers and CHDM. There has been no further action by plaintiff.	196,660	96,660
Claim by Volcano Sales & Transport CC regarding the supply and delivery of materials. Plea of denial of alleged cession and delivery note and denial that cession is valid in law. The matter has not been taken further.	78,885	28,885
Claim by GK Water (t/a GK water solutions) against CHDM in respect of services rendered. Defendant has raised an Exception and exception is pending. The matter has not been taken further for more than a year. The plaintiff lodged 2 claims of R648,399.50 and R742,687.38	1,591,027	1,391,027
Claim by Cradock Golf Club against CHDM and one other in respect of damages. Special Plea of non-compliance with Section 3 of Act 40 of 2002 and misjoinder and Plea overfilled. The matter has not been taken further since May 2016.	57,265	32,265
Claim by T O Madywabe against CHDM in respect of damages for personal injury.	17,000	300,000
Claim by Norland Construction (Pty) Limited against CHDM in respect of services rendered. There has been no further action plaintiff since 30 November 2016.	2,362,442	2,162,442
Claim by Element Consulting Engineers (Pty) Ltd against CHDM for goods supplied and services rendered. Summons issued for breach of contract. Action defended. Plaintiff applied for Summary Judgment. Summary Judgment opposed. Leave to Defend granted. No further action taken by Plaintiff.	1,517,246	1,217,246
Claim by City Square Trading 204 (Pty) Ltd against CHDM and one other for goods supplied and services rendered.	5,559,088	5,359,088
Claim by Edward Silas Bikitsha against CHDM for damages suffered due to unlawful utilisation of land.	858,000	558,000
Application by Vezizinto Co-operative to interdict CHDM and 4 others for using applicant's land.	100,000	100,000
Claim by Oducure Eastern Cape (Pty) Ltd for breach of contract. The case has been inactive since the special pleas of non-joinder and lack of locus standi and also of authority were filed. Instead a new action against the party that was joined has been instituted.	230,052	180,052
Plaintiff, Total Laboratory Technologies, issued summons against the Municipality for goods allegedly, supplied and delivered. Judgment was granted by default. The Municipality partially disputes the claim, and hence is in the process of applying for the rescission of judgment.	221,296	-
Plaintiff, Arise and Shine Security & Cleansing Services, brought a claim for services rendered and outstanding claims against the Municipality. Matter has been defended and the Municipality is in the process of filing a counterclaim for a lost generator.	452,500	-
The Applicant, Mawethu Magida, is making an application to rescind a judgement that was granted in default on behalf of the Respondent.	650,000	-
The Defendant has defended the action brought by Telkom so as to ascertain where the incident occurred.	164,940	-
Applicant (Moppo Mene) making an application to set the decision of Council to rescind his appointment aside. Matter has been opposed, and papers in opposition have been filed. No replying affidavit has been filed. Matter is still pending. The liability will be limited to the remuneration amount for the remainder of the contract of employment.	500,000	-
Great Fish River Water Users Association: Payment of government water charges and sub-area scheme charges. The Defendant has defended the action.	1,007,923	-

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
37. Contingencies (continued)		
Claim by A.M. Putter and 4 others regarding obligation of CHDM to pay medical aid contributions to surviving spouse of deceased employee/ retired employee. Awaiting judgment and amount is indeterminable.	300,000	-
Claim by Zuziwe Boo against CHDM and 2 other.	250,000	-
Claim by Civil and General Construction CC: Application to interdict and restrain CHDM from continuing with tender process and are awarding tender to Urban Africa Services pending hearing of main Application which is for the review and setting aside of the decision to award the bid to Urban Africa Services. Opposed Main Application enrolled for hearing on 4 August 2016. Matter decided in the municipality's favour, but the Applicant has applied for leave to appeal the decision of the Court. Application for Leave to Appeal granted. Appellant has prosecuted Appeal. Appeal heard, and granted in favour of the Appellant.	400,000	-
Municipality has filed Leave to Appeal to the SCA.		
Claim by Ikamva Architects and MMPA Quantity Surveyors and projects managers (Pty) Ltd: Application to interdict and restrain CHDM from continuing with tender process and are awarding tender to Clarence Bobie & Partners pending hearing of main Application which is for the review and setting aside of the decision to award the bid to Clarence Bobie & Partners. Matter settled and settlement made Order of Court.	400,000	-
Claim by Zandisile Yafele: Plaintiff brought an application for an order for an order to declare the refusal to grant him access to information unlawful. Matter has been opposed.	70,000	-
Claim by MEC for COGTA - EC: The Applicant is making an application to declare the appointment of the 4th Respondent as null and void. Matter not opposed	200,000	-
	17,184,324	11,425,665

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
38. Related parties		
Relationships		Refer to accounting officer's report note
Accounting Officer		Chris Hani Development Agency Refer to note 5
Associates		KEY MANAGEMENT OF THE MUNICIPALITY HAVE
MEMBERS OF KEY MANAGEMENT		RELATIONSHIPS WITH BUSINESSES AS
		INDICATED BELOW:
Somkoko Mvuyeleni		Member of Jange and Mlungu Civils; Spouse is a
Delubom Lindile		member of Kuvala 205 Trading Enterprise
Memani Thobela Headwell		Member of Delubom Transport, L Delubom Trading
Fumbeza Ntombifikile		and MTN Zakhane Shares; Spouse is a member of
Makonza Asanda		Lulwazi Trading Enterprise and MTN Zakhane Shares
Shasha Mzwamadoda Moses		Child is a Member of Vunoleo Building & Civil Youth
Mapatwana Ntombizanele		Construction
Gqodo Zixolisile		33,33% Membership in Thembalobom Manufacturing
Katsere Tendai		& Enterprise CC
Gobeni Nonelela		100% Membership in Seasons Find 1260 CC;
Makwabe Thandisizwe		Member of Funumbona Construction & Projects
Tito Sibongile		100% Membership in Safika Rural Development
Lucando Bulelani		Consultants
Mohale Reatile		Member of Brainwave Project 205
Petela Neziwe		Member of GZ Civil Engineering and Member of FC
Baatjies Eldridge Denzil		Builders & Construction
Dlova Zingisile Gidion		35% Membership of Mazvita Trading; 100%
Madikane Thozama		Membership of Jekeso Communications; Member of
Nqwemeshe Nomvuyo		Relilite Investments; Spouse is a member of Umzali
COUNCILLORS		Trading Enterprise
Cengani Jongumzi		Director of Hi-Lite Development Agency; Member of
Deliwe Zanemvula		Ulutho Funerals
Dyanty Sinethemba Reginald		50% Membership in Mokoti Construction
		Director of Smith Tabata
		33% membership in El Shaddai Civil and Building
		Contractors
		Director of Reatile Transport and Projects
		Member of Kumbu & Lam Trading Enterprise; Member
		of Kei Recyclers; Spouse is a member of Cool Ideas
		1413
		Director in BS Holdings
		Director in Zinbar Enterprise
		50% Membership in Secrets Trading; 50%
		Membership in Koelro No 106; 100% Membership in
		Silkyline Hair Studio
		Spouse is a member of Liso Security Services
		& Trading
		REFER TO LIST OF COUNCILLORS DISCLOSED
		UNDER GENERAL INFORMATION. COUNCILLORS
		OF THE MUNICIPALITY HAVE RELATIONSHIPS
		WITH BUSINESSES AS INDICATED BELOW:
		25% Membership in Four of us Construction &
		Development; 50% Membership in Manga Manga
		Trading Enterprise; 100% Membership in Ntandoyam
		Trading 44; 33% Membership in CMZ Tours
		Director of Beyond 2030 Consulting Services;
		Member of Top-Town Farmers Agricultural
		Cooperation
		Director and Founding Member of Happy Valley
		Abattoir Co-operative Limited; Director of Sanelisa
		Services; Director of Tiholo Entrepreneur Support
		Centre

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
38. Related parties (continued)		
Gela Wongama		Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuseleluntu Protection and Training Services; 20% Membership in The Best Mining and Transportation Services; 20% Membership in Urafile Trading
Goniwe Nyameka		33,33% Membership in Karoo Furniture Manufacturers; 33,33% Membership in Umehluko Developments; 33,34% Membership in Imvelo Agencies; 50% Membership in Balisa Sivelise Productions
Koyo Mxolisi Clifford		Director of Tsomo Valley Farmers; 100% Membership in MBK Consulting Services; Spouse has membership in Buyie's Catering Service, Liwalama Trading Enterprise and Qamata Agric Service
Kulashe-Ndyumbu Thandeka		Director and Founding Member of DDX General Trading; Director and Founding Member of Mayidede General Trading
Mdwayingana William		Member of Mdwantwa Construction &faciliation; Member of Mpoza-mpoza Business Solutions; Member of Masichume Fattening Agriculture; Director of Bring About
Mandile Prince Phillip Mbolo Skosana		50% Membership in Mfe-Gebe Trading 25% Membership in Amabandla Construction; 50% Membership in Monde Skosana Building Construction
Mfundsi Nomalizo Myataza Saziso Nobongoza Humphrey		33% Membership in Hewu Farming Project Member of Hluthamhlali Multi-purpose Trading Director of Madcomsol Holdings (company has been deregistered); 25% Membership in Sangolekhaya Funeral Services; 100% Membership in Sunrise Coach Services; 100% Membership in TandoLuzuko Trading & Projects
Nquma Nombuyiselo Patricia		33,40% Membership in Fenas and Nquma Civils and Property Developers
Plata Sithembele David Radzilani NR Roskruge N		100% Membership in Daves Energy Distribution CC Member of Forecast Traders 0% Membership in Liqhakazi Construction and Projects; 100% Membership in Amilile Trading Enterprise
Shweni ZR		Spouse is a member of Shweni Trading, Ngxongounathi security, Bomi investment Holdings, Bomi investment Holdings, Eand So civil engineering and construction, Hlumisa Travelling Agency, Ezomso training and conference centre, Lilitha vehicle hire, Manzana Mancoba and Shweni Heavy Duty Transportation; Olona Trading and Project
Twani Sylvia		Director of Qamata Tembisile Hani Intergrated Energy Centre Co-operative limited
Vimbayo Kholisa		Member of Border Rural Committee; 50% membership in Sikho Social Development Facilitators
MUNICIPAL EMPLOYEES		EMPLOYEES OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Hlahla Mtibe NNV Mankayi BJ		Spouse is a member of Yovo Trading Enterprise Spouse is a member of Mandush General Trading (Pty) Ltd

Chris Hani District Municipality

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Notes to the Annual Financial Statements

	2018 R	2017 R
38. Related parties (continued)		
Pukwana PC		Spouse is a director of Chris Hani District Cooperative Development Centre
BUYILE MKHONTWANA		Has interest in Mvulane Catering & Construction
Mrs T SIQWAYI- ENVIR HEALTH PRACT GR 2		SPOUSE SAKIWO SIQWAYI- has an interest in JOLKS TRADING
MR MM SHASHA- SENIOR MANAGER WSA		Spouse/Partner/Associate NOMALIZO MONICA DAMOYI has an interest in BITLINE SA 1060CC
Mrs. SL PETER- ENVIR HEALTH ASSIST GR 2		Spouse/Partner/Associate NOMBULELO CYNTHIA KHANZI has an interest in BUYILE NO88 CONSTRUCTION AND CATERING
MR M KAMTANI- WATER PROCESS CONTROLLER		Spouse/Partner/Associate MPUTHUMI NELSON DYANTYI has an interest in GOLDEN REWARDS 954 CC
MR MT MAVUNDHLA- WSP: O & M TECHN (INKWANCA)		Spouse/Partner/Associate AGNES MAKAZI MATROSS has an interest in MAMA TROSKIE TRADING ENTERPRISE
MR PCK PUKWANA- LED OFFICER (SMME)		Spouse/Partner/Associate SIPHENDULWE MATANZIMA has an interest in UBUSO BETHU QAMATA GENERAL TRADING
MASHEBA LINDA		Spouse has an interest in Bayolo Business Enterprise (Pty) Ltd.
LWANA KOLEKA		Interest in Zano-Buntu Trading Enterprise (Pty) Ltd
Related party transactions		
Interest paid to (received from) related parties		
Yovo Trading Enterprise	-	7,500
Maliphathwe Trading	-	37,170
Wezi Gqiza	52,525	13,185
Izaphetha Trading & Projects	-	18,400
K2011115430 (Pty) Ltd	3,900	3,590
Hope Fountain Investment 268 CC	-	97,475
Phalethu 0513 Event Management	40,000	9,000
Bonelani Supplying Services CC	-	17,900
Somila Constructors CC	-	372,671
PP Joni Trans Enterprise T/A PP Joni	-	16,860
Lukhozi Consulting Engineers	-	2,375,548
Stopsina General Trading	-	8,400
Buyile No 88 Construction and Catering	14,600	-
Kokwenu Bed and Breakfast	3,200	-
Mduba General Trading	8,250	-
Mesilane Projects	20,400	-
Ubomi Civils Construction Services	2,169,232	-
Unako Fencing and Construction	12,500	-
Chris Hani Choral Music Association	176,500	-
Ntribo General Trading	28,200	-
Nqantiko Construction and Projects	40,000	-
Valotone 94 CC	1,905,628	-
Amagqika Trading Enterprise (Pty) Ltd	7,825	-
Keith Ngesi Media (Pty) Ltd	29,350	-
My Kyns Services and Suppliers	8,000	-
Ian S Development Services	54,780	-
Vodacom (Pty) Ltd	281,197	-
Mangwane na Maqwathi Holdings	2,400	-
Nonala Tose Productions	30,000	-
Likhamandla Trading	11,940	-
Ngcobo Multi Media Trading	15,580	-
Arcon Projects	6,450	-

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
38. Related parties (continued)	4,922,457	2,977,699
39. Unauthorised expenditure		
Opening balance	619,064,041	665,860,717
Unauthorised expenditure - current year	657,381	136,644,026
Unauthorised expenditure - written off	(3,037,340)	(183,440,702)
	616,684,082	619,064,041
<p>During 2017/18 financial year, the municipality tabled the adjusted budget for 2017/18 to council in addressing unauthorised expenditure for the 2016/17 financial year in terms of section 28(2)(g) of the MFMA read together with regulation 23(6)(b) of the MBRR. An adjustment budget contemplated in section 28(2)(g) of the Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the Act.</p>		
40. Fruitless and wasteful expenditure		
Opening balance	3,597,638	3,062,710
Fruitless and wasteful expenditure - Current year	257,016	534,928
	3,854,654	3,597,638
<p>Investigations for Fruitless and wasteful expenditure is in progress.</p> <p>The fruitless and wasteful is made up of Finance costs (R117,085.00) re Repudiated Insurance claims - laptops (R71,656.00) and workshop not attended for job architecture by Directorate (R68,275.00).</p>		
41. Irregular expenditure		
Opening balance	1,247,716,185	1,204,892,781
Add: Irregular Expenditure - current year	134,357,288	41,607,571
Write-off of prior year amount	-	(93,898,546)
Add: Irregular Expenditure - prior year (adjustment)	-	74,477,246
Add: Adjustment to 2015/16 irregular expenditure	-	20,527,659
Write-off of prior year amount	-	109,474
	1,382,073,473	1,247,716,185
Analysis of expenditure awaiting condonation per age classification		
Current year	134,357,288	22,295,745
Prior years	1,247,716,185	1,225,420,440
	1,382,073,473	1,247,716,185
42. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	-
Current year subscription / fee	2,838,641	2,758,640
Amount paid - current year	(2,838,641)	(2,758,640)
	-	-

Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

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

Audit fees

Opening balance	-	-
Current year subscription / fee	5,878,066	5,611,139
Amount paid - current year	(5,878,066)	(5,611,139)
	<u>-</u>	<u>-</u>

PAYE and UIF

Opening balance	-	-
Current year subscription / fee	41,852,636	37,388,790
Amount paid - current year	(41,852,636)	(37,388,790)
	<u>-</u>	<u>-</u>

Pension and Medical Aid Deductions

Opening balance	-	-
Current year subscription / fee	41,061,129	33,291,603
Amount paid - current year	(41,061,129)	(33,291,603)
	<u>-</u>	<u>-</u>

Chris Hani District Municipality

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Notes to the Annual Financial Statements

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

VAT

VAT receivable	-	62,888,377
VAT payable	3,536,576	-
	<u>3,536,576</u>	<u>62,888,377</u>

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

All VAT returns have been submitted during the year based on a 1 month, category C tax period, ie submission is due on the last day of each of the 12 months. The municipality uses the payments Basis to account for the tax payable.

Non- compliance with the Municipal Finance Management Act

A summary of the Municipality's pertinent non-compliance with the MFMA are as follows:

- Section 15 of MFMA - Appropriation of funds for expenditure: Expenditure was incurred in excess within the limits of the amounts appropriated for the different votes in an approved budget.
- Section 62 of MFMA - General financial management functions: The accounting officer did not take all reasonable steps to ensure the appropriate management of expenditure of the Municipality.
- Section 32(4) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not promptly inform the mayor, the MEC for local government in the province and the Auditor-General of any unauthorised, irregular or fruitless and wasteful expenditure incurred.
- Section 32(2) of MFMA - Unauthorised, irregular or fruitless and wasteful expenditure: The Municipality did not take the necessary steps to recover Unauthorised, irregular or fruitless and wasteful expenditure.
- Section 65 of MFMA - Expenditure management: The accounting officer did not take all reasonable steps to ensure that the financial administration of the Municipality is appropriately managed.
- Section 122 of MFMA - Preparation of financial statements: The Municipality did not prepare Annual Financial Statements which fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year.
- Section 63 of MFMA - Asset and liability management: The accounting officer did not take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register.
- Section 115 of MFMA - Supply Chain Management - Implementation of the system: The accounting officer did not take all reasonable steps to implement the supply chain management policy of the municipality and to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of irregular practices.

43. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements. The municipality does not have any deviations for the 2017/18 financial year.

44. Water Distribution Losses

Water losses	<u>119,259,745</u>	<u>110,735,439</u>
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Chris Hani District Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

44. Water Distribution Losses (continued)

The municipality incurred water distribution losses in the current year estimated at an average of 59%. This results to a total loss of R119 259 745.

The municipality incurred water distribution losses in the prior year estimated at an average of 55%. This results to a total loss of R110 735 439.

45. Prior period errors

Property, Plant and Equipment was restated due to work-in-progress that was not accounted

Land previously incorrectly classified as buildings was correctly classified and recorded as land. Depreciation that was charged due to this incorrect classification was reversed.

The WIP balance was also corrected to take into account completed projects that were erroneously included in the WIP balance and not transferred to infrastructure assets. Opening balances were corrected to take into account differences between the general ledger and the fixed asset register.

The infrastructure opening balances were corrected to take into account differences between the general ledger and the fixed asset register. The opening balances for cost and accumulated depreciation were corrected to take into account completed projects that were previously not transferred from WIP.

In the prior year the debtors balance was overstated due to overbilling for some debtors, the Trade and other receivables balance from exchange transactions has been corrected to take into account the overbilling. The impairment has also been reduced as a result of the decrease in debtors balance.

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

Chris Hani District Municipality

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45. Prior period errors (continued)

Comparatives

The aggregate effect of the prior period adjustments and reclassifications on the comparative figures in the financial statements for the year ended 30 June 2017 is as follows;

Statement of financial performance	As previously reported	Prior Period error	Reclassifications	Restated as at 30 June 2017
Revenue				
Revenue from exchange transactions				
Service charges	171,574,593	52,348,606	-	223,923,199
Operating Income	93,758,401	(91,185,229)	-	2,573,172
Interest received	37,255,372	(934,034)	-	36,321,338
Revenue from non- exchange transactions				
Expenditure				
Employee related costs	245,075,313	3,928,898	-	249,004,211
Depreciation and amortisation	119,620,519	1,742,290	-	121,362,809
Debt impairment	(44,875,963)	(132,279,658)	-	(177,155,621)
Actuarial gains/losses	-	6,097,564	-	6,097,564
Loss on disposal of asset	903,809	(12,654)	-	891,155
General expenses	(224,998,499)	346,001	-	(224,652,498)
Surplus for the year	398,313,545	(159,948,216)	-	238,365,329
Statement of financial position	As previously reported	Prior period errors	Reclassifications	Restated as at 30 June 2017
Current Assets				
Receivables from non- exchange transactions	78,734,389	-	(870,035)	77,864,354
VAT Receivable /(Payable)	95,992,115	(33,103,738)	-	62,888,377
Receivables from exchange transactions	197,563,112	(44,073,862)	5,998,722	159,487,972
Cash and Cash equivalents	235,926,400	-	(133,687)	235,792,713
Non current assets				
Property, plant and equipment	4,002,055,712	(52,970,610)	-	3,949,085,102
Intangible assets	5,100,456	(1,573,133)	-	3,527,323
Current Liabilities				
Payables from exchange transactions	(221,536,060)	13,149,547	-	(208,386,513)
Consumer deposits	(212,588)	(2,372)	-	(214,960)
Non- current liabilities				
Employee benefit obligation	42,323,225	-	-	42,323,225
Net assets				
Accumulated surplus	3,654,232,812	63,220,403	-	3,717,453,215
	8,090,179,573	(55,353,765)	4,995,000	8,039,820,808

Chris Hani District Municipality

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45. Prior period errors (continued)

Disclosures	As previously reported	Prior period errors	Restated as at 30 June 2017
Irregular expenditure	,152,601,806	95,114,379	,247,716,185
Commitments	580,209,178	233,186,842	813,396,020
Water distribution losses	47,962,670	62,772,769	110,735,439
	<u>,780,773,654</u>	<u>391,073,990</u>	<u>,171,847,644</u>

46. Risk management

Financial risk management

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

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

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

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

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The budget and treasury office monitors the cashflow requirements on a regular basis.

The municipality's cashflows consist of short term deposits and current accounts with notice periods of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

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46. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the municipality's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only credit worthy counterparts

Credit risk consists mainly of cash deposits, cash equivalents, investments and trade debtors.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The existing trade receivables portfolio has historically been significantly impaired as a result of a number of contributing factors. Trade receivables are thus presented net of an allowance for impairment

Except for trade and other receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Financial instrument	2018	2017
Cash and Cash equivalents - FNB	349,485,287	316,304,939

Market risk

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk

Interest rate risk is defined as the risk that the fair value of future cashflows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cashflow risk exposures on long term financing.

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

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures risk.

47. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	113,268,047	-	113,268,047
Other receivables from non-exchange transactions	-	50,419,800	-	50,419,800
Cash and cash equivalents	274,264,298	-	-	274,264,298

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Financial instruments disclosure (continued)

274,264,298	163,687,847	-	437,952,145
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Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	153,914,521	-	153,914,521
Bank overdraft	13,422,606	-	-	13,422,606
	13,422,606	153,914,521	-	167,337,127

2017

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	124,734,351	-	124,734,351
Other receivables from non-exchange transactions	-	77,864,354	-	77,864,354
Cash and cash equivalents	235,788,513	-	-	235,788,513
	235,788,513	202,598,705	-	438,387,218

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	208,386,513	-	208,386,513
Bank overdraft	33,854,007	-	-	33,854,007
	33,854,007	208,386,513	-	242,240,520

48. Events after the reporting date

There were no non-adjusting events after the reporting date.

49. Budget differences

Material differences between budget and actual amounts

Revenue:

1. **Services charges:** The increase on billing is caused by the back dating of billing for the accounts that were not in linked in the for 17/18 and previous years.

2. **Other Income:** The decrease is caused by the VAT on conditional grants that had been double counted and corrected after investigations.

3. **Interest received - Investment :** The municipality has invested more during the financial year;

4. **Interest received - Debtors:** The municipality started charging interest in the 2017/18 financial year.

5. **Government Grants and subsidies:** This amount includes capital grants.

Chris Hani District Municipality

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49. Budget differences (continued)

Expenditure

- 1. Personnel:** Under – expenditure arose due to certain vacant position that were budgeted for were not filled earlier in the financial year or not filled at all.
- 2. Remuneration of Councillors:** The overspending is caused by the back pay of Councillors which was underpaid for their sittings in the council meetings.
- 3. Depreciation and amortization:** CHDM did accommodate the adjusted budget, however the actual depreciation decrease was caused by the review of asset infrastructure after the full verification of infrastructure assets.
- 4. Finance cost:** There was an improvement in the payment of service providers hence the reduction in interest.
- 5. Bulk purchase:** The decrease is caused by the April to June invoice that is not yet received by the municipality after several request from the department.
- 6. Contracted service:** The increase on contracted service is caused by the reclassification of repairs and maintenance and other contracted services.
- 7. Transfers and subsidies:** Under – expenditure was as a result of projects under equitable share that could not been completed and the rollover was requested for 2018/19
- 8. General expense:** Under expenditure was due to the budget that was allocated , however the municipality paid less than the budgeted amount as the projects moved over to 2018/19
- 9. Debt impairment:** The variance in debt impairment was caused by the increase in the provision to be made versus the current debt book in line with the credit control policy and the previous calculation was also adjusted.
- 10. Bad debts written off:** the variance is due to indigent debtors that have been written off during the financial year as per council resolution.

Differences between budget and actual amounts basis of preparation and presentation

Changes from the approved budget to the final budget

The changes between the final and adjusted budget are consequence of changes in the municipal performance and additional funding receipts from states institutions. For details on these changes please refer to the annual report.