



**Laingsburg Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2018**



# Laingsburg Local Municipality

(Registration number WC051)

Annual Financial Statements for the year ended 30 June 2018

## General Information

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<b>Legal form of entity</b>	Local Municipality
<b>Mayoral committee</b>	
Executive Mayor	Cllr. M Gouws
Deputy Executive Mayor	Cllr. I Brown
Speaker	Cllr. RM Louw
Councillors	Cllr. B Kleinbooi Cllr. L Potgieter Cllr. W Theron du P Cllr. B van As
<b>Grading of local authority</b>	Grade 1
<b>Capacity of local authority</b>	Medium
<b>Accounting Officers</b>	Ms. AS Groenewald (Acting) Mr. PA Williams (Appointed 1 June 2018 - Acting)
<b>Chief Finance Officer (CFO)</b>	Ms. AS Groenewald
<b>Registered office</b>	2 Van Riebeeck Street Laingsburg 6900
<b>Business address</b>	2 Van Riebeeck Street Laingsburg 6900
<b>Postal address</b>	Private Bag X4 Laingsburg 6900
<b>Bankers</b>	ABSA Bank Standard Bank
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Wilna Roux De Vries, De Wet & Krouwkam Attorneys

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

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## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 6 - 103, which have been prepared on the going concern basis, were approved by the Acting Accounting Officer on 3 May 2019 and were signed on its behalf by:



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**M. PA Williams**  
Municipal Manager

# Laingsburg Local Municipality

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## Accounting Officer's Report

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The accounting officers submit their report for the year ended 30 June 2018.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: rates and general services - all types of services rendered by the municipality, including the following; housing services - supply housing to the community and includes the rental of units owned by the municipality to public and staff; waste management services - the collection, disposal and purifying of waste, refuse and sewerage; electricity services - electricity is bought in bulk from eskom and distributed to the consumers by the municipality; and water services - supplying water to the public and operates principally in South Africa.

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

Net surplus of the municipality was R 5 704 452 (2017: deficit R 10 790 387).

### 2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 136 224 981 and that the municipality's current assets exceed its current liabilities by R2 064 978.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government continue to procure funding for the ongoing operations for the municipality through the provision of equitable share, and additionally the accounting officer will continue to tightly manage the cashflow of the municipality.

### 3. Subsequent events

The accounting officers are not aware of any significant matter or circumstance arising since the end of the financial year.

### 4. Accounting Officers' interest in contracts

The Accounting Officer's had no interest in any contracts.

### 5. Accounting policies

The annual financial statements prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

### 7. Corporate governance

#### General

The accounting officers is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officers supports the highest standards of corporate governance and the ongoing development of best practice.

### 8. Bankers

The municipality's bankers during the year was ABSA Bank and Standard Bank and did not change from the previous year.

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Officer's Report

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### 9. Auditors

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

### 10. Retirement benefit obligation

Management performed an actuarial valuation of the Employee Benefits of the employer's liability arising from the post-retirement healthcare subsidy payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

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## Statement of Financial Position as at 30 June 2018

	Note(s)	2018 R	2017 R
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	863 630	1 409 983
Current portion of long term receivables from exchange transactions	8	1 010	763
VAT receivable	9	2 846 463	1 637 372
Receivables from exchange transactions	10	2 137 412	1 872 758
Receivables from non-exchange transactions	11	7 845 964	2 663 362
Cash and cash equivalents	12	10 169 928	5 875 467
		<u>23 864 407</u>	<u>13 459 705</u>
<b>Non-Current Assets</b>			
Investment property	2	25 049 551	25 107 010
Property, plant and equipment	3	155 991 628	149 737 569
Intangible assets	4	441 564	708 130
Heritage assets	5	43 354	43 354
		<u>181 526 097</u>	<u>175 596 063</u>
<b>Total Assets</b>		<u>205 390 504</u>	<u>189 055 768</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	16	66 588	100 078
Payables from exchange transactions	19	7 794 800	6 722 715
Consumer deposits	20	590 700	551 017
Employee benefit obligation	6	289 416	204 744
Unspent conditional grants and receipts	17	11 217 755	4 653 296
Provisions	18	698 781	540 381
		<u>20 658 040</u>	<u>12 772 231</u>
<b>Non-Current Liabilities</b>			
Finance lease obligation	16	23 197	89 785
Employee benefit obligation	6	4 213 073	4 280 656
Provisions	18	7 751 611	4 947 139
		<u>11 987 881</u>	<u>9 317 580</u>
<b>Total Liabilities</b>		<u>32 645 921</u>	<u>22 089 811</u>
<b>Net Assets</b>		<u>172 744 583</u>	<u>166 965 957</u>
<b>Reserves</b>			
Capital replacement reserve	13	1 844 479	1 770 303
Donations and public contribution reserve	14	32 994 672	32 994 672
Housing development fund	15	1 680 451	1 680 451
Accumulated surplus		136 224 981	130 520 531
<b>Total Net Assets</b>		<u>172 744 583</u>	<u>166 965 957</u>

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## Statement of Financial Performance

	Note(s)	2018 R	2017 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods		442 373	103 985
Service charges	22	17 556 308	16 762 714
Rental of facilities and equipment	23	1 981 170	1 270 936
Interest earned - exchange transactions	21	250 827	47 959
Agency services	25	159 307	127 163
Licences and permits	26	1 353 032	1 123 781
Operational revenue	30	179 949	59 642
Interest earned - bank accounts and external investments	31	577 698	817 970
<b>Total revenue from exchange transactions</b>		<b>22 500 664</b>	<b>20 314 150</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	32	3 515 654	3 235 105
Interest earned - non-exchange transactions	32	255 738	313 389
Licences and permits	27	1 235	2 516
Actuarial gain		836 056	-
Interest earned - current assets	29	108 565	87 079
<b>Transfer revenue</b>			
Government grants and subsidies	34	29 065 699	26 569 059
Public contributions and donations	35	-	2 837 891
Fines, penalties and forfeits	24	27 725 662	22 198 171
<b>Total revenue from non-exchange transactions</b>		<b>61 508 609</b>	<b>55 243 210</b>
<b>Total revenue</b>	21	<b>84 009 273</b>	<b>75 557 360</b>
<b>Expenditure</b>			
Employee related costs	36	(21 692 897)	(19 050 586)
Remuneration of councillors	37	(2 752 529)	(2 650 914)
Inventory consumed	38	(2 246 265)	(901 603)
Depreciation and amortisation	39	(6 537 332)	(6 139 230)
Impairment loss/ Reversal of impairments	40	(615 824)	-
Finance costs	41	(965 541)	(708 508)
Lease rentals on operating lease	28	(73 135)	(76 155)
Debt Impairment	42	(18 545 021)	(21 307 608)
Bad debts written off		(1 960 450)	-
Bulk purchases	43	(7 316 598)	(7 590 365)
Contracted services	44	(4 586 404)	(6 811 959)
Transfers and subsidies	33	(434 397)	(1 929 934)
Loss on disposal of assets and liabilities	48	-	(6 216 468)
Actuarial losses		-	(50 188)
Operational cost	45	(10 578 428)	(12 914 229)
<b>Total expenditure</b>		<b>(78 304 821)</b>	<b>(86 347 747)</b>
<b>Surplus (deficit) for the year</b>		<b>5 704 452</b>	<b>(10 790 387)</b>



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## Statement of Changes in Net Assets

	Capital Replacement Reserve		Housing Development Fund		Donations and Public Contribution Reserve		Total reserves		Accumulated surplus		Total net assets	
	R	R	R	R	R	R	R	R	R	R	R	R
Opening balance as previously reported	1 770 303		1 680 451		32 994 672		36 445 426		125 074 176		161 519 602	
Adjustments												
Correction of errors	-		-		-		-		16 236 742		16 236 742	
<b>Balance at 01 July 2016 as restated*</b>	<b>1 770 303</b>		<b>1 680 451</b>		<b>32 994 672</b>		<b>36 445 426</b>		<b>141 310 918</b>		<b>177 756 344</b>	
Changes in net assets												
Surplus for the year	-		-		-		-		(10 790 387)		(10 790 387)	
<b>Total changes</b>	<b>1 770 303</b>		<b>1 680 451</b>		<b>32 994 672</b>		<b>36 445 426</b>		<b>130 520 529</b>		<b>166 965 955</b>	
<b>Balance at 01 July 2017</b>												
Changes in net assets												
Surplus for the year	74 176		-		-		74 176		5 704 452		5 704 452	
VAT on Grant Expenditure	74 176		-		-		74 176		-		74 176	
<b>Total changes</b>	<b>1 844 479</b>		<b>1 680 451</b>		<b>32 994 672</b>		<b>36 519 602</b>		<b>5 704 452</b>		<b>5 778 628</b>	
<b>Balance at 30 June 2018</b>									<b>136 224 981</b>		<b>172 744 583</b>	

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## Cash Flow Statement

	Note(s)	2018 R	2017 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		2 670 369	4 234 635
Sale of goods and services		24 905 262	21 111 426
Grants		35 630 158	48 399 654
Interest income		577 698	817 970
		<u>63 783 487</u>	<u>74 563 685</u>
<b>Payments</b>			
Employee costs		(24 061 158)	(20 771 727)
Suppliers		(24 582 695)	(50 518 957)
Finance costs		(15 958)	(685 491)
		<u>(48 659 811)</u>	<u>(71 976 175)</u>
<b>Net cash flows from operating activities</b>	47	<u>15 123 676</u>	<u>2 587 510</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(10 624 351)	(6 821 095)
Proceeds from sale of property, plant and equipment	3	-	46 201
Decrease/(increase) in non-current receivables		1 215	-
		<u>(10 623 136)</u>	<u>(6 774 894)</u>
<b>Cash flows from financing activities</b>			
Finance lease payments		(245 762)	44 179
Other cash item		39 683	54 517
		<u>(206 079)</u>	<u>98 696</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>4 294 461</u>	<u>(4 088 688)</u>
Cash and cash equivalents at the beginning of the year		<u>5 875 467</u>	<u>9 964 155</u>
<b>Cash and cash equivalents at the end of the year</b>	12	<u>10 169 928</u>	<u>5 875 467</u>

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Sale of goods	-	-	-	442 373	442 373	Note 62
Service charges	18 480 600	(954 900)	17 525 700	17 556 308	30 608	<10%
Rental of facilities and equipment	732 600	659 900	1 392 500	1 981 170	588 670	Note 62
Interest earned - exchange transactions	39 900	220 100	260 000	250 827	(9 173)	< 10%
Agency services	122 900	(4 900)	118 000	159 307	41 307	Note 62
Licences and permits	1 076 700	101 400	1 178 100	1 353 032	174 932	Note 62
Other revenue	171 600	14 100	185 700	179 949	(5 751)	< 10%
Interest earned - external investments and bank accounts	819 700	(21 100)	798 600	577 698	(220 902)	Note 62
<b>Total revenue from exchange transactions</b>	<b>21 444 000</b>	<b>14 600</b>	<b>21 458 600</b>	<b>22 500 664</b>	<b>1 042 064</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	4 150 800	(145 500)	4 005 300	3 515 654	(489 646)	Note 62
Interest earned - non-exchange transactions	-	-	-	255 738	255 738	Note 62
Licences and Permits (Non-exchange)	-	-	-	1 235	1 235	Note 62
Actuarial gains	-	-	-	836 056	836 056	Note 62
Interest earned - current assets	-	-	-	108 565	108 565	Note 62
<b>Transfer revenue</b>						
Government grants & subsidies	17 973 000	3 512 938	21 485 938	29 065 699	7 579 761	Note 62
Fines, Penalties and Forfeits	32 531 900	-	32 531 900	27 725 662	(4 806 238)	Note 62
<b>Total revenue from non-exchange transactions</b>	<b>54 655 700</b>	<b>3 367 438</b>	<b>58 023 138</b>	<b>61 508 609</b>	<b>3 485 471</b>	
<b>Total revenue</b>	<b>76 099 700</b>	<b>3 382 038</b>	<b>79 481 738</b>	<b>84 009 273</b>	<b>4 527 535</b>	
<b>Expenditure</b>						
Employee related costs	(23 818 600)	624 000	(23 194 600)	(21 692 897)	1 501 703	< 10%
Remuneration of councillors	(2 790 300)	(138 000)	(2 928 300)	(2 752 529)	175 771	< 10%
Inventory consumed	(951 460)	209 460	(742 000)	(2 246 265)	(1 504 265)	Note 62
Depreciation and amortisation	(8 114 000)	(2 400)	(8 116 400)	(6 537 332)	1 579 068	Note 62
Impairment loss/ Reversal of impairments	-	-	-	(615 824)	(615 824)	Note 62
Finance costs	(6 700)	-	(6 700)	(965 541)	(958 841)	Note 62
Lease rentals on operating lease	-	-	-	(73 135)	(73 135)	Note 62
Debt Impairment	-	(25 730 000)	(25 730 000)	(18 545 021)	7 184 979	Note 62
Bad debts written off	-	-	-	(1 960 450)	(1 960 450)	Note 62
Bulk purchases	(6 854 200)	(795 800)	(7 650 000)	(7 316 598)	333 402	< 10%
Contracted Services	(5 602 700)	534 700	(5 068 000)	(4 586 404)	481 596	< 10%

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Transfers and Subsidies	(446 990)	135 590	(311 400)	(434 397)	(122 997)	Note 62
Operational cost	(37 439 750)	23 673 312	(13 766 438)	(10 578 428)	3 188 010	Note 62
<b>Total expenditure</b>	<b>(86 024 700)</b>	<b>(1 489 138)</b>	<b>(87 513 838)</b>	<b>(78 304 821)</b>	<b>9 209 017</b>	
<b>Operating surplus</b>	<b>(9 925 000)</b>	<b>1 892 900</b>	<b>(8 032 100)</b>	<b>5 704 452</b>	<b>13 736 552</b>	
Transfers and subsidies - capital	8 654 000	7 462 505	16 116 505	-	(16 116 505)	Note 62
<b>Surplus before taxation</b>	<b>(1 271 000)</b>	<b>9 355 405</b>	<b>8 084 405</b>	<b>5 704 452</b>	<b>(2 379 953)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(1 271 000)</b>	<b>9 355 405</b>	<b>8 084 405</b>	<b>5 704 452</b>	<b>(2 379 953)</b>	

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	1 999 984	-	1 999 984	863 630	(1 136 354)	Note 62
Current portion of long term receivables from exchange transactions	-	-	-	1 010	1 010	< 10%
Receivables from non-exchange transactions	15 320 359	(15 320 359)	-	7 845 964	7 845 964	Note 62
VAT receivable	-	-	-	2 846 463	2 846 463	Note 62
Receivables from exchange transactions	20 827 719	(14 111 291)	6 716 428	2 137 412	(4 579 016)	Note 62
Cash and cash equivalents	22 908 489	(21 602 672)	1 305 817	10 169 928	8 864 111	Note 62
	<b>61 056 551</b>	<b>(51 034 322)</b>	<b>10 022 229</b>	<b>23 864 407</b>	<b>13 842 178</b>	
<b>Non-Current Assets</b>						
Investment property	7 444 580	(3 172 035)	4 272 545	25 049 551	20 777 006	Note 62
Property, plant and equipment	170 740 141	(4 197 131)	166 543 010	155 991 628	(10 551 382)	Note 62
Intangible assets	250 196	271 455	521 651	441 564	(80 087)	Note 62
Heritage assets	46 772	(3 418)	43 354	43 354	-	
	<b>178 481 689</b>	<b>(7 101 129)</b>	<b>171 380 560</b>	<b>181 526 097</b>	<b>10 145 537</b>	
<b>Total Assets</b>	<b>239 538 240</b>	<b>(58 135 451)</b>	<b>181 402 789</b>	<b>205 390 504</b>	<b>23 987 715</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	66 588	66 588	Note 62
Payables from exchange transactions	63 811 934	(57 380 434)	6 431 500	7 794 796	1 363 296	Note 62
Consumer deposits	317 338	191 637	508 975	590 700	81 725	Note 62
Employee benefit obligation	-	-	-	289 416	289 416	Note 62
Unspent conditional grants and receipts	-	-	-	11 217 755	11 217 755	Note 62
Provisions	9 276 839	(8 531 714)	745 125	698 781	(46 344)	< 10%
	<b>73 406 111</b>	<b>(65 720 511)</b>	<b>7 685 600</b>	<b>20 658 036</b>	<b>12 972 436</b>	
<b>Non-Current Liabilities</b>						
Finance lease obligation	-	-	-	23 197	23 197	Note 62
Employee benefit obligation	-	-	-	4 213 073	4 213 073	Note 62
Provisions	-	8 794 793	8 794 793	7 751 611	(1 043 182)	Note 62
	<b>-</b>	<b>8 794 793</b>	<b>8 794 793</b>	<b>11 987 881</b>	<b>3 193 088</b>	
<b>Total Liabilities</b>	<b>73 406 111</b>	<b>(56 925 718)</b>	<b>16 480 393</b>	<b>32 645 917</b>	<b>16 165 524</b>	
<b>Net Assets</b>	<b>166 132 129</b>	<b>(1 209 733)</b>	<b>164 922 396</b>	<b>172 744 587</b>	<b>7 822 191</b>	

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Capital replacement reserve	-	-	-	1 844 479	1 844 479	
Housing development fund reserve	2 765 435	(2 765 435)	-	1 680 451	1 680 451	
Donations and public contributions reserve	-	-	-	32 994 672	32 994 672	
Accumulated surplus	163 366 694	1 555 702	164 922 396	136 224 985	(28 697 411)	Note 62
<b>Total Net Assets</b>	<b>166 132 129</b>	<b>(1 209 733)</b>	<b>164 922 396</b>	<b>172 744 587</b>	<b>7 822 191</b>	

# Laingsburg Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation	4 150 800	(1 387 143)	2 763 657	3 871 963	1 108 306	Note 62
Service charges	18 480 600	(6 139 007)	12 341 593	23 809 121	11 467 528	Note 62
Grants	26 627 000	10 975 443	37 602 443	33 068 704	(4 533 739)	Note 62
Interest income	859 600	199 000	1 058 600	577 698	(480 902)	Note 62
Other receipts	34 635 700	(24 959 500)	9 676 200	-	(9 676 200)	Note 62
	<b>84 753 700</b>	<b>(21 311 207)</b>	<b>63 442 493</b>	<b>61 327 486</b>	<b>(2 115 007)</b>	
<b>Payments</b>						
Suppliers and employees	(77 457 010)	25 456 472	(52 000 538)	(45 441 534)	6 559 004	Note 62
Finance costs	(6 700)	-	(6 700)	(952 585)	(945 885)	Note 62
Transfers and grants	(446 990)	135 590	(311 400)	-	311 400	Note 62
	<b>(77 910 700)</b>	<b>25 592 062</b>	<b>(52 318 638)</b>	<b>(46 394 119)</b>	<b>5 924 519</b>	
<b>Net cash flows from operating activities</b>	<b>6 843 000</b>	<b>4 280 855</b>	<b>11 123 855</b>	<b>14 933 367</b>	<b>3 809 512</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(9 115 000)	(7 002 505)	(16 117 505)	(8 269 460)	7 848 045	Note 62
Decrease (increase) in non-current investments	-	400 000	400 000	-	(400 000)	Note 62
Decrease/(increase) in non-current receivables	-	-	-	(247)	(247)	< 10%
<b>Net cash flows from investing activities</b>	<b>(9 115 000)</b>	<b>(6 602 505)</b>	<b>(15 717 505)</b>	<b>(8 269 707)</b>	<b>7 447 798</b>	
<b>Cash flows from financing activities</b>						
Finance lease receipts	-	-	-	(100 078)	(100 078)	Note 62
Increase (decrease) in consumer deposits	24 000	-	24 000	39 683	15 683	Note 62
<b>Net cash flows from financing activities</b>	<b>24 000</b>	<b>-</b>	<b>24 000</b>	<b>(60 395)</b>	<b>(84 395)</b>	
Net increase/(decrease) in cash and cash equivalents	(2 248 000)	(2 321 650)	(4 569 650)	6 603 265	11 172 915	
Cash and cash equivalents at the beginning of the year	5 875 467	-	5 875 467	5 875 467	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>3 627 467</b>	<b>(2 321 650)</b>	<b>1 305 817</b>	<b>12 478 732</b>	<b>11 172 915</b>	

Material differences between the adjustment budget and actual amounts are deemed material if it differs with more than 10%.

Refer to note 62 for these material differences explained.

# Laingsburg Local Municipality

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## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (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.

Assets, liabilities, revenues and expenses have not been offset, except when 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.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Financial values are rounded to the nearest one Rand. No foreign exchange transactions are included in the annual financial statements.

#### 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 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

#### 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:

##### Receivables

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

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

##### Allowance for slow moving, damaged and obsolete stock

An assessment is made of net realisable value at the end of each reporting period. A write down of inventory to the lower of cost or net realisable value is subsequently provided. Management has 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.



# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 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.

#### 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 recoverable amount assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

#### Value in use of cash generating assets:

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

#### Value in use of non-cash generating 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. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

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

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm and on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives and decrease the depreciation charge where useful lives are more than previously estimated useful lives.

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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

#### Post retirement and other long-term 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 post retirement and longterm obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

#### Effective interest rate

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

#### Allowance for impairment of financial assets

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.

#### Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where accounting errors 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.

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017. The municipality has realigned items in the annual financial statements with the Item Segment of mSCOA. The result of this process was a reclassification and naming of items in the annual financial statements. The reclassification of 2017 audited amounts is set out in Note 53 of the annual financial statements.

#### Amended disclosure policy

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the annual financial statements. The principle amendments to matters disclosed in the current annual financial statements include errors.

### 1.5 Investment property

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

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

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

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

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.5 Investment property (continued)

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

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

#### Cost model

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

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	20 - 30 years

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

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

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

- Property that is owner-occupied, for example, a building that is occupied by the entity for administrative purposes or to supply goods and services;
- Property, i.e. housing, rented to employees, regardless of whether the rent is market related or not; and
- Property held to provide a social service and which also generates cash inflows, for example, an entity rents out one of its properties (buildings) to other properties on an ad-hoc basis. The rental revenue received is incidental to the purpose for which the property is held; therefore it is treated as property, plant and equipment and not investment property.

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

### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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## Accounting Policies

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

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

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

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

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

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

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

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

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

---

Item	Depreciation method	Average useful life in years
Land	Straight line	Indefinite
Buildings	Straight line	10 - 100
Plant and equipment	Straight line	3 - 33
Furniture and fixtures	Straight line	1 - 40
General vehicles	Straight line	6 - 39
Specialised vehicles	Straight line	12
Computer hardware / equipment	Straight line	5 - 24
Cemeteries	Straight line	15 - 95
Sport fields and stadia	Straight line	15 - 95
Museums and art galleries	Straight line	15 - 60
Halls	Straight line	15 - 95
Libraries	Straight line	30 - 95
Parks and gardens	Straight line	20 - 50
Road transport	Straight line	10 - 60
Electricity supply	Straight line	45 - 60
Water supply	Straight line	4 - 60
Sanitation and refuse	Straight line	15 - 60
Other infrastructure	Straight line	15 - 60

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

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.

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## Accounting Policies

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

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

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

### 1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

### 1.8 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

Intangible assets are initially measured 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.

Intangible assets are measured 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.

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.

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## Accounting Policies

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### 1.8 Intangible assets (continued)

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

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Item	Depreciation method	Average useful life in years
Computer hardware / equipment	Straight line	5 - 25

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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 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).

### 1.9 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note ).

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

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset 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 a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).



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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.10 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.

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

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

A financial asset is:

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

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

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

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

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## Accounting Policies

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### 1.10 Financial instruments (continued)

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 an 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 an 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 unissued 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 an 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 an entity.

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.



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### 1.10 Financial instruments (continued)

#### Classification

The municipality 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:

<b>Class</b>	<b>Category</b>
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Long-term receivables from exchange transactions	Financial asset measured at amortised cost

The municipality 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:

<b>Class</b>	<b>Category</b>
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and subsidies	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The municipality 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.

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### 1.10 Financial Instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality 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, an 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.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### 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.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

The municipality 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:

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### 1.10 Financial instruments (continued)

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.

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.

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### 1.10 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

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

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

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

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### 1.11 Statutory receivables

#### Identification

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.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

#### Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

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### 1.11 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

### Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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 receivable; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.12 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.



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### 1.12 Leases (continued)

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

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.

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

Income for leases is disclosed under revenue in the 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.

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

Any contingent rent is expected in the period in which they are incurred.

### 1.13 Inventories

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

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### 1.13 Inventories (continued)

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 weighted average cost 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.

### 1.14 Impairment of cash-generating assets

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash generating assets are as follow:

Cash-generating assets are assets that are held with the primary objective of generating a commercial return. Assets will generate a commercial return when the municipality intends to generate positive cash flow from the assets similar to a profit-orientated identity and not held primarily for service delivery.

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

#### 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

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.



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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

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### 1.14 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.

### 1.15 Impairment of non-cash-generating assets

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

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash generating assets are as follow:

Cash-generating assets are assets that are held with the primary objective of generating a commercial return. Assets will generate a commercial return when the municipality intends to generate positive cash flow from the assets similar to a profit-orientated identity and not held primarily for service delivery.

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

#### 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.

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### 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.

### 1.16 Employee benefits

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

The municipality 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. A present obligation exists when the entity has no realistic alternative but to make the payments.

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### 1.16 Employee benefits (continued)

#### Post-employment benefits

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

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

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

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality account for the plan as if it was a defined contribution plan.

#### Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the municipality treats such a plan as a defined contribution plan unless the municipality will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the municipality retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

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

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

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

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

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



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### 1.16 Employee benefits (continued)

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

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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### 1.16 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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 [OR is not] presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

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## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.



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## Accounting Policies

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### 1.16 Employee benefits (continued)

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

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

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## Accounting Policies

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### 1.17 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.19 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

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

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## Accounting Policies

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### 1.19 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.

#### 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.

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

### 1.20 Revenue from non-exchange transactions

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.

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

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

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

#### Recognition

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

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

# Laingsburg Local Municipality

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

#### Measurement

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

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

#### Property rates

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

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

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

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

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

#### Transfers

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

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

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

#### Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

#### 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.

# Laingsburg Local Municipality

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## Accounting Policies

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### 1.20 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.

#### Services in-kind

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

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

#### Concessionary loans received

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

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

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

### 1.21 Investment income

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

### 1.22 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.

### 1.23 Comparative figures

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

### 1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.25 Fruitless and wasteful expenditure

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

# Laingsburg Local Municipality

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## Accounting Policies

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### 1.25 Fruitless and wasteful expenditure (continued)

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.

### 1.26 Irregular expenditure

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

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

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

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

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

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

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

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

### 1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.



# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.28 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, funds are transferred from the accumulated surplus/(deficit) to the CRR. The cash funds in the CRR can only be utilised for the purpose of purchasing / construction of items of property, plant and equipment and may not be used for the maintenance of these items. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

#### Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

#### Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

### 1.29 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are debited / credited against accumulated surplus / deficit. Prior year adjustments, relating to income and expenditure, are debited / credited against accumulated surplus when retrospective adjustments are made.

### 1.30 Budget information

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts is disclosed as separate additional financial statements, namely Statements of Comparison of Budget and Actual Amounts.

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

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

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



# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.30 Budget information (continued)

Explanations for differences between the approved and final budget are included in the Notes to the Annual Financial Statements.

Explanations for material differences between the final budget amounts and actual amounts are included in the Notes to the Annual Financial Statements.

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 disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

### 1.31 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.

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.

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

### 1.32 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.

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	25 898 347	(848 796)	25 049 551	25 898 347	(791 337)	25 107 010

### Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	25 107 010	(57 459)	25 049 551

### Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	25 164 469	(57 459)	25 107 010

### Pledged as security

None of the above Investment Properties have been pledged as security.

### Details of property

#### Land

Terms and conditions  
- Cost

20 328 847      20 328 847

#### Buildings

Terms and conditions  
- Cost  
- Accumulated depreciation

5 569 500  
(848 796)  
**4 720 704**

5 569 500  
(791 337)  
**4 778 163**

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.

### Amounts recognised in surplus or deficit

Rental revenue from Investment property	1 261 904	907 484
<b>From Investment property that generated rental revenue</b>		
Direct operating expenses (excluding repairs and maintenance)		(166 645)
<b>From Investment property that did not generate rental revenue</b>		
Repairs and maintenance	14 936	301 942

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Property, plant and equipment

	2018		2017			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	15 374 641	-	15 374 641	15 374 641	-	15 374 641
Buildings	9 558 460	(7 244 687)	2 313 773	9 558 460	(7 159 094)	2 399 366
Plant and machinery	3 373 063	(2 468 492)	904 571	3 373 063	(1 821 186)	1 551 877
Furniture and fixtures	2 326 881	(1 872 888)	453 993	2 316 615	(1 368 441)	948 174
Motor vehicles	5 584 792	(2 349 535)	3 235 257	5 584 792	(2 004 461)	3 580 331
Infrastructure	199 445 210	(98 583 980)	100 861 230	197 448 007	(94 116 857)	103 331 150
Community	21 866 096	(12 424 262)	9 441 834	21 866 096	(12 013 321)	9 852 775
Landfill site	8 089 975	(1 614 885)	6 475 090	5 780 930	(1 337 149)	4 443 781
Infrastructure under construction	16 771 746	-	16 771 746	8 009 421	-	8 009 421
Finance leases	454 038	(294 545)	159 493	454 038	(207 985)	246 053
<b>Total</b>	<b>282 844 902</b>	<b>(126 853 274)</b>	<b>155 991 628</b>	<b>269 766 063</b>	<b>(120 028 494)</b>	<b>149 737 569</b>

# Lainburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Total
Land	15 374 641	-	-	-	-	15 374 641
Buildings	2 399 366	-	-	(85 593)	-	2 313 773
Plant and machinery	1 551 877	-	-	(304 992)	(342 314)	904 571
Furniture and fixtures	948 174	10 266	-	(259 379)	(245 068)	453 993
Motor vehicles	3 580 331	-	-	(316 632)	(28 442)	3 235 257
Infrastructure	103 331 150	1 997 444	-	(4 467 364)	-	100 861 230
Community	9 852 775	-	-	(410 941)	-	9 441 834
Landfill site	4 443 781	-	2 309 045	(277 736)	-	6 475 090
Infrastructure under construction	8 009 421	8 762 325	-	-	-	16 771 746
Finance leases	246 053	-	-	(86 560)	-	159 493
	<b>149 737 569</b>	<b>10 770 035</b>	<b>2 309 045</b>	<b>(6 209 197)</b>	<b>(615 824)</b>	<b>155 991 628</b>

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment reversal	Total
Land	21 569 471	-	(6 194 830)	-	-	-	15 374 641
Buildings	2 474 049	10 577	-	-	(85 260)	-	2 399 366
Plant and machinery	1 862 580	-	-	-	(310 703)	-	1 551 877
Furniture and fixtures	956 380	240 580	-	-	(248 786)	-	948 174
Motor vehicles	2 435 322	1 400 000	-	-	(254 991)	-	3 580 331
Infrastructure	103 416 026	4 216 302	(57 839)	-	(4 254 978)	21 639	103 331 150
Community	10 129 516	158 352	-	-	(435 093)	-	9 852 775
Landfill Site	2 714 832	-	-	1 898 626	(169 677)	-	4 443 781
Assets under construction	7 359 821	649 600	-	-	-	-	8 009 421
Finance leases	189 626	145 684	-	-	(89 257)	-	246 053
	<b>153 107 623</b>	<b>6 821 095</b>	<b>(6 262 669)</b>	<b>1 898 626</b>	<b>(5 848 745)</b>	<b>21 639</b>	<b>149 737 569</b>

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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

#### Pledged as security

None of the above property, plant and equipment has been pledged as security.

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

	Included within Infrastructure	Included within Community	Total
Opening balance	6 627 704	1 381 718	8 009 422
Additions/capital expenditure	8 762 325	-	8 762 325
	<u>15 390 029</u>	<u>1 381 718</u>	<u>16 771 747</u>

#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	5 978 103	1 381 718	7 359 821
Additions/capital expenditure	649 601	-	649 601
	<u>6 627 704</u>	<u>1 381 718</u>	<u>8 009 422</u>

#### 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	810 867	1 580 109
Labour	59 640	15 976
Material	122 686	205 754
	<u>993 193</u>	<u>1 801 839</u>

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.

### 4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 686 053	(1 244 489)	441 564	1 686 053	(977 923)	708 130

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	708 130	(266 566)	441 564

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 4. Intangible assets (continued)

#### Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	974 696	(266 566)	708 130

#### Pledged as security

None of the above intangible assets have been pledged as security.

### 5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	43 354	-	43 354	43 354	-	43 354

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	43 354	43 354

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Historical monuments	43 354	43 354

#### Pledged as security

None of the above heritage assets have been pledged as security.

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Employee benefit obligations</b>		
<b>Defined benefit plan</b>		
<b>Post retirement medical benefit plan</b>		
<p>The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.</p>		
<p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Arch Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.</p>		
<p>The plan is post employment medical aid benefit.</p>		
<b>Long service awards</b>		
<p>A long service award is payable after 10 years of continuous service and every 5 years thereafter to employees. Furthermore a retirement gift is payable on retirement to employees with service of 10 years or more. The provision is an estimate of the long service awards based on historical staff turnover, taking into account management's estimate of the likelihood that staff may leave before long service awards become due. No other long service benefits are provided to employees.</p>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(3 408 535)	(3 509 000)
Long service awards	(1 093 954)	(976 400)
	<b>(4 502 489)</b>	<b>(4 485 400)</b>
Non-current liabilities	(4 213 073)	(4 280 656)
Current liabilities	(289 416)	(204 744)
	<b>(4 502 489)</b>	<b>(4 485 400)</b>
<b>Changes in the present value of the Post Employment Medical Aid obligation are as follows:</b>		
Opening balance	3 509 000	3 029 000
Net expense recognised in the statement of financial performance	(100 465)	480 000
	<b>3 408 535</b>	<b>3 509 000</b>
<b>Net expense recognised in the statement of financial performance: Post Employment Medical Aid</b>		
Current service cost	137 000	120 000
Interest cost	354 000	302 000
Actuarial (gains) / losses	(833 367)	120 464
Benefits paid	(54 156)	(62 464)
Policy correction	296 058	-
	<b>(100 465)</b>	<b>480 000</b>



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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>6. Employee benefit obligations (continued)</b>		
<b>Changes in the present value of the Long Service Awards obligation are as follows:</b>		
Opening balance	976 400	959 694
Net expense recognised in the statement of financial performance	117 554	16 706
	<u>1 093 954</u>	<u>976 400</u>

### Net expense recognised in the statement of financial performance: Long Service Awards

Current service cost	80 954	84 299
Interest cost	81 897	79 927
Actuarial (gains)	(2 689)	(70 276)
Expected benefits investing	(42 608)	(77 244)
	<u>117 554</u>	<u>16 706</u>

### Key assumptions used

#### Assumptions used at the reporting date:

Discount rates used (post retirement medical aid)	9,67 %	9,75 %
Health care cost inflation rate (post retirement medical aid)	7,44 %	8,04 %
Net-of-health-care-cost-inflation discount rate (post retirement medical aid)	2,08 %	1,58 %
Maximum subsidy inflation rate (post retirement medical aid)	5,21 %	3,52 %
Net-of-maximum-subsidy-inflation discount rate (post retirement medical aid)	4,24 %	6,02 %
Discount rates used (long service awards)	8,56 %	- %
General earnings inflation rate (long service awards)	6,17 %	- %
Net effective discount rate (long service awards)	2,25 %	- %

The next contribution rate increase is assumed to occur at 1 January 2019 (post retirement medical aid).

The earnings used in the valuation include an increase on 1 July 2018 of 7.00% as per the SALGBC Circular No.: 6/2018. The next earnings increase is assumed to take place on 1 July 2019 (long service awards).

### Other assumptions

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

	One percentage point increase	One percentage point increase
Effect on the aggregate of the service cost and interest cost	-	22 000
Effect on defined benefit obligation	-	136 000

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

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	3 408 537	3 509 000	3 029 000	3 877 000	3 901 000

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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Inventories</b>		
Materials and supplies	446 205	643 453
Housing stock		8 103
Consumables	404 490	738 827
Water	12 935	19 600
	<u>863 630</u>	<u>1 409 983</u>
Inventories recognised as an expense during the year	2 246 265	901 603
<b>Inventory pledged as security</b>		
No inventory was pledged as security.		
<b>8. Current portion of long term receivables from exchange transactions</b>		
Housing - Self build	12 135	13 350
Allowance for impairment	(11 125)	(12 587)
	<u>1 010</u>	<u>763</u>
As from 1 January 2006 no loan agreements are entered into for the sale of houses. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into.		
<b>9. VAT receivable</b>		
VAT	<u>2 846 463</u>	<u>1 637 372</u>
The municipality is registered for VAT on the payment basis.		
<b>10. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	1 630 519	1 238 156
Water	818 997	654 388
Sewerage	922 086	733 146
Refuse	432 403	346 592
Housing rental	660 243	504 472
	<u>4 464 248</u>	<u>3 476 754</u>
<b>Less: Allowance for impairment</b>		
Electricity	(556 456)	(274 517)
Water	(499 606)	(374 734)
Sewerage	(624 479)	(458 600)
Refuse	(224 764)	(147 593)
Housing rental	(421 531)	(348 552)
	<u>(2 326 836)</u>	<u>(1 603 996)</u>
<b>Net balance</b>		
Electricity	1 074 063	963 639
Water	319 391	279 654
Sewerage	297 607	274 546
Refuse	207 639	198 999
Housing rental	238 712	155 920
	<u>2 137 412</u>	<u>1 872 758</u>

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>10. Receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	710 914	726 748
31 - 60 days	84 436	28 203
61 - 90 days	49 302	109 646
91 - 120 days	82 500	43 178
> 120 days	703 367	330 380
Less: Allowance for impairment	(556 456)	(274 516)
	<b>1 074 063</b>	<b>963 639</b>
<b>Water</b>		
Current (0 -30 days)	133 555	114 611
31 - 60 days	33 588	26 033
61 - 90 days	27 897	37 118
91 - 120 days	50 367	24 941
> 120 days	573 590	451 684
Less: Allowance for impairment	(499 606)	(374 733)
	<b>319 391</b>	<b>279 654</b>
<b>Sewerage</b>		
Current (0 -30 days)	113 047	100 281
31 - 60 days	41 017	31 099
61 - 90 days	34 352	36 550
91 - 120 days	31 329	28 117
> 120 days	702 341	537 099
Less: Allowance for impairment	(624 479)	(458 600)
	<b>297 607</b>	<b>274 546</b>
<b>Refuse</b>		
Current (0 -30 days)	106 339	82 197
31 - 60 days	20 045	19 762
61 - 90 days	17 263	22 528
91 - 120 days	23 402	17 969
> 120 days	265 354	204 136
Less: Allowance for impairment	(224 764)	(147 593)
	<b>207 639</b>	<b>198 999</b>
<b>Housing rental</b>		
Current (0 -30 days)	53 325	54 025
31 - 60 days	29 882	24 200
61 - 90 days	21 174	18 365
91 - 120 days	23 923	14 988
> 120 days	531 939	392 894
Less: Allowance for impairment	(421 531)	(348 552)
	<b>238 712</b>	<b>155 920</b>

# Laingsburg Local Municipality

(Registration number WC051)

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>10. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	448 998	255 315
31 - 60 days	87 818	82 877
61 - 90 days	56 822	84 562
91 - 120 days	56 725	71 075
> 120 days	1 036 564	1 349 045
	<u>1 686 927</u>	<u>1 842 874</u>
Less: Allowance for impairment	(985 228)	(1 198 550)
	<u><b>701 699</b></u>	<u><b>644 324</b></u>
<b>Business</b>		
Current (0 -30 days)	530 005	577 581
31 - 60 days	42 152	27 741
61 - 90 days	18 231	59 511
91 - 120 days	38 543	9 339
> 120 days	387 998	35 110
	<u>1 016 929</u>	<u>709 282</u>
Less: Allowance for impairment	(309 772)	(25 107)
	<u><b>707 157</b></u>	<u><b>684 175</b></u>
<b>Total</b>		
Current (0 -30 days)	1 117 180	1 077 861
31 - 60 days	208 968	129 297
61 - 90 days	149 988	224 207
91 - 120 days	211 521	129 194
> 120 days	2 776 591	1 916 195
	<u>4 464 248</u>	<u>3 476 754</u>
Less: Allowance for impairment	(2 326 836)	(1 603 996)
	<u><b>2 137 412</b></u>	<u><b>1 872 758</b></u>
<b>Less: Allowance for Impairment</b>		
Current (0 -30 days)	(20 119)	(18 287)
31 - 60 days	(7 763)	(7 650)
61 - 90 days	(7 127)	(6 549)
91 - 120 days	(7 578)	(7 066)
> 120 days	(2 284 249)	(1 564 444)
	<u><b>(2 326 836)</b></u>	<u><b>(1 603 996)</b></u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(1 603 996)	(1 381 639)
Contributions to allowance	(750 134)	(249 652)
Reversal of allowance	27 294	27 295
	<u><b>(2 326 836)</b></u>	<u><b>(1 603 996)</b></u>
<b>Credit quality of receivables from exchange transactions</b>		
The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>10. Receivables from exchange transactions (continued)</b>		
<b>Receivables from exchange transactions past due but not impaired</b>		
Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2018, R - (2017: R 255 370) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	-	51 169
2 months past due	-	117 110
3 months past due	-	8 791
<b>Receivables from exchange transactions impaired</b>		
The amount of the provision was R 2 326 836 as of 30 June 2018 (2017: R 1 603 996).		
The ageing of these loans is as follows:		
0 to 3 months	35 009	32 485
3 to 6 months	43 486	13 076
Over 6 months	2 248 341	1 558 435
<b>11. Receivables from non-exchange transactions</b>		
Fines	38 969 451	17 422 226
Assessment rates	3 308 043	2 462 758
Other receivables	592 847	86 735
Sundry deposits	1 808 816	1 701 193
Allowance for impairment	(36 833 193)	(19 009 550)
	<b>7 845 964</b>	<b>2 663 362</b>

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	2018 R	2017 R
<b>11. Receivables from non-exchange transactions (continued)</b>		
<b>Credit quality of receivables from non-exchange transactions</b>		
The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
<b>Receivables from non-exchange transactions</b>		
<b>Assessment rates: Gross balance</b>		
Current	372 096	27 772
31 - 60 days	44 339	21 184
61 - 90 days	29 018	23 666
91 - 120 days	21 510	19 952
> 120 days	2 841 080	2 370 184
	<b>3 308 043</b>	<b>2 462 758</b>
<b>Assessment rates: Allowance for impairment</b>		
Current	(298)	(22 125)
31 - 60 days	(6 919)	(5 692)
61 - 90 days	(5 505)	(6 794)
91 - 120 days	(4 660)	(5 008)
> 120 days	(2 759 086)	(2 294 174)
	<b>(2 776 468)</b>	<b>(2 333 793)</b>
<b>Assessment rates: Net balance</b>		
Current	371 798	5 647
31 - 60 days	37 420	15 492
Group 3	23 513	16 872
Other	16 850	14 944
Other	81 994	76 010
	<b>531 575</b>	<b>128 965</b>
<b>Fines</b>		
Gross balance	38 969 451	17 422 226
Allowance for impairment	(34 008 756)	(15 361 282)
	<b>4 960 695</b>	<b>2 060 944</b>

Impairment of fines is based on a percentage of the amounts that were recovered in the previous financial year in relation to the fines that were issued.

Fines are written off after a 24 month period after summons was issued.

### 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 30 June 2018, R 79 971 (2017: R 13 457) were past due but not impaired.

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

1 month past due	27 027	4 141
2 months past due	16 804	4 490
3 months past due	36 140	4 826

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## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 11. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions impaired

The amount of the provision was R 2 776 468 as of 30 June 2018 (2017: R 2 333 793).

The ageing of these loans is as follows:

0 to 3 months	17 382	39 619
3 to 6 months	27 215	26 421
Over 6 months	2 731 871	2 267 753

#### Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	(19 009 550)	(34 549 472)
Impairment loss on assessment rates	-	(637 299)
Reversal of impairment loss on assessment rates	831 921	-
Impairment loss on fines	(18 647 474)	16 167 828
Impairment loss on other receivables	(8 090)	-
Reversal of impairment loss on other receivables	-	9 393
	<u>(36 833 193)</u>	<u>(19 009 550)</u>

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 050	2 050
Bank balances	8 630 377	4 027 992
Short-term deposits	1 537 501	1 845 425
	<u>10 169 928</u>	<u>5 875 467</u>

For the purposes of the statement of financial position and the cash flow statement, cash and cash equivalents include cash on hand.

Call deposits are investments with a maturity period of less than three months and earn interest at rates varying from 4-6% per annum and are ring fenced and attributable to the Capital Replacement Reserve.

The municipality has an ABSA account for fine receipts which are swepted daily and transferred to the current account. The ABSA bank account number is 4074336029.

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
ABSA Laingsburg - Current Account - 25040140874	8 621 784	571 975	1 416 546	8 549 854	898 008	1 342 657
ABSA Laingsburg - Call Account - 5064314329	386 002	362 713	3 566 402	386 002	362 713	3 566 402
Standard Bank - Money Market Account - 2887048000	1 156 048	1 087 257	5 053 046	1 156 048	1 487 257	5 053 046
Standard Bank - Current Account - 203247663000	80 523	3 856 017	-	80 523	3 129 984	-
Standard Bank - Sweeping Account - 203247671000	(165)	(4 545)	-	(4 545)	(4 545)	-
<b>Total</b>	<u>10 244 192</u>	<u>5 873 417</u>	<u>10 035 994</u>	<u>10 167 882</u>	<u>5 873 417</u>	<u>9 962 105</u>



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	2018 R	2017 R
<b>13. Capital replacement reserve</b>		
This reserve is a reserve to finance future capital and is fully invested in ring-fenced financial instruments. The Capital Replacement Reserve is included in accumulated surplus as required by GRAP 1.89.		
Balance previously reported	1 770 303	1 770 303
VAT on grant expenditure	74 176	-
	<u>1 844 479</u>	<u>1 770 303</u>
<b>14. Donations and public contributions</b>		
This reserve is a reserve to finance only certain approved future expenditure and is fully invested in ring-fenced financial instruments. The Donations and Public Contributions Reserve is included in accumulated surplus as required by GRAP 1.89.		
Balance previously reported	<u>32 994 672</u>	<u>32 994 672</u>
<b>15. Housing development fund</b>		
Loans extinguished by Government on 1 April 1998	<u>1 680 451</u>	<u>1 680 451</u>
<b>The housing development fund is represented by the following assets and liabilities</b>		
Revaluation of assets	<u>1 680 451</u>	<u>1 680 451</u>

The Housing Development Fund has its origin from loans extinguished by Government on 1 April 1998 and the net of housing transactions appropriated to the fund thereafter. No separate unappropriate surplus account for housing transactions was kept.

The Housing Development Fund contains all proceeds from housing developments, which include rental income and sale of houses. Monies standing to the credit of the housing development fund are used only for the funding of housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

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	2018 R	2017 R
<b>16. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	71 503	113 034
- in second to fifth year inclusive	24 816	96 320
	<u>96 319</u>	<u>209 354</u>
less: future finance charges	(6 534)	(19 491)
<b>Present value of minimum lease payments</b>	<u><b>89 785</b></u>	<u><b>189 863</b></u>
<b>Present value of minimum lease payments due</b>		
- within one year	66 588	100 078
- in second to fifth year inclusive	23 197	89 785
	<u><b>89 785</b></u>	<u><b>189 863</b></u>
Non-current liabilities	23 197	89 785
Current liabilities	66 588	100 078
	<u><b>89 785</b></u>	<u><b>189 863</b></u>

The average lease term was 5 years.

Interest rates are fixed at the contract date. All leases escalate at 10% - 15% p.a

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Department of Environmental Affairs and Tourism	82 106	82 106
Department of Water Affairs (DWA)	336 146	336 146
Flood damage	-	(1)
Human Settlement Development Grant	198 000	-
Local Government Graduate Internship Grant	103 713	48 811
Local Government: Local Municipalities	112 140	112 140
Municipal Drought Support Grant	7 800 000	500 000
Municipal Electrical Master Plan	250 000	250 000
Municipal Infrastructure Grant (MIG)	1 120 248	2 745 600
Municipal Service Delivery and Capacity Building Grant	300 000	300 000
Overberg Water War on Leaks	165 370	-
Provincial: Municipal Finance Improvement Programme Grant	630 032	-
Western Cape Financial Management Capacity Grant	120 000	120 000
Western Cape Financial Management Support Grant	-	158 494
	<u><b>11 217 755</b></u>	<u><b>4 653 296</b></u>

### Movement during the year

Balance at the beginning of the year	5 037 680	8 642 208
Additions during the year	35 788 653	22 964 531
Income recognition during the year	(29 065 702)	(26 569 059)
Repayment to Provincial Treasury	(158 492)	-
Correction of VAT	(384 384)	(384 384)
	<u><b>11 217 755</b></u>	<u><b>4 653 296</b></u>

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## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 17. Unspent conditional grants and receipts (continued)

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

### 18. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4 947 139	2 309 046	495 426	7 751 611
Insurance Workmen's Compensation Act	540 381	158 400	-	698 781
	<b>5 487 520</b>	<b>2 467 446</b>	<b>495 426</b>	<b>8 450 392</b>

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	2 854 413	188 559	194 100	1 710 067	4 947 139
Insurance Workmen's Compensation Act	402 181	138 200	-	-	540 381
	<b>3 256 594</b>	<b>326 759</b>	<b>194 100</b>	<b>1 710 067</b>	<b>5 487 520</b>

Non-current liabilities	7 751 611	4 947 139
Current liabilities	698 781	540 381
	<b>8 450 392</b>	<b>5 487 520</b>

#### Environmental rehabilitation provision

At 30 June 2018 the municipality will incur estimated rehabilitation costs amounting to R 7 751 611 (2017: R 4 947 139) to restore the landfill site at the end of its useful life, estimated to be 16 years (2017: 17 years). The amount of rehabilitation is dependent on future costs, technology, inflation and site consumption. The real rate of the provision was 5.18% (2017: discounted rate 4%).

#### Insurance Workmen's Compensation Act

The provision for WCA insurance is made in terms of the Workmen's Compensation Act. The amount is payable upon and based on assessment by the Workmen's Compensation Commissioner.

The provision is based on the Compensation Commissioner returns.

### 19. Payables from exchange transactions

Accrued leave pay	979 380	1 069 473
Advance payments	813 562	1 159 552
Bonus	506 031	480 985
Other payables	167 712	-
Payables and accruals	5 296 049	4 012 705
Salary clearing and control	32 066	-
	<b>7 794 800</b>	<b>6 722 715</b>

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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Consumer deposits</b>		
Electricity	300 465	287 970
Hiring of decorative items	4 492	3 741
Posters	1 298	1 298
Rental properties	79 061	61 003
Water	205 384	197 005
	<u>590 700</u>	<u>551 017</u>
<b>21. Revenue</b>		
Actuarial gains	836 056	-
Agency services	159 307	127 163
Fines, penalties and forfeits	27 725 662	22 198 171
Government grants and subsidies	29 065 699	26 569 059
Interest earned - bank accounts and external investments	577 698	817 970
Interest earned - current assets	108 565	87 079
Interest earned - exchange transactions	250 827	47 959
Interest earned - non-exchange transactions	255 738	313 389
Licences and permits	1 353 032	1 123 781
Operational revenue	179 949	59 642
Property rates	3 515 654	3 235 105
Public contributions and donations	-	2 837 891
Rental of facilities and equipment	1 981 170	1 270 936
Sale of goods and rendering of services	442 373	103 985
Service charges	17 556 308	16 762 714
	<u>84 008 038</u>	<u>75 554 844</u>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Agency services	159 307	127 163
Interest earned - bank accounts and external investments	577 698	817 970
Interest earned - exchange transactions	250 827	47 959
Licences and permits	1 353 032	1 123 781
Operational revenue	179 949	59 642
Rental of facilities and equipment	1 981 170	1 270 936
Sale of goods	442 373	103 985
Service charges	17 556 308	16 762 714
	<u>22 500 664</u>	<u>20 314 150</u>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Actuarial gains	836 056	-
Property rates	3 515 654	3 235 105
Interest earned - current assets	108 565	87 079
Interest earned - non-exchange transactions	255 738	313 389
Licences or permits	1 235	2 516
<b>Transfer revenue</b>		
Fines, penalties and forfeits	27 725 662	22 198 171
Government grants and subsidies	29 065 699	26 569 059
Public contributions and donations	-	2 837 891
	<u>61 508 609</u>	<u>55 243 210</u>

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	2018 R	2017 R
<b>21. Revenue (continued)</b>		
<b>Nature and type of services in-kind are as follows:</b>		
Included in public contributions and donations is an amount of Rnil (2017: R 1 341 705) that relates to services-in-kind received from National Treasury.		
<b>22. Service charges</b>		
Refuse removal	2 374 504	2 067 183
Sale of electricity	13 661 473	12 185 630
Sale of water	2 879 914	2 673 053
Sewerage and sanitation charges	2 787 818	2 473 846
Revenue forgone	(4 147 401)	(2 636 998)
	<b>17 556 308</b>	<b>16 762 714</b>
The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
<b>23. Rental of facilities and equipment</b>		
<b>Premises</b>		
Buildings	1 261 904	907 484
Operating lease - Southkloof	-	90 853
Other properties	45 571	78 425
	<b>1 307 475</b>	<b>1 076 762</b>
<b>Land</b>		
Commonage	1 166	6 005
<b>Facilities and equipment</b>		
Cutlery	2 319	845
Hawkers	12 852	10 379
Houses	15 205	12 333
Machinery and equipment	642 153	37 508
Sundry	-	127 104
	<b>672 529</b>	<b>188 169</b>
	<b>1 981 170</b>	<b>1 270 936</b>
Rental revenue earned in facilities and equipment is in respect of non-financial assets rented out.		
<b>24. Fines, Penalties and Forfeits</b>		
Overdue books fines		1 832
Municipal traffic fines	27 725 662	22 196 339
	<b>27 725 662</b>	<b>22 198 171</b>
<b>25. Agency services</b>		
Vehicle registration	14 188	127 163
Provincial department	145 119	-
	<b>159 307</b>	<b>127 163</b>

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	2018 R	2017 R
<b>26. Licences and permits (exchange)</b>		
Driver's licences	-	17 965
Activity public roads	1 584	-
Learner's licences	205 647	150 733
Motor vehicle licences	1 145 801	950 694
Registration certificates	-	4 389
	<u>1 353 032</u>	<u>1 123 781</u>
<b>27. Licences and permits (non-exchange)</b>		
Dog	1 235	20
Traffic	-	2 496
	<u>1 235</u>	<u>2 516</u>
<b>28. Lease rentals</b>		
<b>Lease rentals on finance lease</b>		
Contractual amounts	63 783	-
<b>Lease rentals on operating lease - Library Vleiland</b>		
Contractual amounts	9 352	76 155
	<u>73 135</u>	<u>76 155</u>
<b>29. Interest earned on non-current assets</b>		
Interest	<u>108 565</u>	<u>87 079</u>
<b>30. Operational revenue</b>		
Other income	<u>179 949</u>	<u>59 642</u>
<b>The amount included in operational revenue arising from exchanges of goods or services are as follows:</b>		
Request for information	588	1 426
Insurance commission	8 969	8 384
Other income	170 392	49 832
	<u>179 949</u>	<u>59 642</u>
<b>31. Interest earned on bank accounts and external investments</b>		
<b>Interest revenue</b>		
External investments	88 199	519 994
Bank	489 499	297 976
	<u>577 698</u>	<u>817 970</u>

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	2018 R	2017 R
<b>32. Property rates</b>		
<b>Rates received</b>		
Agriculture	2 043 070	5 708 875
Business	572 088	-
Industrial	10	-
Municipal	88 216	-
Public Benefit Organisations	28 392	-
Public Service Infrastructure	220	-
Residential	1 082 007	2 733 684
State-owned	688 064	-
Less: Revenue forgone	(986 413)	(5 207 454)
	<u>3 515 654</u>	<u>3 235 105</u>
Interest earned on outstanding receivables	255 738	313 389
	<u>3 771 392</u>	<u>3 548 494</u>
<b>Valuations</b>		
Accommodation	350 000	-
Agriculture	778 366 000	621 373 400
Agriculture - Private Nature Reserve	35 801 000	-
Business	68 683 000	-
Industrial	4 243 000	-
Laingsburg	-	267 657 500
Municipal	40 377 000	-
Public Service Infrastructure	391 000	-
Religious	11 972 000	-
Residential	123 987 000	-
School	210 000	-
State	69 749 000	-
	<u>1 134 129 000</u>	<u>889 030 900</u>

Valuations on land and buildings are performed every 4 years and the implementation thereof every 5 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.



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	2018	2017
	R	R
<b>33. Transfers and subsidies</b>		
<b>Other transfers and subsidies</b>		
Acacia Primary School	15 690	6 000
Aids programme and cancer awareness	-	1 866
Area committee	-	290
Christmas for children	-	4 449
Donald Duck Pre-Primary	-	19 108
Equitable Share Households	377 323	643 602
Financial Management Grant	-	303
Housing transfers	18 308	943 701
LaDaag	-	7 149
Laingsburg High School	-	1 000
Mandela Day	-	1 754
Municipal sport	6 439	56 347
Municipal Systems Improvement grant	-	10 526
Other grants and subsidies	-	15 375
SMME Development	-	2 809
Tourism	16 637	133 132
VIP toilets	-	64 822
Youth week	-	17 701
	<b>434 397</b>	<b>1 929 934</b>

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	2018 R	2017 R
<b>34. Government grants and subsidies</b>		
<b>Operating grants</b>		
Community Workers Development (CDW)	93 000	75 000
Department of Water Affairs (DWA)	-	239 737
Energy Efficiency and Demand Side Management Grant	-	1 746 695
Equitable Share	13 576 000	12 526 165
Expanded Public Works Programme (EPWP)	1 031 000	1 000 000
Financial Management Grant (FMG)	1 800 000	1 722 523
Financial Management Support Grant	-	472 389
Human Settlement Development Grant	-	565 512
Local Government Graduate Internship Grant	11 097	11 189
Maintenance of Proclaimed Roads	41 536	49 239
Municipal Drought Support	(1)	-
Municipal Infrastructure Grant (MIG)	2 745 600	-
Overberg Municipality: Bulk water meters	-	148 799
Provincial: Library Services	1 063 000	981 000
Provincial: Municipal Finance Improvement Programme	899 968	-
Provincial: Sub-Seta	30 747	54 459
Western Cape Financial Management Capacity Grant	240 000	200 000
	<b>21 531 947</b>	<b>19 792 707</b>
<b>Capital grants</b>		
Integrated National Electrification Programme (INEP)	2 000 000	1 999 000
Municipal Infrastructure Grant (MIG)	5 533 752	4 777 352
	<b>7 533 752</b>	<b>6 776 352</b>
	<b>29 065 699</b>	<b>26 569 059</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income.		
All registered indigents receive a monthly subsidy equal to the basic monthly charges for water supply, refuse removal and sanitation based on the monthly billing towards the consumer account. The subsidy is determined annually by Council. All indigent consumers receive 6 kilolitre water and 50 kWh electricity free every month.		
The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by National Treasury.		
Current year receipts	13 576 000	12 526 165
Conditions met - transferred to revenue	(13 576 000)	(12 526 165)
	<b>-</b>	<b>-</b>

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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>34. Government grants and subsidies (continued)</b>		
<b>Integrated National Electrification Program (INEP)</b>		
Current year receipts	2 000 000	-
Conditions met - transferred to revenue	<u>(2 000 000)</u>	<u>-</u>
	<u>-</u>	<u>-</u>
<p>The purpose of this grant is to address the electrification backlog of occupied residential dwellings and the installation of bulk infrastructure.</p>		
<b>Human Settlement Development Grant</b>		
Current-year receipts	<u>198 000</u>	<u>-</u>
<p>Conditions still to be met - remain liabilities (see note 17).</p> <p>The purpose of this grant is to fund housing within municipalities that demonstrated capacity to plan and deliver housing rapidly, with emphasis on rural areas.</p>		
<b>Local Government Graduate Internship Grant</b>		
Balance unspent at beginning of year	48 811	-
Current-year receipts	66 000	60 000
Conditions met - transferred to revenue	<u>(11 098)</u>	<u>(11 189)</u>
	<u>103 713</u>	<u>48 811</u>
<p>Conditions still to be met - remain liabilities (see note 17).</p> <p>The "kick-about" is part of the youth development against violence through sport programmes with the purpose of using sport, specifically football, as a catalyst for transmitting life skills to children and youth in order to reduce violence and social skills.</p> <p>The project is for the construction of a "kick-about" facility as well as to provide basic football equipment to children in poor rural areas.</p>		
<b>Expanded Public Works Programme (EPWP)</b>		
Current-year receipts	1 031 000	1 000 000
Conditions met - transferred to revenue	<u>(1 031 000)</u>	<u>(1 000 000)</u>
	<u>-</u>	<u>-</u>
<p>The Expanded Public Works Programme (EPWP) grant is received to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP Guidelines:</p> <ul style="list-style-type: none"> <li>• Road maintenance and the maintenance of buildings;</li> <li>• Low traffic volume roads and rural roads;</li> <li>• Basic services infrastructure, including water and sewer reticulation, sanitation, pipelines and dams (excluding bulk infrastructure); and</li> <li>• Other economic and social infrastructure.</li> </ul>		
<b>Financial Management Grant (FMG)</b>		

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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>34. Government grants and subsidies (continued)</b>		
Current-year receipts	1 800 000	1 722 523
Conditions met - transferred to revenue	(1 800 000)	(1 722 523)
	<u>-</u>	<u>-</u>

The Financial Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA) 2003. The Financial Management Grant also pays for the cost of the Financial Management Internship Program (e.g. salary costs of the Financial Management Interns).

### Financial Management Support Grant

Balance unspent at beginning of year	158 494	410 883
Current-year receipts	-	220 000
Conditions met - transferred to revenue	-	(472 389)
Repayment to Provincial Treasury	(158 494)	-
	<u>-</u>	<u>158 494</u>

This grant is received to provide financial assistance to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving municipal audit outcomes and addressing institutional challenges.

### Municipal Finance Improvement Programme

Current-year receipts	1 530 000	-
Conditions met - transferred to revenue	(899 968)	-
	<u>630 032</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

This grant is intended at assisting municipalities to regain clean financial governance abilities.

### Flood Damage Grant

Balance unspent at beginning of year	(1)	3 923 164
Conditions met - transferred to revenue	1	(3 923 165)
	<u>-</u>	<u>(1)</u>

This grant was received to repair flood damage that occurred in January 2014.

### Energy Efficiency and Demand Side Management Grant

Balance unspent at beginning of year	-	1 746 695
Conditions met - transferred to revenue	-	(1 746 695)
	<u>-</u>	<u>-</u>

The purpose of this grant is to reduce electricity consumption and improve electricity efficiency within municipal infrastructure.

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	2018 R	2017 R
<b>34. Government grants and subsidies (continued)</b>		
<b>Department of Environmental Affairs and Tourism</b>		
Balance unspent at beginning of year	82 106	82 106
Conditions still to be met - remain liabilities (see note 17).		
This grant was received to develop a spatial development plan.		
<b>Department of Water Affairs (DWA)</b>		
Balance unspent at beginning of year	336 146	575 883
Conditions met - transferred to revenue	-	(239 737)
	<u>336 146</u>	<u>336 146</u>
Conditions still to be met - remain liabilities (see note 17).		
This grant is used for water supply at Matjiesfontein, ground water investigation and the compilation of a water master plan. The water master plan needs to be drafted and submitted and the water meters needs to be installed.		
<b>Local Government: Local Municipalities</b>		
Balance unspent at beginning of year	112 140	112 140
Conditions still to be met - remain liabilities (see note 17).		
This grant is used for compiling a sewerage master plan and investigation of electricity tariffs.		
<b>Library Service: Replacement funding for most vulnerable B3 Municipalities</b>		
Current-year receipts	1 063 000	981 000
Conditions met - transferred to revenue	(1 063 000)	(981 000)
	<u>-</u>	<u>-</u>
This grant was allocated to transform urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantage communities) through a recapitalised program at provincial level in support of local government and national initiatives.		

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	2018 R	2017 R
<b>34. Government grants and subsidies (continued)</b>		
<b>Municipal Drought Support</b>		
Balance unspent at beginning of year	500 000	-
Current-year receipts	7 300 000	500 000
	<u>7 800 000</u>	<u>500 000</u>
Conditions still to be met - remain liabilities (see note 17).		
This allocation may only be utilised for the following projects:		
<ul style="list-style-type: none"><li>• R3 700 000 for the construction of the bulk pipeline between the Zoutkloof Spring and the main reservoir as well as the equipping and electricity connection and connection of two boreholes to the Zoutkloof line.</li><li>• R1 700 000 for the Zoutkloof Spring rehabilitation.</li><li>• R1 900 000 for the borehole pump for the existing borehole in Matjiesfontein and Eskom connection.</li></ul>		
<b>Municipal Service Delivery and Capacity Building</b>		
Balance unspent at beginning of year	300 000	-
Current-year receipts	-	300 000
	<u>300 000</u>	<u>300 000</u>
Conditions still to be met - remain liabilities (see note 17).		
This grant was received to provide financial assistance to improve infrastructure, systems, structures, corporate governance, service delivery and addressing institutional challenges.		
<b>Western Cape Financial Management Capacity</b>		
Balance unspent at beginning of year	120 000	-
Current-year receipts	240 000	120 000
Conditions met - transferred to revenue	(240 000)	-
	<u>120 000</u>	<u>120 000</u>
Conditions still to be met - remain liabilities (see note 17).		
The outcome of this grant is improved functioning of municipal financial management.		
<b>Overberg Water War on Leaks</b>		
Current-year receipts	<u>165 370</u>	-
Conditions still to be met - remain liabilities (see note 17).		
There was a donation from Overberg Municipality to invest in water supply infrastructure.		
<b>Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	2 745 600	1 591 336
Current-year receipts	6 654 000	6 316 000
Conditions met - transferred to revenue	(8 279 352)	(4 777 352)
Correction of VAT	-	(384 384)
	<u>-</u>	<u>(384 384)</u>

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	2018 R	2017 R
<b>34. Government grants and subsidies (continued)</b>		
	<b>1 120 248</b>	<b>2 745 600</b>

Conditions still to be met - remain liabilities (see note 17).

This grant is allocated to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

### Municipal Electrical Master Plan

Balance unspent at beginning of year	250 000	-
Current-year receipts	-	250 000
	<b>250 000</b>	<b>250 000</b>

Conditions still to be met - remain liabilities (see note 17).

This grant was received to provide financial assistance to ensure effective functioning of municipal electrical infrastructure and to maximise the provision for basic electricity to citizens.

### 35. Public contributions and donations

National Treasury	-	1 341 705
Services in kind	-	1 496 186
	<b>-</b>	<b>2 837 891</b>



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	2018 R	2017 R
<b>36. Employee related costs</b>		
Acting allowances	187 150	-
Bargaining council levies	5 493	5 090
Basic	14 427 212	12 049 658
Bonus	1 006 677	880 568
Cell phone allowances	7 440	-
Defined contribution plans	454 537	64 591
Housing allowances	119 770	124 320
Leave pay provision charge	50 106	50 838
Long service awards	41 471	72 044
Medical aid contributions	655 451	637 471
Motor vehicle allowances	817 689	774 318
Other benefits and allowances	14 733	31 151
Overtime payments	394 709	302 987
Pension contributions	1 831 589	1 691 160
Unemployment Insurance Fund (UIF)	104 776	90 959
	<b>20 118 803</b>	<b>16 775 155</b>
<b>Remuneration of Municipal Manager - Mr SC Pieterse</b>		
Annual Remuneration	213 180	42 636
Acting allowance	-	98 028
Contributions to UIF, Medical and Pension Funds	16 093	9 459
Travel / motor vehicle allowance	92 344	16 912
Bargaining council	38	7
	<b>321 655</b>	<b>167 042</b>
<b>Remuneration of Chief Finance Officer - Ms A Groenewald</b>		
Annual Remuneration	720 564	655 416
Bonus	60 047	54 618
Acting allowance	103 963	156 677
Contributions to UIF, Medical and Pension Funds	155 705	137 941
Travel / motor vehicle allowance	203 160	172 873
Housing allowance	8 904	8 162
Bargaining council	96	87
	<b>1 252 439</b>	<b>1 185 774</b>
<b>Remuneration of Mr PA Williams</b>		
Annual Remuneration	-	905 904
Contributions to UIF, Medical and Pension Funds	-	16 653
Bargaining council	-	58
	<b>-</b>	<b>922 615</b>
<b>37. Remuneration of councillors</b>		
Executive Major	589 616	738 742
Deputy Executive Mayor	340 791	336 841
Speaker	536 039	576 436
Councillors	1 286 083	998 895
	<b>2 752 529</b>	<b>2 650 914</b>

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	2018 R	2017 R			
<b>37. Remuneration of councillors (continued)</b>					
<b>In-kind benefits</b>					
The Executive Mayor and Speaker are full-time Councillors. Each is provided with an office and shared secretarial support at the cost of the Council.					
The Executive Mayor has use of a Council owned vehicles for official duties.					
<b>2018</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Other allowances</b>	<b>Back pay</b>	<b>Total</b>
Brown I - Deputy Executive Mayor / Councillor	225 841	63 887	35 400	25 119	350 247
Gouws M - Speaker / Councillor	415 306	53 484	35 400	51 844	556 034
Kleinbooi B - Councillor	175 686	53 485	35 400	15 675	280 246
Louw RM - Executive Mayor	83 746	-	5 500	-	89 246
Marthinus AA - Executive Mayor	227 186	73 934	18 791	-	319 911
Mienies J - Executive Mayor / Councillor	164 805	-	14 500	19 709	199 014
Potgieter L - Councillor	229 171	-	35 400	15 675	280 246
Theron W du P - Speaker / Councillor	256 890	53 484	35 400	29 617	375 391
Van As BJ - Deputy Executive Mayor / Councillor	197 490	53 485	31 800	19 419	302 194
	<b>1 976 121</b>	<b>351 759</b>	<b>247 591</b>	<b>177 058</b>	<b>2 752 529</b>
<b>2017</b>	<b>Annual remuneration</b>	<b>Travel allowance</b>	<b>Other allowances</b>	<b>Back pay</b>	<b>Total</b>
Bobbejee M - Councillor	14 595	8 410	387	-	23 392
Botes PJ - Councillor	14 595	8 410	2 631	-	25 636
Botha J - Councillor	14 595	8 410	387	-	23 392
Brown I - Deputy Executive Mayor	78 444	-	6 439	6 693	91 576
Brown I - Councillor	128 536	8 914	15 720	16 908	170 078
Gouws M - Speaker	125 357	13 371	6 600	5 291	150 619
Gouws M - Councillor	120 845	39 609	2 700	8 113	171 267
Horn H - Speaker	38 630	22 425	2 631	-	63 686
Kleinbooi B - Councillor	135 138	44 571	20 712	21 712	222 133
Marthinus AA - Executive Mayor	471 874	147 868	22 159	35 656	677 557
Potgieter L - Councillor	192 361	-	22 159	21 712	236 232
Theron W du P - Executive Mayor	45 131	14 016	2 039	-	61 186
Theron W du P - Speaker	240 618	112 127	16 312	(6 926)	362 131
Theron W du P - Councillor	41 540	13 371	6 439	2 481	63 831
Van As BJ - Deputy Executive Mayor	176 072	55 503	15 651	(1 960)	245 266
Van As BJ - Councillor	41 540	13 371	5 539	2 482	62 932
	<b>1 879 871</b>	<b>510 376</b>	<b>148 505</b>	<b>112 162</b>	<b>2 650 914</b>

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	2018 R	2017 R
<b>38. Inventories recognised as an expense</b>		
Consumables	1 381 972	72 220
Materials and supplies	864 293	829 383
	<u>2 246 265</u>	<u>901 603</u>
<b>39. Depreciation and amortisation</b>		
Property, plant and equipment	6 213 307	5 815 205
Investment property	57 459	57 459
Intangible assets	266 566	266 566
	<u>6 537 332</u>	<u>6 139 230</u>
<b>40. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	615 824	-
The main classes of assets affected by impairment losses are plant and equipment, furniture and computer equipment and motor vehicles.		
<b>41. Finance costs</b>		
Finance leases	12 956	23 017
Landfill site rehabilitation provision	495 426	194 100
Late payment of VAT (SARS)	3 002	96 221
Non-current employee benefits	454 157	381 927
Payables from exchange transactions	-	13 243
	<u>965 541</u>	<u>708 508</u>
<b>42. Debt impairment</b>		
Bad debts written off	-	36 550 968
Other receivables impaired	-	(9 393)
Contributions / (reversals) to allowance for impairment	18 545 021	(15 233 967)
	<u>18 545 021</u>	<u>21 307 608</u>
<b>43. Bulk purchases</b>		
Electricity	7 316 598	7 590 365

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom.

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	2018 R	2017 R
<b>44. Contracted services</b>		
<b>Outsourced Services</b>		
Burial Services	26 638	24 701
Business and Advisory	1 434 510	210 823
Catering Services	29 625	30 332
Internal Auditors	172 187	31 928
Litter Picking and Street Cleaning	-	1 173 384
Security Services	1 174 332	1 184 058
Electrical	299 240	-
<b>Consultants and Professional Services</b>		
Business and Advisory	256 497	1 783 904
Infrastructure and Planning	-	25 446
Laboratory Services	11 849	9 972
Legal Cost	399 272	339 036
<b>Contractors</b>		
Event Promoters	3 271	-
Maintenance of Buildings and Facilities	12 068	199 129
Maintenance of Equipment	15 547	166 192
Maintenance of Unspecified Assets	751 168	1 632 335
Pest Control and Fumigation	-	719
Photographer	200	-
	<b>4 586 404</b>	<b>6 811 959</b>

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	2018 R	2017 R
<b>45. Operational cost</b>		
Advertising, publicity and marketing	165 447	462 482
Assets less than the capitalisation threshold	9 962	-
Audit fees	875 812	2 628 224
Bank charges, facility and card fees	474 686	411 895
Commission	2 816 507	3 084 044
Communication	584 559	965 009
Courier and delivery services	792	-
Deeds	9 147	10 905
Delegation costs	-	7 696
Entertainment	2 363	116 847
External computer service	1 618 953	225 818
Hire charges	3 330	30 010
Insurance underwriting	253 798	365 916
Learnerships and internships	3 150	223 437
Levies paid - Water Resource Management Charges	65 236	-
Licences	1 274 814	1 418 755
Management fees	-	52 549
Municipal services	514 933	522 322
Printing, publications and books	19 497	245 528
Professional bodies, membership and subscription	484 184	535
Registration fees	27 649	-
Remuneration to ward committees	220 255	-
Skills development fund levy	152 267	166 316
Sundry expenses	-	14 768
Toll gate fees	71	-
Travel and subsistence	670 963	1 181 978
Uniforms and protective clothing	163 097	76 659
Wet fuel	8 556	564 336
Workmen's compensation fund	158 400	138 200
	<b>10 578 428</b>	<b>12 914 229</b>
<b>46. Auditors' remuneration</b>		
Fees	875 812	2 628 224

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	2018 R	2017 R
<b>47. Cash generated from operations</b>		
Surplus (deficit)	5 704 452	(10 790 387)
<b>Adjustments for:</b>		
Depreciation and amortisation	6 533 222	6 139 230
Loss on disposal of assets and liabilities	-	6 216 468
Impairment loss/(reversal of impairment loss)	615 824	-
Bad debts written off	1 960 450	-
Government grants and subsidies received	35 788 653	22 964 532
Government grants and subsidies recognised as revenue	(29 065 702)	(26 569 059)
Contribution from/to provisions - Current employee benefits (leave and bonus)	(65 046)	42 306
Contribution from/to provisions - Non-current employee benefits (interest)	435 897	381 927
Contribution from/to provisions - Current service cost	471 404	127 055
Contribution from/to provisions - Non-current employee benefits (Actuarial gains)/losses	(836 056)	50 188
Contribution from/to provisions - Environmental rehabilitation (interest)	495 426	1 904 167
Contribution from/to provisions - Workmen's Compensation	158 400	138 200
Contribution to debt impairment	18 545 022	-
Expenditure incurred - Non-current employee benefits	(54 156)	(62 464)
VAT claimed on grants	74 176	-
Repayment of Government Grants	(158 494)	-
Interest earned on non-current assets	(108 565)	(87 079)
<b>Changes in working capital:</b>		
(Increase)/decrease in receivables from exchange transactions	(2 947 944)	305 058
(Increase)/decrease in receivables from non-exchange transactions	(22 897 681)	2 416 231
(Increase)/decrease in Inventory	546 353	-
Payables from exchange transactions	1 137 132	2 390 373
Increase/(decrease) in taxes	(1 209 091)	1 991 400
Unspent conditional grants and receipts	-	(5 025 152)
Consumer deposits	-	54 516
	<b>15 123 676</b>	<b>2 587 510</b>

### 48. Disposal of: a significant asset(s) /or a group of assets and liabilities /or a component of the entity

#### Description of the asset(s), group of assets and liabilities or, component

##### Carrying values

Carrying values of Property, Plant and Equipment Land	-	(6 194 830)
Carrying value of Infrastructure Water Supply Cost	-	(67 839)
Carrying value of Infrastructure Water Supply Accumulated Depreciation	-	46 201

##### Facts and circumstances of the disposal

During the audit of property, plant and equipment, it was identified that RDP land / erven was not in control of the municipality and was incorrectly included in the fixed asset register. The houses were handed over by way of a "Happy Letter" to the occupants during the prior years and the owners are billed for services and rates.

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	2018 R	2017 R
<b>49. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2018</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Receivables from exchange transactions	2 137 412	2 137 412
Receivables from non-exchange transactions	7 845 964	7 845 964
Cash and cash equivalents	10 169 928	10 169 928
Current portion of long term receivables from exchange transactions	1 010	1 010
	<u>20 154 314</u>	<u>20 154 314</u>
<b>Financial liabilities</b>		
	At amortised cost	Total
Trade and other payables from exchange transactions	7 794 801	7 794 801
Finance lease obligation	89 785	89 785
	<u>7 884 586</u>	<u>7 884 586</u>
<b>2017</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Receivables from exchange transactions	1 872 758	1 872 758
Receivables from non-exchange transactions	2 663 362	2 663 362
Cash and cash equivalents	5 875 467	5 875 467
Current portion of long term receivables from exchange transactions	763	763
	<u>10 412 350</u>	<u>10 412 350</u>
<b>Financial liabilities</b>		
	At amortised cost	Total
Trade and other payables from exchange transactions	6 722 715	6 722 715
Finance lease obligation	189 863	189 863
	<u>6 912 578</u>	<u>6 912 578</u>



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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>50. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	<u>16 312 954</u>	<u>12 567 300</u>
<b>Total capital commitments</b>		
Already contracted for but not provided for	<u>16 312 954</u>	<u>12 567 300</u>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	<u>16 312 954</u>	<u>12 567 300</u>

This committed expenditure relates to infrastructure assets and will be financed through grants.

The following commitments are towards multi-year projects and will therefore last more than one year:

- Makhukane Consulting Engineers CC (National Electrification Program)
- Makhukane Consulting Engineers CC (Appointment of Consulting Engineers for Various Municipal Infrastructure and Building Projects)
- Aurecon (Water pipeline between reservoir and the Goldenville reservoir - project is on hold)
- Aurecon (Work concerning the booster pump station)
- Aurecon and P Masondo Traders CC (New Bulk Water Main)
- Phambili Civil (Construction of Bulk Raw Water Pipeline from Soutkloof Reservoir to Town Reservoir)

### 51. Related parties

#### Relationships

Councillors' names

Refer to note 37

The municipality provided municipal services to all councillors, management and their family members residing within the municipal area. The municipality also charges property rates to all councillors, management and their family members who are property owners within the municipal area. These transactions were concluded on normal operating terms and are included in "service charges" and "property rates" in the statement of financial performance. Any balances due to the municipality on the reporting date are included in receivables from exchange transactions (relating to service charges) and receivables from non-exchange transactions (relating to property rates) in the statement of financial position.

### 52. Change in estimate

#### Property, plant and equipment

During the current period management have revised the useful lives of certain assets. This resulted in various assets' depreciation increasing for the 2017/18 financial year.

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.

This register indicates all asset types which useful lives were revised.

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## Notes to the Annual Financial Statements

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2018  
R

2017  
R

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### 52. Change in estimate (continued)

#### Post retirement medical aid

In-service members will receive a post-employment subsidy of 60% of the contribution payable should they be a member of a medical scheme at retirement.

All current continuation members and their eligible dependants receive a 70% subsidy.

Upon a member's death-in-service or death-in-retirement the surviving dependants will continue to receive the same subsidy.

Post-employment subsidies are subject to a maximum of R4 218.17 per member per month, for the year ending 30 June 2019, except for the two current continuation members in receipt of 70% subsidies. The maximum subsidy amount has been assumed to increase in future at 75% of salary inflation.

At the last valuation, all subsidies were taken to be subject to a maximum amount. The impact of removing the maximum subsidy from the two current continuation members in receipt of 70% subsidies, is disclosed in Appendix 5 (Report on the Actuarial Valuation of Laingsburg Municipality the Post-Employment Medical Aid subsidy liability) as "Policy Correction".

The policy correction amounted to R296 058, increasing the accrued liability.

### 53. Prior-year adjustments and reclassifications

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

#### Statement of financial position

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## Notes to the Annual Financial Statements

			2018 R	2017 R
<b>53. Prior-year adjustments and reclassifications (continued)</b>				
<b>Assets</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
<b>Current Assets</b>				
Inventories	1 377 966	32 018	-	1 409 984
Receivables from exchange transactions	1 897 166	(24 408)	-	1 872 758
Receivables from non-exchange transactions	1 602 217	488 347	572 798	2 663 362
VAT Receivable	3 845 845	(2 208 472)	-	1 637 373
Current portion of longterm receivable from exchange transactions	763	-	-	763
Cash and cash equivalents	5 875 467	-	-	5 875 467
	<u>14 599 424</u>	<u>(1 712 515)</u>	<u>572 798</u>	<u>13 459 707</u>
<b>Non-Current Assets</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
Investment property	4 272 545	20 834 464	(1)	25 107 008
Property, plant and equipment	158 541 905	(8 804 336)	1	149 737 570
Intangible assets	521 651	186 479	-	708 130
Heritage assets	43 354	-	-	43 354
	<u>163 379 455</u>	<u>12 216 607</u>	<u>-</u>	<u>175 596 062</u>
<b>Liabilities</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
<b>Current Liabilities</b>				
Payables from exchange transactions	6 413 500	(197 531)	506 746	6 722 715
Consumer deposits	484 975	-	66 042	551 017
Unspent conditional grants and receipts	6 073 921	(1 420 625)	-	4 653 296
Finance lease obligation	-	100 078	-	100 078
Employee benefit obligation	204 744	-	-	204 744
Provisions	540 381	-	-	540 381
	<u>13 717 521</u>	<u>(1 518 078)</u>	<u>572 788</u>	<u>12 772 231</u>
<b>Non-Current Liabilities</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
Employee benefit obligation	3 847 654	433 002	1	4 280 657
Provisions	4 947 139	-	-	4 947 139
Finance lease obligation	-	89 785	(1)	89 784
	<u>8 794 793</u>	<u>522 787</u>	<u>-</u>	<u>9 317 580</u>
<b>Net Assets</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
Accumulated surplus	155 466 565	11 202 568	(36 148 602)	130 520 531
Capital replacement reserve	-	-	1 770 303	1 770 303
Housing development fund	-	-	1 680 451	1 680 451
Donations and public contributions	-	-	32 994 672	32 994 672
	<u>155 466 565</u>	<u>11 202 568</u>	<u>296 824</u>	<u>166 965 957</u>

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## Notes to the Annual Financial Statements

	2018 R	2017 R		
<b>53. Prior-year adjustments and reclassifications (continued)</b>				
<b>Statement of financial performance</b>				
<b>Revenue</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
<b>Revenue from exchange transactions</b>				
Sale of goods	-	-	103 985	103 985
Service charges	16 872 724	(57 230)	(52 780)	16 762 714
Interest earned - bank accounts and external investments	817 970	-	-	817 970
Interest earned - outstanding receivables	47 959	-	-	47 959
Rental of facilities and equipment	1 271 479	(543)	-	1 270 936
Licences and permits	175 583	-	948 198	1 123 781
Agency services	127 163	-	-	127 163
Other income	104 404	-	(104 404)	-
Operational revenue	-	-	59 642	59 642
	<b>19 417 282</b>	<b>(57 773)</b>	<b>954 641</b>	<b>20 314 150</b>
<b>Revenue from non-exchange transactions</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
Property rates	3 257 680	(22 575)	-	3 235 105
Interest earned - outstanding receivables	313 389	-	-	313 389
Licences and permits	-	-	2 516	2 516
Interest - current assets	-	87 079	-	87 079
Government grants and subsidies	26 569 059	-	-	26 569 059
Fines, penalties and forfeits	22 198 191	-	(20)	22 198 171
Donations	1 496 186	-	(1 496 186)	-
Services in kind	1 341 705	-	(1 341 705)	-
Public contributions and donations	-	-	2 837 891	2 837 891
	<b>55 176 210</b>	<b>64 504</b>	<b>2 496</b>	<b>55 243 210</b>
<b>Expenditure</b>	<b>As previously reported</b>	<b>Correction of error</b>	<b>Re-classification</b>	<b>Restated</b>
Employee related costs	19 030 829	7 055	12 702	19 050 586
Remuneration of councillors	2 650 914	-	-	2 650 914
Inventory consumed	-	61 032	840 571	901 603
Depreciation and amortisation	7 889 486	(1 750 256)	-	6 139 230
Finance costs	216 992	491 516	-	708 508
Lease rental on finance lease	76 155	-	-	76 155
Debt impairment	21 334 903	(27 294)	-	21 307 609
Bulk purchases	7 460 102	130 262	-	7 590 364
Contracted services	-	(49 790)	6 861 749	6 811 959
Transfers and subsidies	1 873 664	-	56 270	1 929 934
Repairs and maintenance	2 103 781	-	(2 103 781)	-
Collection costs	204 798	-	(204 798)	-
General expenses	17 767 808	-	(17 767 808)	-
Operational cost	-	69 284	12 844 945	12 914 229
Loss on disposal of assets	37 097	6 179 372	-	6 216 469
Actuarial loss	-	(70 276)	120 464	50 188
	<b>80 646 529</b>	<b>5 040 905</b>	<b>660 314</b>	<b>86 347 748</b>

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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### 53. Prior-year adjustments and reclassifications (continued)

#### Errors

The following prior period errors adjustments occurred:

#### Inventories

Stock relating to the 2016/2017 financial year was adjusted, resulting in inventory increasing by an amount of R32 018.

#### Receivables from exchange transactions

Various consumers were incorrectly billed for services rendered during the financial year ending 30 June 2016. It resulted in a decrease of R51 701 in the net balance.

Allowance for impairment were recalculated and resulted in a decrease of R27 294.

#### Receivables from non-exchange transactions

Various consumers were incorrectly billed for property rates during the financial year ending 30 June 2016. It resulted in an decrease of R4 984.

A deposit of R1 549 001 paid in respect of a deposit to Eskom, was incorrectly recorded as capital work in progress. This payment was reclassified as a sundry deposit from non-exchange transactions.

Interest on Eskom deposits were not recorded in the accounting records of the municipality. The effect of this correction resulted in an increase of R112 806 in receivables from non-exchange transactions.

During the 2016/17 financial year it was identified that debtors general were incorrectly accounted for, therefore the balance was adjusted with an amount of R1 168 476.

During the audit of comparative figures, it was identified that creditors with debit balances were incorrectly included in trade and other payables from exchange transactions instead of receivables from non-exchange transactions. This resulted in a reclassification amount of R572 798, increasing receivables from non-exchange transactions.

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### 53. Prior-year adjustments and reclassifications (continued)

#### VAT receivable

Various consumers were incorrectly billed for services rendered during the financial year ending 30 June 2016. It resulted in an increase of R6 283.

Expenditure relating to Quality control and indigent support was not accrued during the financial year ending 30 June 2016. This was corrected, resulting in an increase of R896.

Interest charged by SARS on overdue VAT returns was not recorded during the financial year ending 30 June 2016. This was corrected, resulting in a decrease of R1 534.

A VAT audit was conducted by SARS, resulting in the denial of input VAT claimed by the municipality. This was not corrected on the accounting system during the 2016/17 financial year. The correction resulted in a decrease of R16 286.

Various journals were processed in the incorrect general ledger accounts. The correct allocation resulted in a decrease of R6 497.

VAT reconciliation's were not performed for the previous 2 financial years. This resulted in various misallocations not being corrected. The effect of the corrections is a decrease of R1 802 971 in VAT receivable.

VAT with respect to New Bulk Watermain infrastructure project was not accounted for during 2016/17. The correction resulted in VAT input increasing by R384 384.

VAT with respect to Sundry creditors were not accounted for during 2016/17. The correction resulted in VAT input increasing by R65 105.

Interest on SARS overdue account amounting to R86 291 not accounted for in 2016/17.

During the audit it was identified that payments made after year end were in respect of the 2016/17 financial year. Expenditure, value-added-tax and payables from exchange transactions were not recorded. Therefore the error resulted in value-added-tax increasing by R17 207.

During the audit it was identified that an amount of R384 384 was included in the Municipal Infrastructure Grant (MIG) unspent portion. This was rectified during the year.

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### 53. Prior-year adjustments and reclassifications (continued)

#### Investment properties

The fixed asset register was recompiled during the 2017/18 financial year, which resulted in various properties being included in the register, reclassified and written off. This resulted in an increase of investment property by R16 438 600.

Various errors in the calculation of depreciation relating to 2016/17 were identified during the 2017/18 financial year, resulting in an increase of R4 509 519 in investment property during 2016/17.

During completeness testing from a sample of 136 Investment properties, 8 properties were found that was incorrectly classified as investment property instead of property plant and equipment. The error amounted to R113 655, decreasing Investment Property Land.

#### Property, plant and equipment

The fixed asset register was recompiled during 2017/18, which resulted in various properties being included in the register, reclassified and written off. This resulted in the decrease of Property, plant and equipment by R16 438 600. Furthermore opening balances were restated which amounted to R207 985, decreasing the opening balances as at 1 July 2016.

The rental of photocopiers were recorded as rental expenses in 2016/17. This was incorrect as the rentals meet the definition of a finance lease in terms of GRAP 13. The correction resulted in the increase in property, plant and equipment by R454 038.

The fixed asset register was recompiled during 2017/18, which resulted in accumulated impairment and depreciation opening balances being adjusted. This resulted in the decrease of Property, plant and equipment by R207 985.

Repairs and maintenance expenditure was incorrectly capitalised as Property, plant and equipment during 2016/17. This was corrected, resulting in the decrease in Property, plant and equipment by R81 107.

A deposit of R1 549 001 paid in respect of a deposit to Eskom, was incorrectly recorded as capital work in progress. This payment was reclassified as a Sundry deposit from non-exchange transactions.

During the 2016/17 financial year it was identified that RDP houses were incorrectly included in the fixed asset register. This resulted in a decrease of R392 625.

The fixed asset register was recompiled during 2017/18, which resulted in opening balances of community assets being adjusted. This resulted in the increase of Property, plant and equipment by R793 896.

The fixed asset register was recompiled during 2017/18, which resulted in opening balances of motor vehicles being adjusted. This resulted in the increase of Property, plant and equipment by R1 135 627.

The fixed asset register was recompiled during 2017/18, which resulted in opening balances of furniture and office equipment being adjusted. This resulted in the increase of Property, plant and equipment by R858 819.

The fixed asset register was recompiled during 2017/18, which resulted in opening balances of infrastructure assets as well as buildings being adjusted. This resulted in the increase of Property, plant and equipment by R12 601 615.

During completeness testing from a sample of 136 Investment properties, 8 properties were found that was incorrectly classified as investment property instead of property plant and equipment. The error amounted to R113 655, increasing Property, plant and equipment land.

During the audit of property plant and equipment, it was identified that assets were included in the asset register which relates to RDP houses which the municipality did not have control over anymore. The houses were handed over by way of a "Happy letter" to the occupants during prior years and the owners are being billed for services and rates. This resulted in Property, plant and equipment decreasing by R6 194 830.

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### 53. Prior-year adjustments and reclassifications (continued)

A change in estimate occurred during the 2017/18 financial year, however assets' useful lives were revised for the 2016/17 financial year and adjustments were processed. During the audit, it was confirmed that these assets should only be corrected in the current financial year. Therefore the error resulted in depreciation decreasing and property, plant and equipment increasing by R130 055.

During the finalisation of Property, plant and equipment it was identified that work-in-progress was overstated with an amount of R27 893.98. The correction resulted in work-in-progress assets decreased by this amount.

#### Intangible assets

The fixed asset register was recompiled during 2017/18, which resulted in various assets being included in the register, reclassified and written off. This resulted in the increase in Intangible assets by R186 479.

#### Investment properties

The fixed asset register was recompiled during the 2017/18 financial year, which resulted in various properties being included in the register, reclassified and written off. This resulted in an increase of investment property by R16 438 600.

Various errors in the calculation of depreciation relating to 2016/17 were identified during the 2017/18 financial year, resulting in an increase of R4 509 519 in investment property during 2016/17.

During completeness testing from a sample of 136 Investment properties, 8 properties were found that was incorrectly classified as investment property instead of property plant and equipment. The error amounted to R113 655, decreasing Investment Property Land.

#### Payables from exchange transactions

A repayment to a creditor was incorrectly recorded as expense, resulting in the overstatement of Payables from exchange transactions by R3 532. This was corrected in 2017/18.

Various journals were processed in the incorrect general ledger accounts. The correct allocation results in the decrease in Payables from exchange transactions by R6 497.

Expenditure relating to 2016/17 was only recorded in 2017/18. The misstatement was corrected, resulting in the increase in Payables from exchange transactions by R122 541.

Salary control accounts for the 2016/17 financial year were reconciled, and resulted in the debit balance decreasing by R252 526.

During the 2017/18 financial year, it was found that transactions in 2016/17 were incorrectly recorded inclusive of VAT. The transactions were corrected, which resulted in a decrease of R96 623.

Opening balance adjustment amounting to R1 271 411 due to creditors not being accounted for on the accrual basis.

Sundry creditors were paid during the 2016/17 financial year, however the expenditure incurred were not accounted for on the accrual basis. This resulted in sundry creditors being understated by R549 709.

During the audit it was identified that payments made after year end were in respect of the 2016/17 financial year. Expenditure, value-added-tax and payables from exchange transactions were not recorded. Therefore the error resulted in payables from exchange transactions increasing by R150 088.

#### Finance lease obligation

The rental of photocopiers were recorded as rental expenses in 2016/17. This was incorrect as the rentals meet the definition of a finance lease in terms of GRAP 13. The correction resulted in the recognition of finance lease liability. The current portion amounted to R100 078 and the non-current portion amounted to R89 785. The total amount of the finance lease liability recognised amounted to R189 863.



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### 53. Prior-year adjustments and reclassifications (continued)

#### Employee benefit obligation

Long service awards were restated for the 2016/17 financial year. This resulted in long service awards obligation increasing by R433 002.

#### Service charges

Various consumers were incorrectly billed for services during the 2016/17 financial year, which was discovered during the 2017/18 financial year. This was corrected in 2017/18, resulting in the decrease in service charges by R44 875.

A VAT audit was conducted by SARS, resulting in the additional output VAT payable. This was not corrected on the accounting system during the 2016/17 financial year. The correction results in the decrease in service charges by R12 355.

#### Rental from facilities and equipment

Various consumers were incorrectly billed for rentals during the 2016/17 financial year, which was discovered during the 2017/18 financial year. This was corrected in 2017/18, resulting in the decrease in rental from facilities and equipment by R543.

#### Interest, dividends and rent on land

During the 2017/18 financial year it was identified that interest on Eskom deposits was not accounted for. This resulted in an increase amounting to R87 079.

#### Property rates

Various consumers were incorrectly billed for property rates during the 2016/17 financial year, which was discovered during the 2017/18 financial year. This was corrected in 2017/18, resulting in the decrease in property rates by R22 575.

#### Employee related costs

Long service awards were restated for the 2016/17 financial year. This resulted in an increase in employee related costs with an amount of R7 055.

#### Depreciation and amortisation

Various errors in the calculation of depreciation relating to 2016/17 were identified during 2017/18, resulting in depreciation decreasing by R1 620 201.

A change in estimate occurred during the 2017/18 financial year, however assets' useful lives were revised for the 2016/17 financial year and adjustments were processed. During the audit, it was confirmed that these assets should only be corrected in the current financial year. Therefore the error resulted in depreciation decreasing by R130 055.

#### Bulk purchases

VAT reconciliation's were not performed for the previous 2 financial years. This resulted in various misallocations not being corrected. The effect of the corrections is an increase of R130 262.

#### Finance costs

Interest charged by SARS on overdue VAT returns was not recorded during 2016/17. This was corrected, resulting in the increase in interest on overdue accounts (finance costs) by R1 534.

A VAT audit was conducted by SARS, resulting in the denial of input VAT claimed by the municipality. This was not corrected in the accounting system during the 2016/17 financial year. The correction resulted in the increase in finance costs of R3 931.

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### 53. Prior-year adjustments and reclassifications (continued)

The rental of photocopiers were recorded as rental expenses in 2016/17. This was incorrect as the rentals meet the definition of a finance lease in terms of GRAP 13. The correction resulted in the increase in finance costs by R23 017.

Long service awards were restated for the 2016/17 financial year. This resulted in interest costs increasing by R79 927.

Interest on SARS overdue account amounting to R86 291 not accounted for in 2016/17.

#### Contracted services

Expenditure relating to Quality control and indigent support was not accrued during 2016/17. This was corrected, resulting in an increase in Contracted services by R5 335.

The rental of photocopiers were recorded as rental expenses in 2016/17. This was incorrect as the rentals meet the definition of a finance lease in terms of GRAP 13. The correction resulted in the decrease in Contracted services by R120 738.

Contracted services amounting to R6 400 were corrected and disclosed as inventory consumables. This resulted in contracted services decreasing.

Correction of VAT balance as a result of VAT reconciliation amounting to R740, increasing contracted services.

During the audit it was identified that payments made after year end were in respect of the 2016/17 financial year. Expenditure, value-added-tax and payables from exchange transactions were not recorded. Therefore the error resulted in contracted services increasing by R71 273.

#### Inventory consumed

Repairs and maintenance expenditure was incorrectly capitalised as Property, plant and equipment during 2016/17. This was corrected, resulting in the increase in Inventory consumed by R81 107.

Correction of Inventory in the 2016/2017 financial year resulted in inventory consumables decreasing.

Correction of VAT balance as a result of VAT reconciliation amounting to R5 544, increasing inventory consumed.

#### Loss on disposal of assets

The fixed asset register was recompiled during 2017/18, which resulted in infrastructure assets being assessed. This resulted in the decrease in loss on disposals of assets by R15 458.

During the audit of property plant and equipment, it was identified that assets are included in the asset register which relates to RDP houses which the municipality did not have control over anymore. The houses were handed over by way of a "Happy letter" to the occupants during prior years and the owners are being billed for services and rates. This resulted in loss on disposal of assets increasing by R6 194 830.

#### Operational cost

Expenditure relating to 2016/17 was only recorded in 2017/18. The misstatement was corrected, resulting in the increase in Operational cost by R67 918.

Correction of VAT balance as a result of VAT reconciliation increasing operational cost by R1 367.

#### Actuarial gains / (losses)

Long service awards (employee benefits) were valued by Actuaries during the 2017/18 financial year. This resulted that a restatement in terms of the actuarial losses amounting to R70 276, decreased during the 2016/17 financial year.

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### 53. Prior-year adjustments and reclassifications (continued)

#### Reclassifications

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017. The municipality has started with a process during the year to align items in the financial statements with the Item Segment of mSCOA. The result of this process was a reclassification and naming of items in the financial statements.

Over and above the mSCOA reclassifications, certain other comparative amounts have been reclassified.

The reclassification of 2017 audited amounts can be summarised as follows:

#### Payables from exchange transactions

Consumer deposits amounting to R66 042 were included in payables from exchange transactions for the financial year ended 30 June 2017. This amount was reclassified to consumer deposits.

During the audit of comparative figures, it was identified that creditors with debit balances were incorrectly included in trade and other payables from exchange transactions instead of receivables from non-exchange transactions. This resulted in a reclassification amount of R572 798, increasing payables from exchange transactions.

#### Consumer deposits

Consumer deposits amounting to R66 042 were included in payables from exchange transactions for the financial year ended 30 June 2017. This amount was reclassified to consumer deposits.

#### Reserves

The capital replacement reserve amounting to R1 770 303 was included in accumulated surplus in the previous year. This has been separately disclosed in the current year.

The housing development fund amounting to R1 680 451 was included in accumulated surplus in the previous year. This has been separately disclosed in the current year.

The donations and public contribution reserve amounting to R32 994 672 was included in accumulated surplus in the previous year. This has been expertly disclosed in the current year.

#### Sales of goods and service charges

Transactions related to sales of goods were classified as service charges during the 2016/17 financial year. Due to mSCOA implementation, sale of goods amounting to R103 985 were reclassified within other revenue and R52 780 was reclassified from service charges. This resulted in other revenue and service charges decreasing and sale of goods increasing.

#### Licences and permits

Licences and permits were reclassified between exchange and non-exchange transactions. This resulted in licences and permits from non-exchange transactions increasing by R2 496 and licences and permits from exchange transactions decreasing by R2 496.

During the audit it was identified that licences and permits (revenue from exchange transactions) amounting to R950 694 were netted off against operational cost. This was rectified, resulting in revenue from exchange transactions increasing by this amount.

#### Other income and operational revenue

Transactions related to other income amounting to R104 404 were reclassified to sales of goods and operational revenue in terms of mSCOA.

#### Donations and services in kind

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### 53. Prior-year adjustments and reclassifications (continued)

Donations amounting to R1 496 186 and services in kind amounting to R1 341 705 were reclassified to Public contributions and donations in terms of mSCOA.

#### Employee related costs

Employee related costs amounting to R12 703 were reclassified from other expenditure.

#### Finance costs

Reclassification of interest on late payments (SARS) were classified as general expenses in the 2016/17 financial year. This was corrected by reclassifying an amount of R5 184 to interest on overdue accounts (finance cost).

Post retirement medical aid - interest cost were reclassified as employee related costs in the 2016/17 financial year. This was corrected by reclassifying an amount of R302 000 to interest - employee benefits (finance cost).

#### Transfers and subsidies

Transfers and subsidies amounting to R56 270 were reclassified from general expenses due to mSCOA implementation.

#### Inventory consumed

Inventory consumed amounting to R840 571 was reclassified from general expenses due to mSCOA implementation.

#### Repairs and maintenance, general expenses and collection costs

Due to mSCOA implementation repairs and maintenance amounting to R2 103 781 were reclassified between inventory consumed and contracted services.

Collection costs amounting to R204 840 were reclassified to operational cost.

General expenses amounting to R17 767 808 were reclassified to various line items of expenditure in the Statement of Financial Performance.

#### Contracted services

Contracted services amounting to R6 855 350 was reclassified from general expenses due to mSCOA implementation.

#### Operational cost

An amount of R11 894 250 was reclassified from general expenses due to mSCOA implementation.

### 54. Comparative figures

Certain comparative figures have been reclassified. Refer to note 53.

### 55. Risk management

#### Financial risk management

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

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### 55. Risk management (continued)

#### Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2018	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Payables from exchange transactions	7 794 801	-	-	-	7 794 801
Consumer deposits	590 700	-	-	-	590 700
	<u>8 385 501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8 385 501</u>
At 30 June 2017	Less than 1 year	1 - 2 years	2 - 5 years	More than 5 years	Total
Payables from exchange transactions	6 722 715	-	-	-	6 722 715
Consumer deposits	551 017	-	-	-	551 017
	<u>7 273 732</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7 273 732</u>

#### Credit risk

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

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

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

Financial instrument	2018	2017
Cash and cash equivalents	10 169 928	5 875 467
Receivables from exchange transactions	2 137 412	1 872 758
Receivables from non-exchange transactions	7 845 964	2 663 362
Current portion of long-term receivables from exchange transactions	1 010	763

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### 56. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of R 136 224 981 and that the municipality's current assets exceed its liabilities by R3 206 366.

The municipality had a surplus of R5 704 451 (2017: Deficit R10 790 387). A net surplus indicates that the municipality is able to reasonably contain its operating expenditure or collect its reasonably anticipated revenue.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality through the provision of equitable share, and additionally the accounting officer will continue to tightly manage the cashflow of the municipality.

The Municipality is fully implementing the Debt Collection and Credit Control Policy. Electricity is cut off on a monthly basis due to non-payment of service accounts. Outstanding amounts in the areas where the Municipality is not the supplier of electricity are harder to collect with normal credit control processes. The Municipality has appointed a local debt collector to visit the debtors in all the supplying areas.

The payment rate for 2017/2018 financial year was 89,1%. The current payment rate is 88.93%. The total amount outstanding for services debtors and rates at 30 June 2018 was R7 065 million. The total amount outstanding for longer than 12 months was R3,818 million and this amounts to 54,04% of all the debtors outstanding. The total cash trapped in outstanding debtors older than 90 Days amount to R7,064 million.

Municipalities must surrender some unspent conditional grants to the National Treasury at year-end. It appears that the unspent conditional grants were more than the available cash, however, the municipality requests from National Treasury for these unspent grants to be rolled-over in order to spend monies on existing and new capital projects.

In many instances the real challenge faced by municipality's is a low revenue base and the tariffs are in some instances insufficient to sustain municipal functions, however in this instance, Laingsburg Municipality's revenue is seemingly within range when compared to the prior year. The only significant increase in revenue is monies received from government grants and subsidies.

The municipality will continue in operation and meet its statutory and financial obligations for the foreseeable future.

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<b>57. Unauthorised expenditure</b>				
Opening balance	271 147	271 147		
Unauthorised expenditure - operating	3 616 194	-		
Unauthorised expenditure - capital	1 033 602	-		
	<u>4 920 943</u>	<u>271 147</u>		
<b>Unauthorised expenditure current year - operating</b>	<b>Actual</b>	<b>Final Budget</b>	<b>Variance</b>	<b>Unauthorised expenditure</b>
Vote 1 - Mayoral and Council	4 239 885	4 912 100	(672 215)	-
Vote 2 - Municipal Manager	2 389 712	3 498 600	(1 108 888)	-
Vote 3 - Corporate Services	7 820 254	6 473 100	1 347 154	1 347 154
Vote 4 - Budget and Treasury	11 513 640	13 141 738	(1 627 964)	-
Vote 5 - Planning and Development	943 161	1 227 400	(284 239)	-
Vote 6 - Community and Social Services	938 716	1 247 100	(308 384)	-
Vote 7 - Sport and Recreation	486 845	820 000	(333 155)	-
Vote 8 - Housing	6 917	184 200	(177 283)	-
Vote 9 - Public Safety	25 541 077	31 224 800	(6 632 529)	-
Vote 10 - Road Transport	7 729 524	9 944 000	(2 217 239)	-
Vote 11 - Waste Management	1 531 251	1 480 600	50 651	50 651
Vote 12 - Waste Water Management	4 198 941	2 249 600	1 949 341	1 949 341
Vote 13 - Water	3 111 247	2 842 200	269 047	269 047
Vote 14 - Electricity	7 856 415	8 268 800	(412 385)	-
	<u>78 307 585</u>	<u>87 514 238</u>	<u>(10 158 088)</u>	<u>3 616 193</u>
<b>Unauthorised expenditure current year - capital</b>	<b>Actual</b>	<b>Final Budget</b>	<b>Variance</b>	<b>Unauthorised expenditure</b>
Vote 3 - Corporate Services	-	1 000	(1 000)	-
Vote 6 - Community and Social Services	-	173 520	(173 520)	-
Vote 7 - Sport and Recreation	-	774 023	(774 023)	-
Vote 10 - Road Transport	1 033 602	-	1 033 602	1 033 602
Vote 13 - Water	3 245 673	13 173 757	(9 928 083)	-
Vote 14 - Electricity	1 737 450	1 995 205	(12 730)	-
	<u>6 016 725</u>	<u>16 117 505</u>	<u>(9 855 754)</u>	<u>1 033 602</u>
<b>58. Fruitless and wasteful expenditure</b>				
Opening balance		14 823	-	
Fruitless and wasteful expenditure current year		28 221	30 762	
Condoned or written off by Council		-	(15 939)	
		<u>43 044</u>	<u>14 823</u>	
Interest on late payment of suppliers was written off by Council.				
<b>59. Irregular expenditure</b>				
Opening balance		30 961 026	40 434 784	
Irregular expenditure current year		10 764 301	18 008 181	
Condoned or written off by Council		-	(27 481 939)	
		<u>41 725 327</u>	<u>30 961 026</u>	



# Laingsburg Local Municipality

(Registration number WC051)

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>59. Irregular expenditure (continued)</b>		
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	10 764 301	7 835 595
Prior years	30 961 026	23 125 431
	<u>41 725 327</u>	<u>30 961 026</u>
<b>Details of irregular expenditure – current year</b>		
The appointment of the previous municipal manager, Mr. SC Pieterse, was not in accordance with section 54A(2) of the Municipal Systems Act, paragraph 2 of Annexure B of the Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers and paragraph 1 of Annexure B of the Local Government: Regulations on Appointment and Conditions of Employment of Senior Managers. Based on the inspection of the court order, case number 21375/17 dated 14/12/2017 made in the High court of South Africa, the appointment of Mr. SC Pieterse was unlawful and contrary to the applicable statutory and regulatory provisions, and accordingly null and void.	356 507	
Mr. KJ Gertse was promoted internally without following the municipality's official recruitment process (which involves advertising the position internally). The promotion letter, dated 7 July 2017 and approved by the then municipal manager, Mr. SC Pieterse, revealed that Mr KJ Gertse was promoted to Head of Supply Chain Management (salary scale T-13) effective from 1 July 2017. This appointment is in contravention of section 67(1)(e) of the Municipal Systems Act.	25 135	
Expenditure declared as Irregular during previous Auditor-General Compliance Audits	10 100 814	
Procurement was done without involving SCM Unit - Formal Written Price Quotations	146 268	
Procurement were done without involving SCM Unit - x3 Quotations not obtained	135 577	
	<u>10 764 301</u>	
<b>60. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government - SALGA</b>		
Opening balance	168 357	57 500
Current year subscription fee	500 000	428 357
Amount paid - current year	(320 000)	(317 500)
	<u>348 357</u>	<u>168 357</u>
<b>Material losses</b>		
Electricity	1 058 383	37 216
Water	3 271 132	1 971 820
	<u>4 329 515</u>	<u>2 009 036</u>

Laingsburg experienced an average electricity loss of R1 058 383.86 (2017: R37 215.63) in the 2017/2018 financial period. The percentage loss during distribution for the current year was 9.19% (2017: 3.17%).

Laingsburg experienced an average water loss of R 3 271 132.16 (2017: R1 971 820) for the 2017/2018 financial period. The percentage loss during distribution for the current year was 61.36% (2017: 51.80%).



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## Notes to the Annual Financial Statements

	2018 R	2017 R	
<b>60. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>			
<b>Audit fees</b>			
Opening balance	6 188	2 628 224	
Current year subscription fee	964 810	-	
Amount paid - current year	(981 310)	(1 280 331)	
Amount paid - National Treasury	-	(1 341 705)	
	<u>(10 312)</u>	<u>6 188</u>	
<b>PAYE, SDL and UIF</b>			
Opening balance	117 114	122 286	
Current year payroll deductions and Council Contributions	3 086 804	3 099 403	
Amount paid - current year	(3 199 553)	(3 104 575)	
	<u>4 365</u>	<u>117 114</u>	
<b>Pension and Medical Aid Deductions</b>			
Opening balance	149 916	(75 395)	
Current year payroll deductions and Council Contributions	4 825 279	4 242 781	
Amount paid - current year	(4 231 808)	(4 017 470)	
	<u>743 387</u>	<u>149 916</u>	
<b>VAT</b>			
VAT receivable	<u>2 846 463</u>	<u>1 637 372</u>	
<b>Councillors' arrear consumer accounts</b>			
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:			
30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
I Brown	41 271	16 289	57 560
BA Kleinbooi	3 034	36 583	39 617
	<u>44 305</u>	<u>52 872</u>	<u>97 177</u>
During the year the following Councillors' had arrear accounts outstanding for more than 90 days.			
30 June 2018		Highest outstanding amount	Aging (in days)
I Brown		10 522	120
BA Kleinbooi		34 788	120
		<u>45 310</u>	<u>240</u>

# Laingsburg Local Municipality

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## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>61. Deviation from supply chain management regulations</b>		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Accounting Officer and noted by Council. The expenses incurred as listed hereunder have been condoned.		
<b>Type of deviation</b>		
If such goods or services are produced or available from a single provider only (Reference to SCM Regulations 36(1)(a)(ii))	42 829	121 322
In any other exceptional case where it is impractical or impossible to follow the official procurement processes (Reference to SCM Regulations 36(1)(a)(v))	1 074 203	1 559 447
In an emergency (Reference to SCM Regulations 36(1)(a)(i))	-	43 786
	<u>1 117 032</u>	<u>1 724 555</u>

## 62. Budget differences

### Material differences between budget and actual amounts

Material differences between the adjusted budget and actual amounts are deemed material if it differs with more than 10%.

Below are the reasons explained for these material differences:

### Statement of Financial Position

#### Assets

#### Inventory

A proper inventory system was not setup, therefore proper budgeting could not be done.

#### Receivables from exchange and non-exchange transactions

During the compilation of the annual financial statements, the allowance for impairment was calculated and gave rise to a significant increase. Management assumed during the budget process that outstanding fines would be lower.

Furthermore, no separate budget was performed between receivables from exchange and non-exchange transactions, but the budget was allocated to "consumer debtors".

#### VAT receivable

An extensive VAT reconciliation was performed during the 2017/18 financial year which resulted in numerous VAT adjustments. Furthermore during the audit it was identified that expenditure was recorded inclusive of VAT. This was corrected, therefore increasing the amount at year end.

#### Cash and cash equivalents

The significant increase gave rise to more unspent conditional grants for the financial year ended 30 June 2018. The municipality did not expect that these grants would remain as "unspent" at year end.

#### Intangible assets

During the compilation of the annual financial statements and the fixed asset register being updated, numerous prior period errors occurred. It should be noted that even though these errors occurred, it remained within the allocated budget amount.

#### Heritage assets

Heritage assets were appropriately budgeted for under other non-current assets.

#### Investment property

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018  
R

2017  
R

### 62. Budget differences (continued)

During the compilation of the annual financial statements and the fixed asset register being updated, numerous prior period errors occurred which affected the opening balances of investment properties as at 1 July 2017. Taking into consideration that these errors increased the carrying value of investment property. Therefore during the budget process, the municipality did not foresee these changes, hence the significant variance between the actual and budget amounts.

#### *Liabilities*

##### **Finance leases**

During the compilation of the annual financial statements and the fixed asset register being updated, numerous prior period errors occurred which resulted in finance lease being disclosed for the 2016/17 and 2017/18 financial year. Due to prior reporting periods, no budget was allocated for finance leases.

##### **Trade and other payables from exchange transactions**

During the compilation of the annual financial statements it was found that creditors were not accounted for on the accrual basis. Numerous transactions gave rise to an increase in payables from exchange transactions.

##### **Consumer deposits**

An increase in consumer deposits resulted due to more deposit top ups during the financial year.

##### **Employee benefits**

Actuarial Valuation of the Long Service Award liability and Post Retirement Medical Aid subsidy liability is not a funded arrangement, and the purpose of the evaluation is to enable the Municipality to make an appropriate Financial Statement provision.

##### **Unspent conditional grants and receipts**

The municipality received additional grants during the financial year which they did not budget for. The reason being that these grants were determined based on the needs and service delivery to all consumers as well as to uphold the infrastructure of Laingsburg.

##### **Provisions**

The reason for the significant variance is due to additions in provision for the rehabilitation of landfill site amounting to R2 309 046 (2017: R188 559).

##### **Net assets**

##### **Reserves and accumulated surplus**

No budget was allocated to reserves, as the balances were brought forward from previous years. Furthermore numerous prior period errors occurred which resulted in the increase in accumulated surplus which the municipality did not foresee.

#### **Statement of Financial Performance**

##### **Revenue**

##### **Sale of goods and other income**

During the 2017/18 financial year the municipality implemented the new municipal standard chart of accounts (mSCOA). This resulted in various reclassifications during the financial year. In retrospect, revenue was mainly budgeted for under service charges. The variance between actual amounts and the budget amounts is less than 10%.

##### **Rental of facilities and equipment**

# Laingsburg Local Municipality

(Registration number WC051)

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 62. Budget differences (continued)

Rental of facilities amounting to R1.9m were more than budgeted for, due to increases in income received from rental of premises, land, facilities and equipment. The budget is determined using past trends as a basis, which was lower than the actual revenue realised during 2017/2018.

#### Agency services

More truck licences were renewed during the year compared to the previous year, which results in agency services increasing. The budget is determined using past trends as a basis, which was lower than the actual agency services received during 2017/2018.

#### Licences and permits

Licences and permits (exchange and non-exchange) amounted to R1 354 267 were more than the budget amount due to more licences and permits issued during the year than anticipated.

#### Interest earned

Interest earned was more than the budget amount due to more interest earned on external investments and bank accounts during the year. The fluctuations of interest rates can also attribute to more interest earned while the budget amount was based on a fixed interest rate.

#### Property rates

Property rates amounting to R3.5m was less than the budget amount due to Agricultural properties qualifying for higher rebates. Less revenue received from Agricultural properties.

#### Actuarial gains

Actuarial Valuation of the Long Service Award liability and Post Retirement Medical Aid subsidy liability is not a funded arrangement, and the purpose of the evaluation is to enable the Municipality to make an appropriate Financial Statement provision. Although a gain was accounted for in the current year, the prior year resulted in an actuarial loss. Based on the aforementioned, no budget can be made when valuations vary from year to year.

#### Government grants and subsidies

Due to the extreme weather conditions the Western Cape is facing, the municipality received additional grants for drought support which they did not anticipate to receive.

#### Fines, penalties and forfeits

Fines revenue is less than the budget amount due to Provincial fine revenue only recognised during the audit process finalisation.

#### Expenditure

##### Inventory consumed and operational cost

During the 2017/18 financial year the municipality implemented the new municipal standard chart of accounts (mSCOA). This resulted in various reclassifications during the financial year. The adjustment budget was approved on 28 February 2018, before the implementation of mSCOA. Expenditure relating to inventory consumed was budgeted for under general expenses / operational cost. The Municipality anticipated that expenditure for the current year will increase significantly from the previous year, and budgeted sufficiently to ensure funds are available for expenditure incurred.

##### Depreciation and amortisation

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

2018  
R

2017  
R

### 62. Budget differences (continued)

During the 2017/18 financial year, the Fixed Asset Registers were updated. Depreciation was calculated accordingly. Despite the amount which was budgeted for, the depreciation charge for all assets are dependant on the outcome of the Fixed Asset Registers being updated to agree to the financial statements. Furthermore during the year, finance leases were recognised during the year, which increased the depreciation expense.

#### Impairment loss

Impairment loss was not budgeted for. During the audit execution phase, assets were identified which were obsolete and/or could not be verified. This resulted in the impairment of assets.

#### Finance costs

No provision for finance costs relating to employee benefits were made. The related expenses are dependant on the outcome of the Actuarial Valuations.

#### Lease rentals on operating lease

No provision for lease rentals were made.

#### Debt impairment and bad debts written off

Debt impairment budget relates to the (reversal) / contribution made towards bad debt provision. The budget amount is more than the actual amounts due to the reversal of impairment loss on assessment rates compared to the R16m reversal of impairment loss on fines in the prior year.

#### Transfers and subsidies paid

The budget amount allocated to transfers and subsidies was used to transfer equitable share to all departments within the municipality.

#### Cash Flow Statement

##### Net cash from operating activities

##### Sale of goods and services

Actual revenue from services were more than budgeted due to debt collection and revenue enhancement strategies. The budget was prepared on the assumption of a lower debt collection rate, than what was actual at year end.

##### Taxation

VAT receivable for the year increased due to numerous VAT corrections. VAT was included in revenue, expenditure and assets.

##### Grants and subsidies received

Capital and operating grants received were less than the budget amount. The main reason was that the municipality anticipated sufficient revenue recognition during the year. This was not the case as the balance for unspent conditional grants increased significantly compared to the prior year.

##### Interest

Interest income is less than the budget amount due to interest earned from outstanding receivables from exchange and non-exchange transactions (non-cash item) included in the budget amount, whereas the interest income per the cash flow statements only includes cash items.

##### Suppliers and employees

# Laingsburg Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

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	2018	2017
	R	R

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### 62. Budget differences (continued)

Management anticipated that creditors will be paid in due time. The variance is slightly above 10% which is in line with the budget amount.

#### Finance costs

The amount is incorrect. Included in the amount are non-cash items, i.e. landfill site rehabilitation provision and employee benefits. Only cash items should be included.

#### *Net cash from investing activities*

#### Purchase of property, plant and equipment

Management anticipated that more capital projects will be completed during the year as well as capital additions paid from grants. This was not the case as the unspent portion of the Municipal Drought Support grant amounted to R7 300 000.

#### *Net cash from financing activities*

#### Repayment of borrowings

Finance leases were recognised and disclosed for the 2016/17 and 2017/18 financial year. Due to prior reporting periods, no budget was allocated for finance leases nor the repayment thereof.

#### Consumer deposits

An increase in consumer deposits resulted due to more deposit top-ups during the financial year.