



CHRIS HANI
DISTRICT MUNICIPALITY
SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality
Annual Financial Statements
for the year ended June 30, 2020

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

General Information

Legal form of entity	District Municipality DC 13
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. Division of Revenue Act 2018-19 The Constitution of South Africa
Mayoral committee	
Executive Mayor	Cllr: W. Gela Cllr: N. September-Caba: Deputy Executive Mayor Cllr: M.C. Koyo: Speaker Cllr: M. Papiyana: Former Chief Whip - Resigned April 2020 Cllr: T. Bikwana: Chief Whip: From April 2020 Cllr: N. Goniwe: Portfolio Head - Health & Community Services: From July 2019 - Feb 2020 Cllr: T. Bobo: Portfolio Head - Health & Community Services: From March 2020 Cllr: S. Mbotshane: Portfolio Head - Integrated Planning & Economic Development Cllr: M. Jack: Portfolio Head - Budget & Treasury Cllr: N. Matiwane: Portfolio Head - Special Programmes Unit: Resigned in March 2020 Cllr: N. Mgidi: Portfolio Head - Special Programmes Unit: From April 2020 Cllr: S. Nxози: Portfolio Head - Corporate Services Cllr: L. Bonga - Tyali: Portfolio Head - Engineering
Councillors	Cllr: M. Desha Cllr: M. Xhelisilo Cllr: K. Mjezu Cllr: S. Tame Cllr: E.G. Bomela Cllr: B. Ntsere Cllr: M. Adonisi Cllr: N. Mtyobile Cllr: F.A.N. Hendricks Cllr: E.L. Gubula Cllr: S.E. Mvana Cllr: N.A. Dayisi Cllr: S. Myataza Cllr: Z. Qayiya Cllr: Z.N.E. Ralane Cllr: S.B. Nxawe Cllr: N.C. Lali Cllr: J.Cengani Cllr: Z.R. Shweni Cllr: M. Kondile

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

General Information

	Cllr: K. Bizana
	Cllr: Z. Deliwe
	Cllr: R. Venske
	Cllr: S. Zangqa
	Cllr: N. Koni
	Cllr: M. Adonis
	Cllr: Y. Zicina
	Cllr: N. Ndlebe
	Cllr: Z.N. Njoli
	Cllr: N. Nkotha
Grading of local authority	Grade 5
Accounting Officer	Mr. G. Mashiyi
Chief Finance Officer (CFO)	Mr. M. Dyushu
Registered office	15 Bells Road Queenstown 5320
Bankers	First National Bank Limited
Auditors	Auditor General South Africa

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Index

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 40
Notes to the Annual Financial Statements	41 - 82

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern 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 (Previously CMIP)

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

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.

As 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 accounting officer to meet these responsibilities, accounting officer set 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.

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.

Accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2021 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 primarily responsible for the financial affairs of the municipality, I am supported by the municipality's external auditors.

The annual financial statements set out on pages 5 to 71, which have been prepared on a going concern basis, were approved by the accounting officer on June 30, 2020 and were signed on its behalf by:

Mr. G. Mashiyi
Municipal Manager

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Position as at June 30, 2020

	Note(s)	2020 R	2019 Restated* R
Assets			
Current Assets			
Inventories	8	17,063,194	11,790,363
Receivables from non-exchange transactions	9	36,039,262	31,512,864
VAT receivable	10	1,123,365,490	1,117,697,471
Prepayments	7	315,675	2,383,988
Receivable from exchange transactions	11	315,327,009	238,173,251
Cash and cash equivalents	12	42,247,058	377,919,326
		1,534,357,688	1,779,477,263
Non-Current Assets			
Property, plant and equipment	3	4,269,162,543	4,094,019,199
Intangible assets	4	728,301	1,489,707
Investments in controlled entities	5	1,500,000	1,500,000
		4,271,390,844	4,097,008,906
Non-Current Assets		4,271,390,844	4,097,008,906
Current Assets		1,534,357,688	1,779,477,263
Total Assets		5,805,748,532	5,876,486,169
Liabilities			
Current Liabilities			
Operating lease liability	6	1,291,772	600,219
Payables from exchange transactions	15	321,473,113	314,621,491
VAT payable	48	1,065,376,241	1,040,477,128
Consumer deposits	14	507,696	441,108
Employee benefit obligation	13	4,174,994	5,294,974
Unspent conditional grants and receipts	16	78,635,298	300,501,657
		1,471,459,114	1,661,936,577
Non-Current Liabilities			
Employee benefit obligation	13	63,435,951	65,893,340
Non-Current Liabilities		63,435,951	65,893,340
Current Liabilities		1,471,459,114	1,661,936,577
Total Liabilities		1,534,895,065	1,727,829,917
Assets		5,805,748,532	5,876,486,169
Liabilities		(1,534,895,065)	(1,727,829,917)
Net Assets		4,270,853,467	4,148,656,252
Accumulated surplus	17	4,270,853,467	4,148,656,252

* See Note 43

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Performance

	Note(s)	2020 R	2019 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	19	300,505,479	305,466,551
Other income	20	2,020,782	746,616
Interest income	21	78,495,610	74,351,178
Total revenue from exchange transactions		381,021,871	380,564,345
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	22	1,042,665,648	916,690,873
		381,021,871	380,564,345
		1,042,665,648	916,690,873
Total revenue	18	1,423,687,519	1,297,255,218
Expenditure			
Employee related costs	23	(350,919,627)	(342,135,085)
Remuneration of councillors	24	(12,225,799)	(11,665,226)
Depreciation and amortisation	25	(157,838,022)	(152,139,918)
Impairment loss/ Reversal of impairments		(73,768)	-
Finance costs	26	(88,047)	(266,610)
Debt Impairment	27	(278,891,121)	(173,390,698)
Bulk purchases	28	(16,046,762)	(19,156,293)
Contracted services	29	(168,379,720)	(233,171,306)
Transfers and Subsidies	30	(123,139,041)	(44,716,236)
General Expenses	31	(151,752,713)	(205,957,875)
Total expenditure		(1,259,354,620)	(1,182,599,247)
		-	-
Total revenue		1,423,687,519	1,297,255,218
Total expenditure		(1,259,354,620)	(1,182,599,247)
Operating surplus		164,332,899	114,655,971
Loss on disposal of assets and liabilities		(312,667)	(155,654)
Actuarial gains / losses	13	8,986,709	(1,632,651)
		8,674,042	(1,788,305)
Operating surplus/deficit		8,674,042	(1,788,305)
Surplus before taxation		173,006,941	112,867,666
Taxation		-	-
Surplus for the year		173,006,941	112,867,666

* See Note 43

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2018 Restated**	3,987,938,273	3,987,938,273
Changes in net assets		
Prior period error	21,287,047	21,287,047
Net income (losses) recognised directly in net assets	21,287,047	21,287,047
Surplus for the year	112,867,666	112,867,666
Total recognised income and expenses for the year	134,154,713	134,154,713
Total changes	134,154,713	134,154,713
Opening balance as previously reported	4,122,092,986	4,122,092,986
Adjustments		
Prior year adjustments	26,563,266	26,563,266
Restated* Balance at July 1, 2019 as restated*	4,148,656,252	4,148,656,252
Changes in net assets		
Prior year adjustment	(50,809,926)	(50,809,926)
Total prior year adjustment	(50,809,926)	(50,809,926)
Surplus for the year	173,006,941	173,006,941
Total changes	173,006,941	173,006,941
Balance at June 30, 2020	4,270,853,467	4,270,853,467
Note(s)		

* See Note 43

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Cash Flow Statement

	Note(s)	2020 R	2019 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		299,926,662	172,350,742
Grants		820,799,289	1,102,943,514
Interest income		20,714,310	35,855,723
		<u>1,141,440,261</u>	<u>1,311,149,979</u>
Payments			
Employee costs		(357,736,086)	(350,904,575)
Suppliers		(456,981,104)	(325,356,774)
Finance cost		(88,047)	(266,610)
		<u>(814,805,237)</u>	<u>(676,527,959)</u>
Total receipts		1,141,440,261	1,311,149,979
Total payments		(814,805,237)	(676,527,959)
Net cash flows from operating activities	33	<u>326,635,024</u>	<u>634,622,020</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(332,634,146)	(329,066,175)
Prior year other movements	3	(268,990,410)	(188,652,217)
Proceeds from sale assets	4	423,348	-
		<u>(601,201,208)</u>	<u>(517,718,392)</u>
Net cash flows from investing activities		<u>(601,201,208)</u>	<u>(517,718,392)</u>
Cash flows from financing activities			
Movement in other financial liabilities		(61,780,186)	-
		<u>(61,780,186)</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		<u>(335,672,268)</u>	<u>117,073,434</u>
Cash and cash equivalents at the beginning of the year		377,919,326	260,845,892
Cash and cash equivalents at the end of the year	12	<u>42,247,058</u>	<u>377,919,326</u>

* See Note 43

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

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	244,461,000	59,071,000	303,532,000	300,505,479	(3,026,521)	Note 47 (1)
Other income	1,443,856	76,830,921	78,274,777	2,020,782	(76,253,995)	Note 47 (2)
Interest income	68,902,000	5,629,754	74,531,754	78,495,610	3,963,856	Note 47 (3)
Gains on disposal of assets	200,000,000	-	200,000,000	-	(200,000,000)	
Total revenue from exchange transactions	514,806,856	141,531,675	656,338,531	381,021,871	(275,316,660)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1,057,826,000	83,335,347	1,141,161,347	1,042,665,648	(98,495,699)	Note 47 (4)
'Total revenue from exchange transactions'	514,806,856	141,531,675	656,338,531	381,021,871	(275,316,660)	
'Total revenue from non-exchange transactions'	1,057,826,000	83,335,347	1,141,161,347	1,042,665,648	(98,495,699)	
Total revenue	1,572,632,856	224,867,022	1,797,499,878	1,423,687,519	(373,812,359)	
Expenditure						
Employee Related Costs	(337,874,359)	19,267,612	(318,606,747)	(350,919,627)	(32,312,880)	Note 47 (1)
Remuneration of councillors	(13,902,286)	3,793,836	(10,108,450)	(12,225,799)	(2,117,349)	Note 47 (2)
Depreciation and amortisation	(140,000,000)	(15,000,000)	(155,000,000)	(157,806,203)	(2,806,203)	Note 47 (3)
Debt Impairment	(200,000,000)	70,265,000	(129,735,000)	(278,891,121)	(149,156,121)	Note 47 (9)
Finance costs	40,000	-	40,000	(88,047)	(128,047)	Note 47 (4)
Bulk purchases	(26,138,516)	10,333,000	(15,805,516)	(16,046,762)	(241,246)	Note 47 (5)
Contracted services	(405,548,948)	55,858,847	(349,690,101)	(168,379,720)	181,310,381	Note 47 (6)
Transfer and Subsidies	31,638,081	-	31,638,081	(123,139,041)	(154,777,122)	Note 47 (7)
General Expenses	202,287,257	(67,702,621)	134,584,636	(151,752,713)	(286,337,349)	Note 47 (8)
Total expenditure	(889,498,771)	76,815,674	(812,683,097)	(1,259,249,033)	(446,565,936)	
	1,572,632,856	224,867,022	1,797,499,878	1,423,687,519	(373,812,359)	
	(889,498,771)	76,815,674	(812,683,097)	(1,259,249,033)	(446,565,936)	
Operating surplus	683,134,085	301,682,696	984,816,781	164,438,486	(820,378,295)	
Loss on disposal of assets and liabilities	-	-	-	(312,667)	(312,667)	Note 47
Actuarial gain	-	-	-	8,986,709	8,986,709	
	-	-	-	8,674,042	8,674,042	
	683,134,085	301,682,696	984,816,781	164,438,486	(820,378,295)	
	-	-	-	8,674,042	8,674,042	
Surplus before taxation	683,134,085	301,682,696	984,816,781	173,112,528	(811,704,253)	
Deficit before taxation	683,134,085	301,682,696	984,816,781	173,112,528	(811,704,253)	
Taxation	-	-	-	-	-	

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

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	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	683,134,085	301,682,696	984,816,781	173,112,528	(811,704,253)	

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

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 June 30, 2020

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 property, plant and equipment 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, asset 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 property, plant and equipment 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 June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

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 - Water		
• Roads and Paving		3 - 100 years
• Security measures		7 - 25 years
• Sewerage		7 - 100 years
• Water infrastructure		5 - 100 years
Infrastructure - Sanitation		
• Community facilities		5 - 30 years
• Recreational facilities		10 - 30 years
Emergency equipment		3 - 10 years
WIP - Sanitation		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.

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.6 Intangible assets (continued)

Amortisation and Impairment

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

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 June 30, 2020

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 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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

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
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
Loan3	Financial liability measured at amortised cost
Other receivables1	Financial liability measured at amortised cost
Other receivables2	Financial liability measured at amortised cost
Other financial liability1	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 June 30, 2020

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 June 30, 2020

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

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

Annual Financial Statements for the year ended June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

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

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 tests 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

Annual Financial Statements for the year ended June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.12 Impairment of non-cash-generating assets

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

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 June 30, 2020

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:

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

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.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.13 Employee benefits (continued)

Defined benefit plans

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

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

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

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

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

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

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

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

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

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.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.14 Provisions and contingencies (continued)

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 35.

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

Annual Financial Statements for the year ended June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

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

Annual Financial Statements for the year ended June 30, 2020

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 June 30, 2020

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 MFMA 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

Annual Financial Statements for the year ended June 30, 2020

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 2019-07-01 to 2020-06-30.

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

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

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

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

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

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

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

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

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

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.29 Related parties (continued)

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

1.30 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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

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

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 June 30, 2020

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 June 30, 2020

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.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

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

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods:

GRAP 35: Consolidated Financial Statements

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

To meet this objective, the Standard:

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

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

GRAP 38: Disclosure of interests in Other Entities

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

GRAP 36: Investments in Associates and Joint Ventures

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

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

GRAP 37: Joint arrangements

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

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

The objective of this Standard is to prescribe the:

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

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

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

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

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

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

GRAP 18 (as amended 2016): Segment Reporting

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

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

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

The most significant changes to the Standard are:

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

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

The municipality expects to adopt the standard for the first time in the 2020/2021 unaudited separate annual financial statements.

The impact of this standard is currently being assessed.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	30,345,900	-	30,345,900	30,345,900	-	30,345,900
Buildings	85,739,244	(10,421,553)	75,317,691	57,308,930	(9,096,408)	48,212,522
Machinery and Equipment	23,314,712	(10,237,320)	13,077,392	19,587,337	(7,882,930)	11,704,407
Furniture and Office Equipment	24,448,655	(15,416,419)	9,032,236	22,376,404	(13,311,029)	9,065,375
Transport assets	101,535,152	(40,911,604)	60,623,548	101,070,115	(36,472,583)	64,597,532
Computer equipment	13,598,248	(11,065,164)	2,533,084	13,256,441	(9,947,347)	3,309,094
Infrastructure: Water	3,988,405,746	(1,100,267,216)	2,888,138,530	3,921,960,471	(971,827,922)	2,950,132,549
Infrastructure: Sanitation	452,910,867	(174,107,304)	278,803,563	432,703,707	(157,062,976)	275,640,731
Infrastructure: Roads	13,684,165	(2,844,561)	10,839,604	13,684,165	(2,287,127)	11,397,038
Work-in-progress	900,450,995	-	900,450,995	689,614,051	-	689,614,051
Total	5,634,433,684	(1,365,271,141)	4,269,162,543	5,301,907,521	(1,207,888,322)	4,094,019,199

Chris Hani District Municipality

Annual Financial Statements for the ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	30,345,900	-	-	-	-	-	-	30,345,900
Buildings	48,212,522	-	-	28,430,314	-	(1,325,145)	-	75,317,691
Machinery and Equipment	11,704,407	3,727,375	-	-	-	(2,354,390)	-	13,077,392
Furniture and Office Equipment	9,065,375	2,072,762	-	-	-	(2,105,901)	-	9,032,236
Transport assets	64,597,532	1,357,009	(727,974)	-	-	(4,603,019)	-	60,623,548
Computer equipment	3,309,094	354,375	(8,043)	-	-	(1,122,342)	-	2,533,084
Infrastructure: Water	2,950,132,549	16,861,123	-	49,586,470	-	(128,441,612)	-	2,888,138,530
Infrastructure: Sanitation	275,640,731	-	-	20,207,161	-	(16,970,560)	(73,769)	278,803,563
Other property, plant and equipment	-	-	-	-	-	-	-	-
Infrastructure: Roads	11,397,038	-	-	-	-	(557,434)	-	10,839,604
Work-in-progress	689,614,051	308,665,288	-	-	(97,828,344)	-	-	900,450,995
	4,094,019,199	333,037,932	(736,017)	98,223,945	(97,828,344)	(157,480,403)	(73,769)	4,269,162,543

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	11,495,900	-	-	18,850,000	-	-	-	30,345,900
Buildings	47,140,091	-	-	30,578,309	(28,777,364)	(728,514)	-	48,212,522
Machinery and Equipment	11,782,461	1,975,001	-	-	-	(2,053,055)	-	11,704,407
Furniture and office equipment	10,626,517	496,348	-	-	-	(2,057,490)	-	9,065,375
Transport assets	51,916,682	18,064,867	(135,440)	-	-	(5,248,577)	-	64,597,532
Computer equipment	4,363,535	342,980	(39,915)	-	-	(1,357,506)	-	3,309,094
Infrastructure: Water	2,967,765,862	7,151,356	-	98,104,878	-	(122,889,547)	-	2,950,132,549
Infrastructure: Sanitation	292,381,270	260,203	-	-	-	(16,999,482)	(1,260)	275,640,731
Infrastructure: Roads	9,891,127	-	-	1,923,327	-	(417,416)	-	11,397,038
WIP	508,831,883	300,775,420	-	-	(119,993,252)	-	-	689,614,051
	3,916,195,328	329,066,175	(175,355)	149,456,514	(148,770,616)	(151,751,587)	(1,260)	4,094,019,199

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

3. Property, plant and equipment (continued)

Pledged as security

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

3.1 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: Refer to note 29

91,621,592 108,972,577

The following projects were identified to have taken longer than expected for their completion date. These assets have not been disclosed as slow-moving assets under construction in the financial statements:

Tender/BID Number	Description	Function	Date project awarded per contract register/award letter	No. of years project running	WIP register 30 June 2019 (Closing Balance)	WIP register 30 June 2020 (Opening Balance)
51/2014/MD(BL)	Cala Bulk Services Upgrading Cala WWTW including Bulk Pump Station and Associated Rising Mains Phase 1	Sanitation	18 11 2015	5	R54 209 485.79	R54 209 485.79
33/2015/MD(TN)	CHDM Water Supply Backlog Cluster 9 Tsomo River Abstraction and WWTW Construction	Water	09 12 2015	5	R166 573 989.85	R166 573 989.85
20/2015/MD(TN)	CHDM Water Supply Backlog Cluster 4 Quick Wins Phae 2 Gaseni-B Water Supply	Water	28 03 2015	5	R488 228.38	R488 228.38
37/2010/MD(AM)	Refurbishment & Upgrading of Water and Sewer Infrastructure in Ilinge	Sanitation	18 05 2010	10	R4 550 609.25	R4 550 609.25

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

The 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 2020, no assets were assessed to be impaired.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	7,844,616	(7,116,315)	728,301	7,844,616	(6,354,909)	1,489,707

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	1,489,707	(761,406)	728,301

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	2,165,908	-	(23,198)	(653,003)	1,489,707

Pledged as security

There are no intangible assets that are pledged as security:

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
5. Investments in controlled entities		
Name of company	Held by	% holding % holding
	2020	2019
	2020	2019
Chris Hani Development Agency	100.00 %	100.00 %
	Carrying amount 2020	Carrying amount 2019
	<u>1,500,000</u>	<u>1,500,000</u>
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	<u>(1,291,772)</u>	<u>(600,219)</u>
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:		
Balance at the beginning of the year	600,219	63,489
Operating lease expense recorded	691,553	536,730
	<u>1,291,772</u>	<u>600,219</u>
7. Prepayments		
Prepayments relate to payments made to Eskom for connections. No connections made in 2019/2020. No connections confirmed as at 30 June 2020 amounting to R315 675 for Engcobo Project and R586 758 for Tsono Project connections raised in 2018/2019.		
Payments made in advance		
Current Assets	<u>315,675</u>	<u>2,383,988</u>
8. Inventories		
Inventory stores	16,671,342	11,398,511
Water inventory	391,852	391,852
	<u>17,063,194</u>	<u>11,790,363</u>
9. Receivables from non-exchange transactions		
Sundry receivables - Roadworks subsidy**	6,427,679	13,102,622
Local Municipalities	11,870,640	4,191,907
Rental and Eskom service deposits	11,262,233	9,846,153
Other Debtors	5,083,960	4,279,262
DHS Emergency Housing	1,023,070	-
Operating Lease	371,680	92,920
	<u>36,039,262</u>	<u>31,512,864</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

9. Receivables from non-exchange transactions (continued)

**Included in the total of Roads subsidy is an amount of R6.4million which is >3 years old

Local municipalities consists of loans to Enoch Mgijima amounting to R9,870,636.00 and Sakhisizwe Local Municipality R2,000,000.

Service deposits consists of rental deposits and Eskom service deposits.

Other debtors consists of amounts receivable from bursary loan obligation, Vodacom from previous years, Transfer monies, Bank Errors and Others.

DHS Emergency has an agreement with the municipality that incur expenditure for Emergrncy houses and claim to the department. R1,023,070.00 was spent in 2019/20 and invoices submitted to the department.

Gross Balances Receivables from non-exchange

Road work subsidy	6,427,679	13,102,622
Local Municipalities	11,870,640	4,191,907
Rental and Eskom deposits	11,262,233	9,846,153
DHS Emergency Housing	1,023,070	-
Other Debtors	5,083,960	4,279,262
Operating Leases	371,680	92,920
Gross Balance	36,039,262	31,512,864

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2020, and 2019 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	-	-
Roads subsidy	6,427,679	13,102,622
	-	-
-Local Municipalities	11,870,640	4,191,907
-Rental and Eskom deposits	11,262,233	9,846,153
-Other Debtors	5,083,960	4,279,262
DHS Emergency Housing	1,023,070	-
Operating Leases	371,680	92,920
Total	36,039,262	31,512,864

Receivables from non-exchange transactions impaired

As of June 30, 2020, other receivables from non-exchange transactions of R 35 966 392 were past due but not impaired

None of the financial assets for the period ended 30 June 2020 have been determined individually for impairment

Receivables from non exchange pledged as security

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

10. VAT receivable

VAT	1,123,365,490	1,117,697,471
-----	---------------	---------------

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
11. Receivables from exchange transactions		
Gross balances		
Water	1,487,843,291	1,184,282,323
Sewerage	524,419,876	472,803,743
Sundry Debtors	2,632,768	2,588,709
	<u>2,014,895,935</u>	<u>1,659,674,775</u>
Less: Allowance for impairment		
Water	(1,208,165,425)	(978,926,762)
Sewerage	(488,883,745)	(440,030,089)
Sundry debtors	(2,519,756)	(2,544,673)
	<u>(1,699,568,926)</u>	<u>(1,421,501,524)</u>
Net balance		
Water	279,677,866	205,355,561
Sewerage	35,536,131	32,773,654
Sundry Debtors	113,012	44,036
	<u>315,327,009</u>	<u>238,173,251</u>
Water		
Current (0 -30 days)	25,621,427	99,255,814
31 - 60 days	26,947,684	40,570,297
61 - 90 days	25,438,467	25,228,548
91 - 120 days	28,626,008	25,455,651
121 - 365 days	273,659,423	238,679,535
> 365 days	1,107,550,281	755,092,477
	<u>(1,208,165,424)</u>	<u>(978,926,762)</u>
	<u>279,677,866</u>	<u>205,355,560</u>
Sewerage		
Current (0 -30 days)	7,166,327	17,062,593
31 - 60 days	6,171,553	5,616,182
61 - 90 days	6,121,065	5,533,756
91 - 120 days	6,174,822	5,516,439
121 - 365 days	54,301,815	54,941,947
> 365 days	444,510,161	384,132,825
	<u>(488,883,745)</u>	<u>(440,030,089)</u>
	<u>35,561,998</u>	<u>32,773,653</u>
Sundry Debtors		
Current (0 -30 days)	102,276	38,805
31 - 60 days	-	5,231
61 - 90 days	-	2,533
91 - 120 days	2,734	4,903
121 - 365 days	24,551	23,653
> 365 days	2,503,207	2,513,583
	<u>(2,519,756)</u>	<u>(2,544,672)</u>
	<u>113,012</u>	<u>44,036</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1,421,501,524)	(1,222,102,221)
Contributions to allowance	(278,067,402)	(199,399,303)

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
11. Receivables from exchange transactions (continued)		
	<u>(1,699,568,926)</u>	<u>(1,421,501,524)</u>

Receivables from non exchange pledged as security

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

Receivables from non exchange 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.

Receivables from non exchange impaired

None of the financial assets for the period ended 30 June 2020 have been determined individually for impairment.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4,200	4,200
Bank balances	20,599,528	104,191,343
Short-term deposits	21,643,330	273,723,783
	<u>42,247,058</u>	<u>377,919,326</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.

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.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2020	June 30, 2019	June 30, 2018
First National Bank - Current - 62002510693	18,629,607	98,656,166	75,220,724	18,629,607	98,656,166	(13,422,606)
First National Bank - Call Account - 62004499481	894,576	61,252	13,588,735	894,576	61,252	13,588,735
First National Bank - Call Account - 62190652521(CRR)	241,891	212,916,295	242,754,637	241,891	212,916,295	242,754,637
First National Bank - Call Account - 62187939784	624,256	59,048,632	7,506,142	624,256	59,048,632	7,506,142
First National Bank - Call Account - 62187936532(National)	3,632,818	1,297,853	1,166,978	3,632,818	1,297,853	1,166,978
First National Bank - Call Account - 62187938538(Provincial)	16,249,789	399,693	1,027,204	16,249,789	399,693	1,027,204
First National Bank - Public Sector - Cheque Account - 62610267602	1,969,921	5,535,177	8,220,867	1,969,921	5,535,177	8,220,603
Total	<u>42,242,858</u>	<u>377,915,068</u>	<u>349,485,287</u>	<u>42,242,858</u>	<u>377,915,068</u>	<u>260,841,693</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
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	52,877,247	(56,272,624)
Present value of the defined benefit obligation-partly or wholly funded	14,733,698	(14,915,690)
	67,610,945	(71,188,314)
Non-current liabilities	(63,435,951)	(65,893,340)
Current liabilities	(4,174,994)	(5,294,974)
	(67,610,945)	(71,188,314)
Changes in the present value of the Post Medical benefit obligation are as follows:		
Opening balance	56,272,624	48,552,148
Benefits paid	(2,868,929)	(1,338,853)
Net expense recognised in the statement of financial performance	(526,448)	9,059,329
	52,877,247	56,272,624
Net expense recognised in the statement of financial performance		
Current service cost	3,408,054	2,715,019
Interest cost	5,494,783	4,711,659
Actuarial (gains) losses	(9,429,285)	1,632,651
	(526,448)	9,059,329
Calculation of actuarial gains and losses		
Actuarial (gains) losses – Obligation	(9,429,285)	1,632,651
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	13.04 %	10.02 %
Expected rate of return on assets	7.29 %	6.02 %
Expected rate of return on reimbursement rights	8.79 %	7.52 %
Actual return on reimbursement rights	3.91 %	2.33 %

Long Service Awards Liability

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 2020	Opening Balance	Additions	Utilised during the year	Total
Long Service Awards	14,915,690	2,483,632	(2,665,624)	14,733,698
Reconciliation of long service awards - June 2019	Opening Balance	Additions	Utilised during the year	Total

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
Long Service Awards Liability (continued)		
Long Service Awards	13,567,990	2,897,490
	(1,549,790)	14,915,690

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 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.

At year end 30 June 2020, 819 (2019: 857) employees were eligible for the Long service awards.

The current service cost for the year ending 30 June 2020 was estimated to be R953 064 whereas the cost of the ensuing year is estimated to be R1 681 217.

The principle assumptions used for the purpose of the actuarial valuation were as follows:

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation. The methodology for setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 5.30 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 27 June 2020 is 7.41% per annum, and the yield on inflation-linked bonds of a similar term was about 4.23% per annum. This implies an underlying expectation of inflation of 2.57% per annum $([1 + 7.41\% - 0.5\%] / [1 + 4.23\%] - 1)$. We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 3.57% per annum. However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.71% per annum $([1 + 7.41\%] / [1 + 3.57\%] - 1)$.

Discount rate	7.41%	7.94%
Consumer price inflation	2.57%	4.28%
Normal salary increase	3.57	5.28%
Net effective discount rate	3.71%	2.53%
	-	-

Changes in the present value of the long service awards are as follows:

Opening balance	14,915,690	13,567,990
Current year service cost	953,064	732,152
Interest cost	1,087,992	1,134,748
Benefits paid	(2,665,624)	(1,549,790)
Actuarial losses	442,576	1,030,590
	14,733,698	14,915,690

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

Present value of the long service awards wholly unfunded	14,733,698	14,915,690
--	------------	------------

Next expense recognised in the statement of financial performance

Current service cost	953,064	732,152
Interest cost	1,087,992	1,134,748
Actuarial losses	442,576	1,030,590
	2,483,632	2,897,490

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
. Current Employee Benefits for Medical Aid and Long Service Awards		
Medical Contribution subsidies	2,127,433	2,868,929
Current Portion of Long Service Awards	2,047,561	2,426,045
	4,174,994	5,294,974
14. Consumer deposits		
Water	507,696	441,108
15. Payables from exchange transactions		
Trade payables	223,852,814	227,152,534
Payments received in advanced	8,198,082	6,192,028
Retentions	37,111,156	34,790,461
Bonus Provisions	9,097,182	7,502,240
Accrued leave pay	15,659,558	13,940,707
Deposits received (held as Surety)	8,335	8,335
Other payables	27,545,986	25,035,186
	321,473,113	314,621,491

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
National: Municipal Infrastructure Grant (MIG)	1	81,589,393
National: EPWP	93,455	-
PRV DPT AGEN - PROVINCIAL AIDS COUNCIL	-	-
Municipal Disaster Covid-19	1,559,319	-
National: Department of Transport - Rural Road Asset Mgt Grant	1,744,065	3,196,975
Provincial: RBIG	19,514,739	101,046,222
National : WSIG	19,906,277	49,692,137
National : MWIG	-	29,159,488
	42,817,857	264,684,216
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	43,478	43,478
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
	35,817,441	35,817,441
Total unspent conditional grants and receipts		
Balance at the beginning of the year	300,501,657	114,249,016
Additions during the year	1,042,665,648	916,690,874
Income recognition during the year	(1,030,597,007)	(730,438,233)
Unspent conditional grant re-payment	(233,935,000)	-
	78,635,298	300,501,657

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 24 for reconciliation of grants from National/Provincial Government . The operating grants amounting to R42,817,857. Unspent conditional grant relate to R35 million is not presented in note 24 because there is no movement since 2008/2009 financial year.

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

17. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2020

	Accumulated Surplus	Prior year adjustment	Total
Opening balance	4,148,656,452	(50,809,926)	4,097,846,526
Surplus	173,006,941	-	173,006,941
	4,321,663,393	(50,809,926)	4,270,853,467

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
17. Accumulated surplus (continued)		
Ring-fenced internal funds and reserves within accumulated surplus - 2019		
	Accumulated Surplus	Total
Opening balance	4,035,788,786	4,035,788,786
Surplus	112,867,666	112,867,666
	-	-
	<u>4,148,656,452</u>	<u>4,148,656,452</u>
18. Revenue		
Service charges	300,505,479	305,466,551
Other income	2,020,782	746,616
Interest received	78,495,610	74,351,178
Government grants & subsidies	1,042,665,648	916,690,873
	<u>1,423,687,519</u>	<u>1,297,255,218</u>
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	300,505,479	305,466,551
Other income	2,020,782	746,616
Interest received	78,495,610	74,351,178
	<u>381,021,871</u>	<u>380,564,345</u>
Taxation revenue		
Transfer revenue		
Government grants & subsidies	1,042,665,648	916,690,873
19. Service charges		
Service charges	7,359	34,711
Sale of water	241,312,886	249,329,356
Sewerage and sanitation charges	59,185,234	56,102,484
	<u>300,505,479</u>	<u>305,466,551</u>
20. Other Income		
Tender documents	510,700	471,629
VAT on Conditional Grant	1,042,205	-
Sundry receipts	467,877	274,987
	<u>2,020,782</u>	<u>746,616</u>

Sundry receipts consists of Handling fees of R307 831.44, VAT on Conditional Grants of R388 979.93 & Inspection fees R160 046.06

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
21. Interest Income		
Interest revenue		
Bank	1,366,655	1,572,615
Interest - investments	19,347,805	34,283,108
Interest - debtors	57,781,150	38,495,455
	78,495,610	74,351,178
	-	-
	78,495,610	74,351,178
22. Government grants and subsidies		
Operating grants		
Equitable share	543,689,000	524,527,000
Finance Management Grant	1,250,000	1,250,000
Municipal Infrastructure Grant Operational EPWP	123,898,493	37,348,362
DHS Emergency Housing	4,548,545	6,158,000
LG SETA	-	1,583,192
Rural Sustainable Village	564,824	669,190
Municipal DIS Covid-19	4,126,374	6,200,000
Rural Road Asset Management Grant	1,956,681	-
Prov: Roads Subsidies	1,676,935	-
	16,701,091	20,679,101
	698,411,943	598,414,845
Capital grants		
Municipal Infrastructure Grant	164,724,721	151,942,246
Water Services Infrastructure Grant	93,714,723	75,940,025
Regional Bulk Infrastructure Grant	85,814,261	90,393,758
	344,253,705	318,276,029
	698,411,943	598,414,845
	344,253,705	318,276,029
	1,042,665,648	916,690,874

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	81,589,393	-
Current-year receipts	287,034,000	270,880,000
Conditions met - transferred to revenue	(288,623,215)	(190,879,822)
Re-payment of unspent	(80,000,178)	1,589,215
	-	81,589,393

Conditions still to be met - remain liabilities (see note 16).

Rural Sustainable Village

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
22. Government grants and subsidies (continued)		
Current-year receipts	4,126,374	-
Conditions met - transferred to revenue	(4,126,374)	-
	<u>-</u>	<u>-</u>
Municipal Disaster Covid-19		
Current-year receipts	3,516,000	-
Conditions met - transferred to revenue	(1,956,681)	-
	<u>1,559,319</u>	<u>-</u>
Provincial: Department of Roads		
Current-year receipts	16,701,091	32,586,506
Conditions met - transferred to revenue	(16,701,091)	(20,679,101)
Other	-	(18,002,637)
	<u>-</u>	<u>6,095,232</u>
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
National: EPWP		
Current-year receipts	4,642,000	6,158,000
Conditions met - transferred to revenue	(4,548,545)	(6,158,000)
	<u>93,455</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 16).		
National: Finance Management Grant		
Balance unspent at beginning of year	1	1
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)
	<u>1</u>	<u>1</u>
Conditions still to be met - remain liabilities (see note 16).		
National: DOT - Rural Road Asset Management Grant		
Balance unspent at beginning of year	3,196,975	2,680,975
Current-year receipts	3,421,000	3,229,000
Conditions met - transferred to revenue	(1,676,935)	(2,713,000)
Re-payment of unspent	(3,196,975)	-
	<u>1,744,065</u>	<u>3,196,975</u>
Conditions still to be met - remain liabilities (see note 16).		

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
22. Government grants and subsidies (continued)		
National: Regional Bulk Infrastructure Grant		
Balance unspent at beginning of year	101,046,222	29,439,980
Current-year receipts	105,329,000	162,000,000
Conditions met - transferred to revenue	(85,814,261)	(90,393,758)
Re-payment of unspent	(101,046,222)	-
	19,514,739	101,046,222
Conditions still to be met - remain liabilities (see note 16)		
.		
Water services Infrastructure Grant (WSIG)		
Balance unspent at beginning of year	49,692,137	-
Current-year receipts	84,461,000	137,300,000
Conditions met - transferred to revenue	(93,714,723)	(87,607,863)
Re-payment of unspent	(49,691,625)	-
	(9,253,211)	49,692,137
Conditions still to be met - remain liabilities (see note 16).		
Water Service Infrastructure Grant 2		
Balance unspent at beginning of year	29,159,488	32,991,649
Conditions met - transferred to revenue	-	(3,832,161)
	29,159,488	29,159,488
Conditions still to be met - remain liabilities (see note 16).		
Grant: Emergency Housing		
Current-year receipts	-	1,583,192
Conditions met - transferred to revenue	(1,023,070)	-
Debtor raised	1,023,070	-
Re-payment of unspent	-	(1,583,192)
	-	-
Conditions still to be met - remain liabilities (see note 16)		

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
23. Employee related costs		
Basic	210,918,071	195,335,188
Bonus	15,162,818	15,059,407
Overtime payments	13,872,563	11,791,339
Medical Aid - company contributions	21,757,210	36,575,941
Pension Fund Contributions	33,001,300	30,824,821
Group Life Insurance	1,429,558	1,229,283
UIF	1,723,437	1,561,898
Travel, motor car, accomodation, subsistence & other allowances	31,505,167	25,377,367
Housing benefits & allowances	2,144,076	2,166,271
Leave pay provision charge	5,246,927	7,816,668
Industrial Council Levies	90,126	86,256
Long-service awards	2,041,056	3,031,387
	338,892,309	330,855,826
Remuneration of municipal manager - G. Mashiyi		
Annual Remuneration	397,481	-
Car and other allowances	219,235	-
Performance Bonuses	87,803	-
Contributions to UIF, Medical and Pension Funds	744	-
Other allowances	18,472	-
Non Pensionable	97,564	-
	821,299	-
During 2018/2019 to Jan 2020, Dr BJ Mtembu was an acting Municipal Manager. Mr G. Mashiyi was appointed from Feb 2020		
Remuneration of Acting Municipal Manager - Dr BJ Mthembu		
Acting Allowance	144,539	111,862
The Municipal Manager resigned on 13 March 2018		
Remuneration of Municipal Manager - M.A. Mene		
Performance Bonuses	-	635,891

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
23. Employee related costs (continued)		
Remuneration of Chief Financial Officer - M. Dyushu		
Annual Remuneration	697,423	-
Car and other allowances	305,617	-
Performance Bonuses	88,367	-
Contributions to UIF, Medical and Pension Funds	1,190	-
Other allowances	65,742	-
Non Pensionable	164,243	-
	1,322,582	-

From July 2018 to March 2019 Ms N. Fetsha was a Chief Financial Officer. From 18 March 2019 to Dec 2019, Mr. T. Pambaniso was an acting Chief Financial Officer. Mr. M. Dyushu was appointed from Jan 2020.

Remuneration of Former CFO: N. Fetsha

Annual Remuneration	-	1,320,084
Car and other allowances	-	372,268
Performance Bonuses	-	169,833
Contributions to UIF, Medical and Pension Funds	-	1,785
Other allowances	-	7,615
Other	-	83,204
	-	1,954,789

Remuneration of Acting CFO: T. Pambaniso

Acting Allowances	215,036	131,027
-------------------	---------	---------

Remuneration of Director: Corporate Services - Y. Matakane-Dakuse

Annual Remuneration	1,075,609	1,069,346
Car and other allowances	415,860	395,837
Performance Bonuses	182,998	169,926
Contributions to UIF, Medical and Pension Funds	242,324	229,777
Other allowances	8,744	-
	1,925,535	1,864,886

Remuneration of Director: Health Services - Y. Sinyanya

Annual Remuneration	1,075,609	1,179,763
Car and other allowances	427,960	408,448
Performance Bonuses	182,981	169,967
Contributions to UIF, Medical and Pension Funds	230,051	217,848
Other allowances	8,744	7,720
	1,925,345	1,983,746

Remuneration of Director: Integrated Planning and Development - Z. Shasha

Annual Remuneration	1,064,741	1,057,180
Car and other allowances	421,223	406,976
Performance Bonuses	181,544	165,441
Contributions to UIF, Medical and Pension Funds	234,254	213,411
Other allowances	8,656	7,643
	1,910,418	1,850,651

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
23. Employee related costs (continued)		
Remuneration of Director: Strategic Services - B. Mthembu		
Annual Remuneration	1,092,524	1,129,020
Car and other allowances	424,577	402,898
Performance Bonuses	270,455	83,204
Contributions to UIF, Medical and Pension Funds	242,324	157,013
Other allowances	112	105
	<u>2,029,992</u>	<u>1,772,240</u>
Acting allowance for Director: Strategic Service is disclosed separately from the Annual remuneration.		
Remuneration of Director: Technical Services - L. Govu		
Annual Remuneration	957,240	-
Car and other allowances	389,045	-
Performance Bonuses	160,785	-
Contributions to UIF, Medical and Pension Funds	177,708	-
Other	26,857	-
	<u>1,711,635</u>	<u>-</u>
Mr M. Dungu's contract expired in October 2018. From October 2018 to July 2019 Mr M. Shasha was acting. Mr L. Govu was appointed in August 2019. The acting allowance disclosed below is already included in the Municipal staff.		
Remuneration of Acting Director: Technical Services - M. Shasha		
Acting Allowance	<u>20,937</u>	<u>198,803</u>
Remuneration of Director: Technical Services: M. Dungu		
Annual Remuneration	-	525,230
Car and other allowances	-	146,242
Performance Bonuses	-	80,021
Contributions to UIF, Medical and Pension Funds	-	20,767
Other allowances	-	3,105
	<u>-</u>	<u>775,365</u>
24. Remuneration of councillors		
Executive Mayor	1,087,797	1,215,547
Deputy Executive Mayor	878,397	277,865
Mayoral Committee Members	4,840,124	5,141,791
Speaker	878,397	843,697
Councillors	2,833,296	3,420,208
Chief Whip	826,011	766,117
Sec 79 Chair	881,777	-
	<u>12,225,799</u>	<u>11,665,225</u>
25. Depreciation and amortisation		
Property, plant and equipment	157,076,616	151,486,915
Intangible assets	761,406	653,003
	<u>157,838,022</u>	<u>152,139,918</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
26. Finance cost		
Interest cost	<u>88,047</u>	<u>266,610</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
27. Debt impairment		
Debt impairment	<u>278,891,121</u>	<u>173,390,698</u>
28. Bulk purchases		
Water	<u>16,046,762</u>	<u>19,156,293</u>
29. Contracted services		
Presented previously		
Outsourced services	65,714,252	98,039,043
Consultants and professional fees	11,043,876	26,159,686
Other contractors / Repairs and Maintenance	91,621,592	108,972,577
	<u>168,379,720</u>	<u>233,171,306</u>
Presented previously	<u>168,379,720</u>	<u>233,171,306</u>
30. Transfers and subsidies		
Other subsidies		
VIP Toilets	89,100,961	15,377,111
Chris Hani Development Agency	34,038,080	29,339,125
	<u>123,139,041</u>	<u>44,716,236</u>
Grants paid to ME's	-	-
Other subsidies	123,139,041	44,716,236
	<u>123,139,041</u>	<u>44,716,236</u>
31. General expenses		
Advertising	2,013,367	4,095,553
Auditors' remuneration	8,441,686	6,840,434
Bank charges	1,590,321	1,495,684
Computer expenses	12,294,128	9,085,722
Consumables	12,207,385	6,293,981
Entertainment	1,627,443	2,652,423
Hire	195,714	1,032,631
Insurance	2,148,916	1,779,440
Education & Marketing	830,122	985,845
Motor vehicle expenses	978,434	1,959,738
Fuel and oil	26,612,834	26,051,612
Postage and Courier	6,885	304,820
Printing and stationery	4,266,901	8,269,235
Protective clothing	1,548,506	2,052,387
Staff welfare	2,158,649	17,823,539
Subscription and membership fees	3,805,208	11,569,039
Telephone and fax	3,565,691	3,655,933
Travel - local	11,214,218	19,632,322
Assets Expensed	2,956,134	3,358,910
Electricity	22,886,470	36,178,439
Rates	121,921	401,595
Water Sampling	2,465	146,696
Refuse	40,629	78,174
Sewerage	156	269
Public events and Imbizo	59,500	1,078,097
Study assistance reimbursements	191,361	157,042
Communication	879,710	1,266,435

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
31. General expenses (continued)		
Penalties	-	9,351,124
Indigent Subsidy	8,948,469	11,350,853
Chemicals	10,596,260	8,651,931
Skills Development Levy	2,958,380	2,824,134
Operating Leases	6,604,850	5,533,838
	151,752,713	205,957,875
32. Auditors' remuneration		
Fees	8,441,686	6,840,434
33. Cash generated from operations		
Surplus	173,006,941	112,867,666
Adjustments for:		
Depreciation and amortisation	157,838,022	152,139,918
Loss on sale of assets and liabilities	312,667	155,654
Impairment deficit	73,768	-
Debt impairment	278,891,121	173,390,698
Non-cashflow movements in employee cost	5,409,340	-
Actuarial gain / (losses)	(8,986,709)	1,632,651
Changes in working capital:		
Inventories	(5,272,831)	4,551,851
Receivables from exchange transactions	(77,153,758)	(122,425,992)
Other receivables from non-exchange transactions	(4,526,398)	18,906,936
Prepayments	2,068,313	8,381,519
VAT Payable movement	-	(5,384,303)
Payables from exchange transactions	6,851,822	177,828,736
VAT	19,230,944	(77,220,343)
Unspent conditional grants and receipts	(221,866,359)	186,252,641
Consumer deposits	66,588	111,922
Non-cash Flow movement in Employee cost	-	2,895,736
Movement operating lease liability	691,553	536,730
	326,635,024	634,622,020
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	860,219,206	625,591,235
• Buildings	183,954,807	188,181,242
• Other	57,990,681	55,241,311
• Community	12,825,714	3,684,641
	1,114,990,408	872,698,429
Total capital commitments		
Already contracted for but not provided for	1,114,990,408	872,698,429

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, accumulated surplus.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
34. Commitments (continued)		
Operating leases - as lessee (Buildings)		
Minimum lease payments due		
- within one year	1,874,294	1,897,977
- in second to fifth year inclusive	-	103,170
	<u>1,874,294</u>	<u>2,001,147</u>
Operating leases - as lessee (Other Equipment)		
Minimum lease payments due		
- within one year	2,229,469	2,228,812
- in second to fifth year inclusive	1,300,524	3,714,686
	<u>3,529,993</u>	<u>5,943,498</u>
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.		
Dividends or similar distributions proposed, but not authorised for distribution	6,077,585	7,841,475
35. Contingencies		
Contingent liabilities		
The municipality is party to the following litigation matters		
Litigations		
The Municipality as the 1st Defendant in the matter relating to a motor vehicle accident that occurred between a CHDM employee and the Plaintiff. The Plea has been filed and we have filed our Rule 23 Notices. Plaintiff has filed a Rule 24(9)(a) and (b) Notice.	74,000	-
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.	500,000	500,000
Municipality has filed Leave to Appeal to the SCA. Leave to Appeal dismissed with costs.		
Costs of Appeal have yet to be taxed, and it is the responsibility of the successful party to tax costs, and Civil & General have yet taxed the costs.		
Claim by City Square Trading 204 (Pty) Ltd against CHDM and one other for goods supplied and service rendered. CHDM is the 2nd Defendant in the matter. Action defended and was set down for the 26th of August 2020. We filed a Request for Trial Particulars and await a response thereto. We have finalised the Rule 37 Minute	8,500,000	8,500,000
Plaintiff, Total Laboratory Technologies, issued summons against the Municipality for goods allegedly, supplied and delivered. Judgement was granted by default. The municipality partially disputes the claim and hence is in the process of applying for the rescission of judgement. Matter withdrawn	-	125,000

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
35. Contingencies (continued)		
Plaintiff, Arise and Shine Security & Cleansing Services, brought a claim for service 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. Matter withdrawn.	-	400,000
The Municipality defends a claim that was brought against it for damages allegedly caused by blasting while the Municipality implemented an infrastructure project. The Municipality has defended the action. A plea was served via email to the Plaintiff and that we are awaiting proof of filing from C/O attorney to proceed with discovery	400,000	500,000
The Municipality has defended action for damages allegedly caused by the Municipality's employees while performing operations and maintenance duties. Telkom's claim still needs to be fully substantiated.	100,000	100,000
Applicant (Mopo Mene) making an application to set the decision of Council to rescinding 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. Financial exposure is too remote for the matter to be considered a contingent liability.	-	200,000
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 judgement and amount is indeterminable. . Matter was referred to oral evidence and heard at High Court before Judge Makaula in 2016. He reserved judgment, and he has not delivered same for the past 4 (four) years.,	300,000	300,000
Rumdel Construction brought an action for an alleged non-payment of Certificate No. 21 arising out of a project for construction of a pipeline and a Water Treatment Works at Tora in the Ngcobo Area. Though the matter is not disputed by the Engineering Services Directorate, it appears that the reason for non-payment is the fact that the amount due arises out of variation order that was agreed to despite the contract already had reached a threshold of 20 percent for variation orders (and without approaching Council). Council has not been approached despite the fact that this matter has been within the knowledge of the directorate for a period of more than 6 (six) months. The matter was defended purely on technical grounds in order to allow the directorate time to deal with the matter, and also to avoid judgment and eventual attachment of municipal assets. Capital amount (interest waived) have been paid, and the only thing left is legal costs that shall be settled.	30,000	-
Truda Foods (Pty) Ltd brought an application against the Municipality and others to declare failure to give them permits unlawful, and also restrain the Municipality from closing its business premises. Matter has been argued at Court on the 3rd of September 2020, and judgment has been reserved.	200,000	-
Arbitrator at SALGBC awarded in favour of Dr AM Sambumbu to be re-instated at work with effect from 2019. A further order is that he should be paid an amount of R 512, 017.40, which represents an equivalent of monthly salary of R 56, 890.83 for a period of 9 months. The Municipality has approached the Labour Court in view to review the decision. Matter is ongoing.	1,300,000	-
Directors have performance agreements which were signed in the beginning of the year. Performance reviews are done and submitted to council for approval after which the director will receive a bonus. At year end, performance reviews were not done. Once reviews are done and directors have met their performance targets, the council will have the final approval for the payment of the bonus. Depending on the approval of by council, the municipality might be liable to pay R992 952 as performance bonus to the directors who has met their targets.	-	992,952
	11,404,000	11,617,952

36. Related parties

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
36. Related parties (continued)		
Relationships		
Associates		
-		Refer to note KEY MANAGEMENT OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW
Mashiya Gcobani		Member in Iziphumo Consulting Solutions; Member in Technical Cross Holdings; Member in Latitoez Food Enterprise; Member in Ikhwezi Lomso Trading and Projects
Somkoko Mvuyeleni		Member of Jange and Mlungu Civils; Spouse is a member of Kuvala 205 Trading Enterprise Member of Delubom Transport, L Delubom Trading and MTN Zakhane Shares; Spouse is a member of Lulwazi Trading Enterprise and MTN Zakhane Shares
Mfecane Anita Delubom Lindile		Member in Anitaza Trading Member of Delubom Transport, L Delubom Trading and MTN Zakhane Shares; Spouse is a member of Lulwazi Trading Enterprise and MTN Zakhane Shares
Memani Thobela Headwell		Child is a Member of Vunoleo Building & Civil Youth Construction
Makonza Asanda		100% Membership in Seasons Find 1260 CC; Member of Funumbona Construction & Projects
Shasha Mzwamadoda Moses		100% Membership in Safika Rural Development Consultants
Mapatwana Ntombizanele Gqodo Zixolisile		Member of Brainwave Project 205 Member of GZ Civil Engineering and Member of FC Builders & Construction
Katsere Tendai		35% Membership of Mazvita Trading; 100% Membership of Jekeso Communications; Member of Relilite Investments; Spouse is a member of Umzali Trading Enterprise
Gobeni Nonelela		Director of Hi-Lite Development Agency; Member of Ulutho Funerals
Makwabe Thandisizwe Tito Sibongile Lucando Bulelani		50% Membership in Mokoti Construction Director of Smith Tabata 33% membership in El Shaddai Civil and Building Contractors
Petela Neziwe		Member of Kumbu & Lam Trading Enterprise; Member of Kei Recyclers; Spouse is a member of Cool Ideas 1413 Director in BS Holdings
Dlova Zingisile Gidion Madikane Thozama		Director in Zinbar Enterprise 50% Membership in Secreets Trading; 50% Membership in Koelro No 106; 100% Membership In Silkyline Hair Studio
Nqwemeshe Nomvuyo		Spouse is a member of Liso Security Services & Trading
COUNCILLORS		REFER TO LIST OF COUNCILLORS DISCLOSED UNDER GENERAL INFORMATION. COUNCILLORS OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW:
Cengani Jongumzi		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
Mbali Xolela		25% Membership in Amabandla Construction

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
36. Related parties (continued)		
Dyantyi Sinethemba Reginald		Director and Founding Member of Happy Valley Abattoir Co-operative Limited; Director of Sanelisa Services; Director of Tlholo Entrepreneur Support Centre
Gela Wongama		Director of Ithemba Liyaphilisa Financial Services; Director of Sesinethemba Construction; 10% Membership in Silver Solutions 2978; 20% Membership in Sikhuselu'luntu 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
Nkwentsha-Gunuza Lindiwe		Member in Lembede Investments Holdings; Member in Lembede Strategic Investments; Sangolekhaya Funeral Services; Tando-Luzuko Trading and Projects; Sunrise Coach Services
Nyukwana Nomveliso		30% Membership in Liqhakazi Construction and Projects
Myataza Saziso		Member of Hluthamhlali Multi-purpose Trading
Vimbayo Kholiswa		Member in Border Rural Committee
Radzilani NR		Member of Forecast Traders
Roskruge N		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, Lilita vehicle hire, Manzana Mancoba and Shweni Heavy Duty Transportation Olona Trading and Project
Bula Mzwandile Nelson		Founding member of Mthunziwethu Trading Co-operative, Polonius Investments, Bendis Investments, Zinkamba Trading 1002, Gobashe Trading Enterprise
Deliwe Zanemvula		Director in Beyond 2030 Consulting Services; Member in Top Town Farmers Agric Co-op
Mdwayingana William		Member in Mdwamtwa Construction & facilitation; Member in Mpoza-mpoza Business Solutions; Member in Masichume Fattening Agriculture Bring About
Twani Sylvia		Director in Qamata Tembisile Hani Intergrated Energy Centre Co-operative Limited; 25% Maq no Security & Cleaning Services
Nquma Nombuyiselo Patricia		33.4% Membership in Fenas and Nquma Civils and Property Developers
Mfundisi Nomalizo		33% Membership in Hewu Farming Project
Ntakana Siyavuma		Member in Abahlobo Benene Trading & Projects; Ntakana Brothers Transport & Construction

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
36. Related parties (continued)		
MUNICIPAL EMPLOYEES		
Hlahla Mtibe NNV		
MR MM SHASHA- SENIOR MANAGER WSA		
MR MT MAVUNDHLA- WSP: O & M TECHN (INKWANCA		
		EMPLOYEES OF THE MUNICIPALITY HAVE RELATIONSHIPS WITH BUSINESSES AS INDICATED BELOW: Spouse is a member of Yovo Trading Enterprise Spouse/Partner/Associate NOMALIZO MONICA DAMOYI has an interest in BITLINE SA 1060CC Spouse/Partner/Associate AGNES MAKAZI MATROSS has an interest in MAMA TROSKIE TRADING ENTERPRISE
Related party transactions		
Interest paid to (received from) related parties		
Wezi Gqiza	-	9,450
Keith Ngesi Media (Pty) Ltd	86,500	211,250
Ian S Development Services	28,320	55,770
Vodacom (Pty) Ltd	1,657,741	834,164
Mesilane Projects	13,950	-
Rumdel Construction	2,401,441	5,050,548
Buyile No. 88 Construction and Catering	22,500	15,200
Izaphetha Trading and Projects	-	9,900
Chris Hani Development Agency	42,712,842	38,661,185
Mduba General Trading	17,000	7,500
Guard Risk Life Limited (Medway)	-	3,000
Ubomi Civils Construction Services	-	717,568
Chris Hani Choral Music Association	297,000	249,600
37. Unauthorised expenditure		
Opening balance	616,684,082	616,684,082
Current year expenditure	135,640,341	-
	<u>752,324,423</u>	<u>616,684,082</u>
<p>During 2018/19 financial year, the municipality tabled the adjusted budget for 2018/19 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> <p>The unauthorised expenditure amounting to R5 231 582 was caused by the Department of Roads which had a budgeted amount of R29 000 000 and actual expenditure amounting to R27 149 252, however the municipality received R21 917 670 from the Department of Roads.</p> <p>The current year unauthorised expenditure will be tabled to council with the audit report in terms of section 28(2)(g) of the MFMA read together with regulation 23(6)(b) of the MBRR. This will include the total amount of unauthorised expenditure that will be investigated by MPAC as per the Council resolution, however, MPAC started phase one investigating irregular expenditure. After that the investigation will focus on unauthorised and fruitless and wasteful expenditure.</p>		
38. Fruitless and wasteful expenditure		
Opening Balance	14,057,743	3,854,654
Fruitless & Wasteful - Current year	88,047	267,617
Penalty and Interest from Dept of Labour	-	9,351,124
Advance payment for services not received	-	584,348
Amount paid to incorrect account	554,683	-
Asset not paid by the insurance	41,068	-
	<u>14,741,541</u>	<u>14,057,743</u>

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
38. Fruitless and wasteful expenditure (continued)		
<p>The opening balance is still under MPAC investigation as well as the current year balance. R554 683 , management has conducted disciplinary hearing for three employees from Budget and Treasury Office. Two employees are still on suspension since March 2020 and one is dismissed during December 2020. The process is not yet finalised. R41 068, was claimed from insurance but was not paid and the municipality paid.</p>		
39. Irregular expenditure		
Opening balance	1,465,761,217	1,382,073,473
Add: Irregular Expenditure - current year	25,196,606	83,687,744
Less: Amount written off by Council	(1,073,536,471)	-
	<u>417,421,352</u>	<u>1,465,761,217</u>
Analysis of expenditure awaiting condonation per age classification		
Current year	25,196,606	83,687,744
Prior years	392,224,746	1,382,073,473
	<u>417,421,352</u>	<u>1,465,761,217</u>
Details of irregular expenditure – current year		
1. Inherited from LM - No documentation could be found as the appointment was made before SCM came into effect		6,559,395
2. No documentation could be found as the appointment was made before SCM came into effect		12,545,958
3. Deviation not in line with regulation 36 and SCM Policy		2,126,194
4. Service provider appointed to identify municipal buildings and land. It was raised		-
5. CHDM does not have its own truck & TLB		3,965,059
		<u>25,196,606</u>
Details of irregular expenditure - Prior year		
1. Proof that the bidder has no undisputed commitments for municipal services for which payment is overdue for more than 90 days, could not be obtained; No proof of registration with CIBD; Original or certified copy of BEE Certificate could not be obtained; Company registration documents not attached.		35,463,838
2. Inherited from LM - No documentation could be found as the appointment was made before SCM came into effect		91,559
3. No documentation could be found as the appointment was made before SCM came into effect.		11,457,377
4. Incorrect PPPFA Points used in the advert, specification, evaluation and adjudication, as the project was advertised after 01 April 2017 using the old regulation after the implementation of the revised PPPFA		20,096,618

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
39. Irregular expenditure (continued)		
5. No declaration made by winning bidders regarding past 5 years; No evidence of risk assessment being conducted by CHDM for the awarded bidder.		10,467,628
6. The tender was advertised for less than the required number of days as per the SCM regulations (i.e <30 days)		186,300
7. Procurement process not followed (Operating)		5,924,425
		83,687,745
<p>The municipality had R1,4 billion as disclosed in note 39. This is a cumulative from 2010 financial year. Management tabled to Council during 2017/2018 for condonation, however, Council resolved that MPAC should conduct an investigation. During 2019/2020 a service provider (LUNIKA INCORPORATE) was appointed to assist the MPAC investigation. LUNIKA INCORPORATE conducted an investigation and the report was submitted to MPAC recommending that an amount of R530m be written off by Council and that it was made as such. The second phase of conducting an investigation was concluded by LUNIKA INCORPORATE amounting to R543m and tabled to Council for write off, that made a total of R1,073 billion and left the council with the Irregular expenditure balance of R417m. The investigation report does not state any irregularities or money that can be recovered from any staff member.</p>		
40. Additional disclosure in terms of Municipal Finance Management Act		
SALGA		
Opening balance	-	-
Current year subscription / fee	-	3,140,930
Amount paid - current year	-	(3,140,930)
	-	-
Audit fees		
Opening balance	-	-
Current year subscription / fee	8,441,686	7,809,441
Amount paid - current year	(8,441,686)	(7,809,441)
	-	-
PAYE and UIF		
Opening balance	-	-
Current year subscription / fee	53,449,851	35,751,375
Amount paid - current year	(53,449,851)	(35,751,375)
	-	-
Pension and Medical Aid Deductions		
Opening balance	-	-
Current year subscription / fee	49,111,677	45,751,375
Amount paid - current year	(49,111,677)	(45,751,375)
	-	-
VAT		
VAT receivable	1,123,365,490	1,117,697,471
VAT payable	1,065,376,241	1,040,477,128

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R
40. Additional disclosure in terms of Municipal Finance Management Act (continued)		
	<u>2,188,741,731</u>	<u>2,158,174,599</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

41. 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.

Deviations - 30 June 2020	Budget and Treasury Office	Technical Services	Corporate services and health services	Total
Acquisition of a jetting Machine	-	2,961,835	-	2,961,835
Approval of RFQs could not be done on time and extension of scope was granted	256,554	-	-	256,554
Emergency situation	-	870,704	1,526	872,230
NG Municipal Disaster Covid-19	-	-	2,250,183	2,250,183
	<u>256,554</u>	<u>3,832,539</u>	<u>2,251,709</u>	<u>6,340,802</u>

42. Water Distribution Losses

Water losses

Water Distribution loss	<u>182,114,933</u>	<u>8,408,804</u>
-------------------------	--------------------	------------------

The Municipality incurred water distribution losses in the current year estimated at 68.28% amounting to R182 114 933.

The Municipality incurred water distribution losses in the previous year estimated at 15% amounting to R8 408 804

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

43. Prior period errors

Statement of Financial Position

1. Receivables from non-exchange transactions

The restatement of receivables from non-exchange transactions was due to the following reasons:

- . The Inxuba Yethemba Municipality debtor raised in 2017/18. The district municipality loan the municipality with the R12,000,000.00 and have an agreement that the payment will be settled with invoices sent to the municipality on electricity; and
- . During 2018/19 the outstanding amount was R9,103,108.00 and the reconciliation between the two municipalities was done however the process on the system was not done up until the Annual Financial Statements for 2018/19 submitted and audited by Auditor General. The error is corrected in 2019/20.

2. VAT Receivables

- . The VAT receivable increase because of accruals that was not yet raised in 2018/19
- . The prepayment was recognised as the connection was done in 2014.
- . Operating leases that was overstated in 2018/19.
- . Prepayment that was raised in 2018/19 though it was already connected in April 2019

3. Prepayments

Prepayment was restated due to the following reasons:

- . An amount of R10,489,293 was paid to Eskom for connection during 2010/11 for Xonxa Dam. During 2018/19 Auditor General raised the finding that the prepayment is having more years while there is no connection. An investigation was made to Eskom for all prepayments raised amounting to R10 489 293, R315,675 that was raised in 2016/17 and R586,758 raised in 2018/19.
- . The municipality received the confirmation from Eskom that Xonxa was connected in 2015 and the 2 projects were connected in 2019/20 and 1 project Jojweni was connected in April.
- . 1 Project is not yet confirmed by Eskom as it was stopped and the money was transferred to another account and investigation is still in progress by the Engineering Department; and
- . Upon the information received from Eskom and the municipality, technician confirmed that the connection was made for 2 projects in 2018/19.

4. Receivables from exchange transactions

During the drafting of 2019/20, it was identified that there is a misallocation of votes for vat receivable and receivable from exchange transaction. The reason of misallocation was that in 2017/18 vote 15407687010ZZZZZZWD and description was written Output Vat Prov Doubtful Debt Impairment, however in 2018/19 vote was 15407687010ZZZZZZWD and the description was Prov D/Ful Debt Imp CHDM Opening balance.

5. Property, Plant and Equipment

The Property, Plant and Equipment were restated due to the below transactions:

- . Correction of retention balance that was understated amounting to R664,428.09
- . Project completed in 2018/19 but not transferred to PPE amounting to R31,666,886.52
- . Payment not recognised in previous year as accrual amounting to R312,420.76
- . Alignment of WIP register to Trial Balance amounting to R1,328,856.46
- . The prepayment amounting to R150,019.00 for Jojweni Booster was recognised as prepayment during preparation of 2018/19 financials although it was already connected in April 2019.
- . 2 Infrastructure: We received the asset registers for moveable assets and the following corrections were made:
 - a) Project number 33/2013/MD(BL) was completed in 2015/16 however only R51,709,081.45 was capitalised and not the whole total project amounting to R65,815,391.50. When the error was corrected in the previous year, a debit was passed on retained earnings instead of capitalisation to infrastructure asset.
 - b) Project number 18/2011/MD(LM) was completed in 2016/17, however it was not capitalised. When the error was corrected in the previous year, a debit was passed on retained earnings instead of capitalisation to infrastructure asset.
- . Reversal of 2010/2011 prepayment connected in 2015 for project
- . Project completed in 2018/2019 not transferred to PPE.
- . During the correction of the prepayment it was noted that the opening balance of R10,765,506.95 was understated by R39,461.05.
- . Casting error

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

43. Prior period errors (continued)

. We reviewed the asset register for moveable assets and the following corrections were made:

- Casting errors were corrected.
- Formular errors on the spreadsheet were corrected.
- Recalculated depreciation amounts.
- Recalculated accumulated depreciation.
- Corrected carrying values with negative amounts.
- Checked and corrected duplicated assets.
- Corrected misclassification of assets.
- The effect of the differences will be processed as adjustments to the general ledger as per reconciliation.
- Duplication was caused by the journal passed during 2018/19 from repairs and maintenance.

6. Payables from exchange

The payables from exchange were restated due to accruals that were understated;

a) Accruals, the following necessitated the restatement of accruals;

. There were invoices paid during 2019/20 relating to 2018/19 though they were not raised as accruals. The investigation of payment voucher was done to all population and we found that only R3,704,250.36 invoices relating to previous years.

7. Employee benefit obligation

The reclassification of bonus provision from employee benefit obligation was made of an amount of R7,502,240.37 that was moved to Payables from exchange transactions.

8. Unspent conditional grant

. The municipality was disclosing unspent conditional grant amounting to R42,936,412 since 2007/2008 up until 2018/19. During the 2018/19 audit, the finding was raised and the investigation was not completed up until the audit report issued.

. The municipality continue with the investigation, the letters were sent to all affected departments relating to unspent conditional grant and only the municipality succeed to receive as response from Development Bank of Southern Africa (DBSA) for the amount of R7,118,971 that was confirmed by the DBSA that it was a loan not a conditional grant and the loan was fully paid by the municipality.

. An error was corrected against the accumulated surplus; and

. The municipality is still waiting for Provincial Treasury intervention to departments for response of the unspent conditional grant amounting to R35,817,441.

During 2017/2018 Management raised a debtor of R1,589,215.00 against MIG as it was an overspending. During 2018/2019 management recovered the debtor of R1 589,215.00 from MIG allocation and the recovered amount was audited and the finding was raised in 2018/2019 that the municipality does not have a contractual agreement with MIG in order to recover the overspending in the next allocation.

9. Operating Leases

Process followed to restate Operating Leases

. The municipality identify that the service provider that lease the photocopy machines started in 2018/19 financial year was overbilling the municipality by R23,230.00 per month for other software that was not in the service level agreement. The matter was discussed with the service provider (XEROX) and the acknowledgement of error was signed by the company.

. The municipality then raised the debtor for the fourth month of 2018/19 an amount of R92,920.00 and the agreement will be, the credit note will be done in the October 2020 invoice.

10. Irregular Expenditure

The prior year irregular register was reviewed to assess completeness of irregular payments and there were some payments identified that were not previously disclosed. There were some other previously reported as irregular that were subsequently found not to be irregular expenditure.

Statement of Financial Performance

1. Government grants and subsidies

Government grants and subsidies has been restated for the reason below;

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020		2019	
	R		Restated* R	
43. Prior period errors (continued)				
	Previously Reported	Prior Period Error	Reclassification	Restated as at 30 June 2020
1. Proof that the bidder has no undisputed commitments for municipal services for which payment is overdue for more than 90 days, could not be obtained; No proof of registration with CIBD; Original or certified copy of BEE Certificate could not be obtained; Company registration documents not attached.	35,463,838	-	-	35,463,838
2. Inherited from LM - No documentation could be found as the appointment was made before SCM came into effect	91,559	-	-	91,559
3. No documentation could be found as the appointment was made before SCM came into effect.	11,457,377	-	-	11,457,377
4. Incorrect PPPFA Points used in the advert, specification, evaluation and adjudication, as the project was advertised after 01 April 2017 using the old regulation after the implementation of the revised PPPFA	19,763,080	333,538	-	20,096,618
5. No declaration made by winning bidders regarding past 5 years; No evidence of risk assessment being conducted by CHDM for the awarded bidder.	10,071,904	395,724	-	10,467,628
6. The tender was advertised for less than the required number of days as per the SCM regulations (i.e <30 days)	186,300	-	-	186,300
7. Procurement process not followed (Operating)	17,725,656	(11,801,231)	-	5,924,425
Subtotal	94,759,714	(11,071,969)	-	83,687,745
	94,759,714	(11,071,969)	-	83,687,745

Above adjustments of commitments register and update with new constructs identified.

NOTES TO THE FINANCIAL STATEMENT

Note 45 Financial Instruments

[

The municipality is correcting the error of incomplete disclosure of Financial instrument where the prepayment was not included amounting to R2 383 988.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

44. 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.

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 counterparty.

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	2020	2019
Interest rate swap	42,247,058	377,919,326

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

45. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	315,327,009	-	315,327,009
Other receivables from non-exchange transactions	-	36,039,262	-	36,039,262
Cash and cash equivalents	42,242,858	-	-	42,242,858
	42,242,858	351,366,271	-	393,609,129

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	321,473,113	-	321,473,113

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	238,173,251	-	238,173,251
Other receivables from non-exchange transactions	-	31,512,864	-	31,512,864
Consumer debtors	-	-	-	-
Cash and cash equivalents	377,915,068	-	-	377,915,068
	377,915,068	269,686,115	-	647,601,183

Financial liabilities

	At fair value	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	-	314,621,291	-	314,621,291

46. Events after the reporting date

Coronavirus Disease of 2019 (COVID-19) Global Pandemic

The President of the Republic, Mr C Ramaphosa, on 15 March 2020, declared the COVID-19 pandemic a disaster in terms of the Disaster Management Act (Act 57 of 2002). On midnight 26 March 2020, a national hard lockdown was implemented.

The lockdown only allowed essential services. The Water Services, Health & Community Services, Customer Care, part of the Budget and Treasury section and Human Resource formed part of these services. The lockdown and economic depression have placed a material downward effect on the municipality revenue generating capacity.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

46. Events after the reporting date (continued)

In June 2020 the Council approved an adjustment budget for the 2019/20 Financial to reflect the additional fund named as Municipal Disaster Fund COVID 19 amounting to R3, 516,000 from National and incurred R1,956,681. The budget was also re prioritized to meet COVID-19 Occupational Health and Safety.

In addition to the national disaster fund the municipality made a provision during the adjustment budget , the budget of R1,887,500.00 and the expenditure incurred is R1,346,252.50 .The municipality incurred expenditure for masks, sanitizer and appoint the service provider for disinfection where there is a reported case. The municipality does not have asset bought for COVID 19 and there is a litigation occurred during the COVID 19 that affected the municipality.

During the hard lockdown the company called Truda Foods (PTY) Ltd brought an application for an interdict against Chris Hani District Municipality together with the members of the South African Police Services closed their light foods manufacturing and distribution premises at Queen Industrial, Ezibeleni, the company sought an order declaring that the Municipality had no authority in terms of the Disaster Management Regulations to issue essential services permits for their employee.(See note 37 Contingencies for further details)

The municipality has considered the COVID-19 pandemic in determining its Going Concern considerations. After taking account current circumstances, future funding and projections the entity still considers the current Going Concern standing as appropriate.

During July 2020

Municipal Council resolved a write-off all of the Debt that is irrecoverable for Joe Slovo Informal Settlement in the Intsika Yethu Local Municipality area. These RDP houses are currently registered under the Intsika Yethu Local Municipality's name and the Municipality is in the process of transferring these houses to the individual owner's, however these households has a combined debt on Water & Sanitation Accounts due to CHDM to the value of R8,386,811.46.

The Chris Hani District Municipality has in the past been unable to enhance its revenue to acceptable proportions which would allow the municipality to discharge its fundamental mandate optimally. the municipality through its newly appointed established working groups has taken a decision that the implementation of the revenue enhancement activity plan to increase liquidity of the municipality.

The outstanding debt owed by the customers of the CHDM has increased at a rapid rate since 2014. The current outstanding balance as at the end of June 2020 stands at R2,015 with the collection rate averaging 8% for the 12 months ended 30th June 2020. In order to encourage payment of outstanding debt on the customers, management is proposing to introduce a once off debt payment incentive scheme. The proposed debt payment incentive or discount scheme will require customers to pay a percentage of their debt which will result in a corresponding percentage being written off from their debt. This means that all payments received from qualifying customers towards the debt outstanding as at 30 June 2020 while the scheme is in process will count towards the discount provided that the current balance is settled in full every month during the currency of the scheme. This was tabled and approved by Council on the 31st July 2020.

The following categories of customers:

- | | |
|---|--------------|
| Domestic (Residential) customer's | 50% discount |
| . Non-profit organisations (churches & NGO's) | 50% discount |
| . Indigent households who have exceeded the 10kl consumption to be afforded a once off 100% discount. | |

During July 2020, Council approved disposal of assets for the period ending 30 June 2020. Management has identified and placed all obsolete or assets that are obsolete and with poor condition from all Chris District Municipality offices to a central storage. These assets are motor vehicles and office furniture that could not be individually identifiable due to their worst / scrapped condition and some of these assets have zero carrying value because they have surpassed their allocated useful lives as per management policy.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

	2020	2019
	R	Restated* R

47. Budget differences

Material differences between budget and actual amounts

Revenue:

1. **Service charges:** The decrease is caused by the billing estimation made during COVID 19.

2. **Other Income:** 1) The municipality was planned to increase the revenue on rental for facilities however there was no revenue generated during 2020..

.

3. **Interest Income :** 1. The municipality budget the interest on debtors based on the previous year actual, however because of the COVID 19 the estimation on billing cause the reduce on interest on debtors.

2. The municipality invest less during 2019/20 hence there is a decrease on investment interest..

4. **Gains on disposal of asset:** The municipality did not dispose any asset during the year hence there is no actual amount because of the COVID 19.

5. **Government Grants and subsidies:** 1) The municipality recognised less expenditure and the budget was based on that the municipality will fully recognise grants however because of the COVID 19 the spending did not move.

Expenditure

1. **Employee related :** The final placement of the WSSA staff made the increase on employee related costs.

2. **Remuneration of Councillors:** The increase was caused by the resolution that paid Section 79 Councillors.

3. **Depreciation and amortization:** 1) The budget was based on the actual 2018/19 depreciation however there were changes in the asset register that made decrease.

4. **Finance cost:** The budget was based on the actual 2018/19 and the municipality was putting the monitoring of late payment by developing an invoice register and developing the SOP but the result did not have improved impact

5. **Bulk Purchase:** During the adjustment budget the municipality was having unfunded budget and this force the municipality to cut the budget.

6. **Contracted services:** During the adjustment budget the municipality was having unfunded budget and this force the municipality to cut the budget. Maintaining the cost containment also contributed.

7. **Transfers and subsidies:** The difference is already included in the operational cost as the Chris hani development corporate .

8. **General expenses:** During the adjustment budget the municipality was having unfunded budget and this force the municipality to cut the budget.

9. **Debt Impairment:** The budget was based on the actual 2018/19 debt impairment because there measure in place to improve revenue collection like revenue enhancement strategy however the debt book increase because of the COVID19.

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.

Chris Hani District Municipality

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

48. VAT payable

Tax refunds payables	<u>1,065,376,241</u>	<u>1,040,477,128</u>
----------------------	----------------------	----------------------