



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

Mopani District Municipality

(Registration number DC33)

Annual Financial Statements for the year ended 30 June 2018

General Information

Nature of business and principal activities	<ul style="list-style-type: none">• Provision of a democratic and accountable Local Government for communities in the mopani district area;• Ensuring the provision of services to these communities in a sustainable manner;• Promotion of social and economic development;• Promotion a safe and healthy environment; and• Encourage the involvement of communities and community organisations in the matters of Local Government in the mopani district
Grading of District Municipality	4
Accounting Officer	Monakedi S.R
Chief Finance Officer	Kgatla Q
Registered office	Government Building Main Road Giyani 0826
Business address	Government Building Main Road Giyani 0826
Postal address	Private Bag X9687 Giyani 0826
Website	www.mopani.gov.za
Currency	South African Rands
Rounding off	Nearest Rand
Bankers	ABSA
Auditors	Auditor - General South Africa
Audit Committee	Dr Manzini H.N (Chairperson) Adv. Kholong S.S.T Mr Hlomane H.G Mrs Mudau M.S Mr Nevhutalu T.G CA (SA)

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ABSA	Amalgamated Banks of South Africa
AFS	Annual Financial Statements

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CFO	Chief Financial Officer
CoGHSTA	Cooperative Governance Human Settlements and Traditional
DWS	Department of Water and Sanitation
EPWP	Extended Public Works Programme
FIFO	First-In-First-Out
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
ICIGFARO	Chartered Institute of Government Finance, Audit and Risk officers
IT	Information Technology
JSE	Johannesburg Stock Exchange
LP	Limpopo Province
LG SETA	Local Government Sector Education and Training Authority
LNW	Lepelle Northern Water
LMs	Local Municipalities
LSA	Long Service Award
MDM	Mopani District Municipality
MWIG	Municipal Water Infrastructure Grant
PMDS	Performance Management and Development System
PPE	Property, Plant and Equipment
PAYE	Pay As You Earn
RHIG	Rural Housing Grant
SDL	Skills Development Levy
SALGBC	South African Local Government Bargaining Council
SALGA	South African Local Government Association
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSA	Water Service Authority
WSOG	Water Service Operating Grant

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and 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 officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or default in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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 6.

The annual financial statements set out on pages 6 to 75, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on his behalf by:



Accounting Officer
Monakedi S.R.

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Accounting Officer's Report

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

1. Review of activities

Main business and operations

2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to secure funding through the national treasury. The most significant of these is that the accounting continues to secure funding through national treasury for the ongoing operations of the municipality. Other factors affecting going concern are as follows:

As at 30 June, the municipality's current liabilities exceed the current assets by R 1,178,844,045 resulting in the municipality to be technically insolvent. This fact on its own does bar the municipality to continue being a going concern given that going concern implies that the municipality will be in existence within 12 months of the balance sheet date. The factors indicated below confirms that the municipality will be in existence within 12 months of the balance sheet date.

a) The municipality is experiencing challenges of collecting own revenue from water and sanitation. This is due to weakness and controls involving management of revenue at the local municipalities since the latter are service providers and the district is the service authority.

b) The municipality is service significant historic obligations that do not necessarily have source of funding other than the funding from National Treasury. These obligations include Lepelle Northern Water estimated at R548 million, Department of Water Affairs estimated at R250 million, as well as litigations and claims that come on an ad hoc basis. These litigations and claims can easily cost the municipality over R100 million per annum.

c) There is a need to relook into the municipality's obligations against its resources as the situation currently is not sustainable.

d) The municipality invests a significant amount of resources in the water and sanitation infrastructure with little if any return. This is as the municipality spend a full calendar year without a cent being received from water and sanitation consumers.

e) It is extremely difficult to effectively monitor the cash flow of the municipality because a lot of payments are historic and come on surprise bases. These payments come in various form including, historic claims of contractors on projects, historic legal fees, unpredictable and excessive overtime payments from essential services sections, etc.

f) More often than not, MIG funding transfer for committed projects from National Treasury gets delayed putting more pressure on the liquidity of the municipality.

g) There is also a significant portion of payments for infrastructure projects funded through own funding outside budgets as most of the payments are made to avoid litigations.

Even though the current liabilities exceed the current assets the municipality is a going concern because of the following reasons:

a) There is a commitment from National Treasury to fund the operations of the municipality through equitable share and conditional grants. This is substantiated by past practice and gazettes issued by National Treasury for the MTREF period under consideration.

b) There is no change in the legislation that impact on the municipality's ability to continue as a going concern;

c) There is plans to ensure that there is effective spending of funds.

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Accounting Officer's Report

d) There is no communication or statement issued by national treasury to the effect that the municipality will no longer qualify funds from the national treasury in the foreseeable future.

(e) The municipality has rearranged its long term debts to have significant portions financed over a long term to allow for liquidity.

(f) In the medium to long - term, the municipality is taking consideration over water and sanitation function with the aim of maximising revenue collection and recovery of debtors, the monies which will be utilised to pay creditors with speed and return to good liquidity and solvency positions.

(g) The municipality has prepared a healthy cashflow projection for the 2018/2019 financial year which has to date been complied with.

(h) The municipality is spending within budget votes which will assist in keeping expenses and liability repayments within budgeted resources

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report is as follows:

Monakedi S.R (South African).
01 April 2017 to date

6. Auditors

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

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Statement of Financial Position as at 30 June 2018

Figures in Rand

	Note(s)	2018	2017 *Restated
Assets			
Current Assets			
Inventories	6	14 175 417	14 756 932
Receivables from exchange transactions	7	228 041 494	194 202 462
VAT receivable	8	104 728 852	85 888 375
Consumer debtors	9	73 021 613	165 724 557
Cash and cash equivalents	10	131 303 661	7 761 017
		551 271 037	468 333 343
Non-Current Assets			
Property, plant and equipment	3	6 160 074 006	4 800 795 934
Intangible assets	4	7 187 186	8 110 303
Heritage assets	5	432 000	432 000
Asset Held for Sale	38	15 504	15 504
		5 177 609 594	4 908 362 831
Total Assets		5 728 880 631	5 376 696 174
Liabilities			
Current Liabilities			
Finance lease obligation	39	3 368 308	-
Payables from exchange transactions	13	1 656 953 711	1 522 846 360
Unspent conditional grants and receipts	11	65 441 472	2 186 553
Consumer deposits		4 351 591	4 039 720
		1 730 115 082	1 529 072 633
Non-Current Liabilities			
Finance lease liability	39	4 784 830	-
Employee cost related provision	12	85 349 118	80 502 509
Provision on Landfill site	37	18 100 781	11 971 993
		108 234 729	92 474 502
Total Liabilities		1 838 349 811	1 621 547 135
Net Assets		3 890 530 820	3 755 149 039
Accumulated surplus		3 890 530 822	3 755 149 043

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Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 *Restated
Revenue			
Revenue from exchange transactions			
Service charges	15	178 850 094	166 927 478
Interest on outstanding debtors		39 628 665	40 355 569
Other income	17	6 522 398	677 360
Interest received - investment		5 437 907	7 128 364
Total revenue from exchange transactions		230 439 064	215 088 771
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	18	1 254 190 123	961 718 681
Total revenue	14	1 484 629 187	1 176 807 452
Expenditure			
Employee costs	19	(376 318 320)	(318 848 636)
Remuneration of Councillors		(13 179 128)	(14 289 258)
Depreciation and amortisation	20	(177 883 702)	(226 767 209)
Impairment of assets	26	(26 304 809)	-
Finance cost	21	(225 612)	(214 110)
Debt Impairment	22	(65 967 708)	(56 090 683)
Bulk purchases	23	(288 788 797)	(313 206 196)
Contracted services	24	(68 498 688)	(62 549 812)
Grants and subsidies paid		(1 325 647)	(863 815)
Repairs and maintenance		(64 406 800)	(80 170 383)
General expenses	25	(144 450 016)	(292 424 308)
Total expenditure		(1 227 349 227)	(1 365 424 410)
Operating surplus (deficit)		257 279 960	(188 616 958)
Surplus (deficit) for the year		257 279 960	(188 616 958)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	3 943 766 001	3 943 766 001
Deficit for the year	(188 616 958)	(188 616 958)
Total changes	(188 616 958)	(188 616 958)
Balance at 01 July 2017	3 755 149 042	3 755 149 042
Net income/(loss) recognised directly in net assets	(121 898 180)	(121 898 180)
Surplus for the year	(121 898 180)	(121 898 180)
Total recognised income and expenses for the year	257 279 960	257 279 960
Total changes	135 381 780	135 381 780
Balance at 30 June 2018	3 890 530 822	3 890 530 822

Note(s)

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Statement of Cashflow

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Taxation		135 219 168	-
Grants		1 317 445 042	984 091 077
Interest income		4 345 432	7 028 526
Other receipts		1 908 427	683 275
VAT refund		58 006 459	139 768 167
		<u>1 516 924 528</u>	<u>1 131 571 045</u>
Payments			
Employee costs		(383 400 497)	(259 732 629)
Suppliers		(540 205 207)	(401 410 511)
Finance costs		(??5 612)	(214 110)
		<u>(929 911 376)</u>	<u>(721 365 250)</u>
Net cash flows from operating activities	27	587 013 152	410 205 795
Cash flows from investing activities			
Purchase of property, plant and equipment	3	<u>(459 705 628)</u>	<u>(511 811 022)</u>
Cash flows from financing activities			
Finance lease payments		<u>(1 116 807)</u>	-
Net increase/(decrease) in cash and cash equivalents		126 190 717	(101 605 227)
Cash and cash equivalents at the beginning of the year		7 761 017	109 357 699
Cash and cash equivalents at the end of the year	10	<u>133 951 734</u>	<u>7 761 017</u>

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	237 721 250	(2 503 757)	235 217 493	178 850 094	(56 367 399)	24.08
Interest on outstanding debtors	-	-	-	39 628 665	39 628 665	
Other income - (rollup)	1 040 000	620 000	1 660 000	6 522 398	4 862 398	13.68
Interest received - investment	10 300 000	(4 000 000)	6 300 000	5 437 907	(862 093)	9.62
Total revenue from exchange transactions	249 061 250	(5 883 757)	243 177 493	230 439 064	(12 738 429)	

Revenue from non-exchange transactions

Transfer revenue

Government grants & subsidies	1 337 249 000	40 942 287	1 378 191 287	1 254 190 123	(124 001 164)	9.30
Total revenue	1 586 310 250	35 058 530	1 621 368 780	1 484 629 187	(136 739 593)	

Expenditure

Personnel	385 589 864	(18 612 932)	366 976 932	(376 318 320)	(743 295 252)	196.47
Remuneration of councillors	8 508 768	3 179 504	11 688 272	(13 179 128)	(24 867 400)	363.89
Depreciation and amortisation	184 687 757	-	184 687 757	(177 883 702)	(362 571 459)	197.71
Impairment loss/ Reversal of impairments	-	-	-	(26 304 809)	(26 304 809)	
Finance costs	-	-	-	(225 612)	(225 612)	
Debt Impairment	-	-	-	(65 967 708)	(65 967 708)	
Bulk purchases	152 840 000	12 000	152 852 000	(288 788 797)	(441 640 797)	2.89
Contracted Services	-	-	-	(68 498 688)	(68 498 688)	
Debt Impairment	23 398 895	827 000	24 225 895	(1 325 647)	(25 551 542)	
Transfer and Grants	-	-	-	(64 406 800)	(64 406 800)	
General Expenses	755 025 284	16 248 428	738 776 856	(144 450 016)	(883 226 872)	3.23
Total expenditure	1 510 050 568	1 654 000	1 479 207 712	(1 227 349 227)	(2 706 556 939)	
Operating surplus	3 096 360 818	36 712 530	3 133 073 348	257 279 960	(2 875 793 388)	
Transfer Recognised - Capital	640 834 648	(30 359 022)	610 475 626	-	(610 475 626)	100
Surplus before taxation	3 737 195 466	6 353 508	3 743 548 974	257 279 960	(3 486 269 014)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	3 737 195 466	6 353 508	3 743 548 974	257 279 960	(3 486 269 014)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved Budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	338 752 968	-	338 752 968	228 041 494	(110 711 474)	51.59
VAT receivable	-	-	-	104 728 852	104 728 852	
Inventory	-	-	-	14 175 417	14 175 417	
Consumer debtors	298 578 682	-	298 578 682	73 021 613	(225 557 069)	75.54
Cash and cash equivalents	-	-	-	131 303 661	131 303 661	
	637 331 650	-	637 331 650	551 271 037	(86 060 613)	
Non-Current Assets						
Property, plant and equipment	4 802 348 242	-	4 802 348 242	5 169 974 905	367 626 663	0.08
Intangible assets	10 241 957	-	10 241 957	7 187 185	(3 054 772)	29.83
Heritage assets	-	-	-	432 000	432 000	
Asset Held for Sale	-	-	-	15 504	15 504	
	4 812 590 199	-	4 812 590 199	5 177 609 594	365 019 395	
Total Assets	5 449 921 849	-	5 449 921 849	5 728 880 631	278 958 782	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	3 368 308	3 368 308	
Payables from exchange transactions	531 127 376	-	531 127 376	1 656 953 711	1 125 826 335	66.53
Consumer deposits	4 674 666	634 946	4 039 720	-	(4 039 720)	0.07
Unspent conditional grants and receipts	-	-	-	65 441 472	65 441 472	
Consumer deposits	-	-	-	4 351 591	4 351 591	
	535 802 042	634 946	535 167 096	1 730 115 082	1 194 947 986	
Non-Current Liabilities						
Operating lease liability	-	-	-	4 784 830	4 784 830	
Employee cost related provision	63 364 489	-	63 364 489	85 349 118	21 984 629	34.69
Provision on Landfill site	-	-	-	18 100 781	18 100 781	
	63 364 489	-	63 364 489	108 234 729	44 870 240	
Total Liabilities	599 166 531	634 946	598 531 585	1 838 349 811	1 239 818 226	
Net Assets	4 850 755 318	(634 946)	4 851 390 264	3 890 530 820	(960 859 444)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	4 850 755 318	(4 850 755 318)	-	3 890 530 820	3 890 530 820	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Percentage
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Other revenue	238 000 000	-	31 660 000	199 479 489	167 819 489	
Government - operating	763 067 000	-	764 008 000	835 749 961	71 741 961	
Government - capital	559 950 000	-	559 950 000	481 695 081	(78 254 919)	
	1 561 017 000	-	1 355 618 000	1 516 924 531	161 306 531	
Payments						
Employee costs	(701 814 000)	-	(741 973 000)	(383 400 497)	358 572 503	
Other cash item	-	-	-	(549 158 947)	(549 158 947)	
	(701 814 000)	-	(741 973 000)	(932 559 444)	(190 586 444)	
Net cash flows from operating activities	859 203 000	-	613 645 000	584 365 087	(29 279 913)	
Cash flows from investing activities						
Capital assets	(640 835 000)	30 359 000	(610 476 000)	(459 705 628)	150 770 372	
Finance lease payments	-	-	-	(1 116 807)	(1 116 807)	
Net cash flows from investing activities	(640 835 000)	30 359 000	(610 476 000)	(460 822 435)	149 653 565	
Net increase/(decrease) in cash and cash equivalents	218 368 000	30 359 000	3 169 000	123 542 652	120 373 652	
Cash and cash equivalents at the beginning of the year	(109 357 699)	30 359 000	(610 476 000)	7 761 017	618 237 017	
Cash and cash equivalents at the end of the year	109 010 301	60 718 000	(607 307 000)	131 303 669	738 610 669	

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Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 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.

1.2 Significant judgements and sources of estimation uncertainty

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

Trade receivables or loans and receivables

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Post retirement benefits

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

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

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

Effective interest rate

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

Allowance for doubtful debts

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

Cash and Cash equivalents

Cash and Cash equivalents are measured at cost.

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

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with bankst

Trade payables

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

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Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Events after balance sheet date

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Balance Sheet date. Events after the balance sheet date that are indicative of conditions that arose after the Balance Sheet date are disclosed with by way of note to the Financial Statements

Disclosure for each material category of non-adjusting events after the reporting date should be done disclosing the nature of the event and the estimation of its financial effect or a statement that such an estimation cannot be made.

1.3 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.

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

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

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

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

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

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

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

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

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

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1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	4 - 10 years
Furniture and fixtures	5 - 7 years
Motor vehicles	7 - 15 years
Work In Progress	4 - 5 years
Information Technology Equipment	4 years
Specilised vehicles	15 years
Water reservoir reticulation	5 - 60 years
Sewerage purification	5 - 60 years

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

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

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Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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).

1.4 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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1.4 Intangible assets (continued)

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Licenses and franchises	5 years
Computer software	5 years
Blyde Water Utility	20 years

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of intangible assets is determined as the difference between the net disposal proceeds. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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Accounting Policies

1.5 Heritage assets (continued)

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.

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.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

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).

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.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation municipality. However, the increase is recognised in municipality or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in municipality or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in municipality or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation municipality in respect of that 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 municipality 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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Accounting Policies

1.6 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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1.6 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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Accounting Policies

1.6 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Other receivables	loans and receivables
Loans and receivables	loans and receivables
Consumer debtors	loans and receivables
Held to maturity investments	Held on maturity

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, 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.

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

Reclassification

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

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

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 municipality or deficit.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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Accounting Policies

1.6 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 municipality 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 municipality 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.

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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Accounting Policies

1.8 Inventories

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

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

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

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

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. After inventory is assessed at the end of the year, obsolete items are written down using the market value of the inventory items.

1.9 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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1.9 Construction contracts and receivables (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

[Specify judgements made]

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.

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1.10 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

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 municipality or deficit.

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

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

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

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1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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1.10 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 municipality 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.

1.11 Employee benefits

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

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

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

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

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

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

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

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

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Accounting Policies

1.11 Employee benefits (continued)

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

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an 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.

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1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (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 entity during a reporting period, the entity 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 entity 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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1.11 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 entity 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 entity) that are held by an entity (a fund) that is legally separate from the reporting entity 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 entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity 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 entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity'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 entity 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 municipality or deficit.

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1.11 Employee benefits (continued)

The entity 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 entity recognises the net total of the following amounts in municipality 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 entity 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, an entity 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, an entity 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 entity 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 entity 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 entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a municipality 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

1.11 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.

Long term service awards

Employees qualify for additional leave for various period of uninterrupted service in accordance with SALGBC condition of service. The long term service award measured in accordance with GRAP 25 through an actuarial valuation.

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; and
- less 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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1.11 Employee benefits (continued)

Accumulated leave days

Accumulated leave benefit accrues to employees up to maximum of 48 leave days. The benefits are paid in the events of death, disability, retrenchment or/and retirement. Employees who have leave days in excess of the 48 days for periods, before the conditions of service came to effect, are measured in accordance with GRAP 25 through an actuarial valuation

The municipality is demonstrably committed to a termination when the municipality 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.

1.12 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.

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1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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.

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and

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Accounting Policies

1.12 Provisions and contingencies (continued)

- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Contingent Assets

Contingent assets are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognised, but they are disclosed when it is more likely than not that an inflow of benefits will occur. However, when the inflow of benefits is virtually certain an asset is recognised in the statement of financial position, because that asset is no longer considered to be contingent.

Contingent Liability

A contingent liability is not recognised as it is a potential liability that may occur depending on the outcome of a future event. A contingent liability is recorded in the accounting records if the contingency is probable and the amount of the liability can be reasonably determined. If both are not met, the liability may be disclosed in the notes to the financial statements.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality 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 municipality 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. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

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Accounting Policies

1.14 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.

Service charges

When the outcome of the transactions involving the rendering of services can be estimated reliably, revenue with transaction is recognised. 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 to the extent expenditure incurred is recoverable.

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

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 municipality or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

1.15 Revenue from non-exchange transactions

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

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

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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

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

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1.15 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

1.16 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.

1.17 Comparative figures

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

1.18 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.

1.19 Fruitless and wasteful expenditure

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

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

1.20 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 or -
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

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1.20 Irregular expenditure (continued)

(c) any provincial legislation providing for procurement procedures in that provincial government.

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

Irregular expenditure that was incurred and identified during the current financial year and 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.

1.21 Budget information

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

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

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

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

Variances above 10 percent are considered significant.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts. The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, entities within the National, Provincial and Local sphere of government are considered to be related parties.

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

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

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

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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in those Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard in the current year.

The standard does not have a material impact on the municipality's financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

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2. New standards and interpretations (continued)

General definitions:

The definitions of cash-generating assets and cash generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non cash generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality has adopted the standard in the current year. The standard does not have a material impact on the municipality's financial statements

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 32: Service Concession Arrangements: Grantor

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

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

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

The municipality will adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 108: Statutory Receivables

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

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

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

The municipality will adopt the standard once the effective date is announced by the Minister of Finance

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

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

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2. New standards and interpretations (continued)

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

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

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

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

The municipality will adopt the standard once the effective date is announced by the Minister of Finance

GRAP 18: Segment Reporting

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

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

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the the transitional provision in that standard expires.

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

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

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

GRAP 20: Related parties

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2. New standards and interpretations (continued)

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

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

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

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

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

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

A person or a close member of that person's family is related to the reporting entity if that person:

- has control or joint control over the reporting entity; - has significant influence over the reporting entity;
- is a member of the management of the entity or its controlling entity.

An entity is related to the reporting entity if any of the following conditions apply:

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

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

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

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

- Control;

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2. New standards and interpretations (continued)

- Related party transactions; and

- Remuneration of management

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

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

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

2.3 Standards and interpretations not yet effective or relevant

GRAP 109: Accounting by Principals and Agents

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

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

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

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

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

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

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

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

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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	11 980 776	-	11 980 776	11 980 776	-	11 980 776
Buildings	152 584 965	(71 773 833)	80 811 132	158 367 239	(71 984 541)	86 382 698
Work In Progress	1 078 127 732	-	1 078 127 732	685 661 109	-	685 661 109
Infrastructure	7 381 713 319	(3 426 718 690)	3 954 994 629	7 346 646 371	(3 267 260 027)	4 079 386 344
Other property, plant and equipment	6 497 558	(29 140 502)	3 357 056	61 286 609	(25 629 252)	35 657 357
Other leased Assets	6 336 305	(32 725)	6 303 580	760 375	(32 725)	727 650
Total	8 698 240 655	(3 528 265 750)	5 169 974 905	8 264 702 479	(3 364 906 545)	4 899 795 934

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Prior adjustments	Write offs	Impairment	Transfers	Depreciation	Total
Land	11 980 776	-	-	-	-	-	-	11 980 776
Buildings	86 382 698	801 403	-	-	-	-	(6 372 969)	80 811 132
Work in progress	685 661 109	463 699 663	727 653	-	(1 957 049)	(70 003 644)	-	478 127 732
Infrastructure	4 079 386 344	70 442 030	3 271 711	(7 742 115)	(24 347 761)	-	(166 015 580)	3 954 994 629
Other property, plant and equipment	35 657 357	-	2 099 699	-	-	-	-	37 757 056
leased Assets	727 650	6 755 158	(727 650)	(451 578)	-	-	-	6 303 580
	4 899 795 934	541 698 254	5 371 413	(8 193 693)	(26 304 810)	(70 003 644)	(172 388 549)	5 169 974 905

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Prior year adjustments	Transfers received	Depreciation	Total
Land	11 980 776	-	-	-	-	11 980 776
Buildings	98 213 283	65 000	(5 009 116)	-	(6 886 469)	86 382 698
Work In Progress	464 903 877	472 365 012	(213 156 399)	(38 451 381)	-	685 661 109
Infrastructure	4 034 276 465	38 386 361	169 219 071	-	(162 495 573)	4 079 386 344
Other property, plant and equipment	38 291 349	994 629	-	-	(3 628 621)	35 657 357
leased Assets	2 797	-	727 651	-	(2 798)	727 650
	4 647 668 547	511 811 022	(48 218 793)	(38 451 381)	(173 013 461)	4 899 795 934

Pledged as security

Carrying value of assets pledged as security:

Heritage assets

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.

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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	1 577 760	(1 034 781)	542 979	1 577 760	(1 034 781)	542 979
Blyde Utility	7 576 414	(932 208)	6 644 206	13 991 354	(6 414 940)	7 576 414
Total	9 154 174	(1 966 989)	7 187 185	15 569 114	(7 449 721)	8 119 393

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software, other	542 979	-	542 979
Blyde Utility	7 576 414	(932 208)	6 644 206
	8 119 393	(932 208)	7 187 185

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, other	1 112 291	(569 312)	542 979
Blyde Utility	7 987 719	(411 305)	7 576 414
	9 100 010	(980 617)	8 119 393

Pledged as security

Carrying value of intangible assets pledged as security:

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5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	432 000	-	432 000	432 000	-	432 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral Chain	432 000	432 000

Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	432 000	432 000

6. Inventories

Consumable stores	16 770 550	14 287 634
Ba - Phalaborwa Municipality	-	6 545
Greater Giyani Municipality	-	60 553
Greater Tzaneen Municipality	61 441	310 749
Greater Letaba Municipality	56 618	91 451
	<u>16 888 609</u>	<u>14 756 932</u>
Inventories (write-downs)	(2 713 192)	-
	<u>14 175 417</u>	<u>14 756 932</u>

7. Receivables from exchange transactions

Staff Debtors	389 918	429 868
Audit Committee Proportional Payment	2 612 341	2 612 341
Councillors Debtors	1 093 333	170 168
Service Providers	1 865 543	1 067 701
Interest receivable	865 962	-
Greater Tzaneen Municipality	11 631	1 462 446
Ba - Phalaborwa Municipality	209 838 173	177 095 345
National Treasury	11 364 593	11 364 593
	<u>228 041 494</u>	<u>194 202 462</u>

8. VAT receivable

VAT	104 728 852	85 888 375
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9. Consumer debtors

Gross balances		
Water	650 962 446	641 928 911
Sewerage	96 056 977	132 742 054
Total gross balances	<u>747 019 423</u>	<u>774 670 965</u>

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9. Consumer debtors (continued)

Less: Allowance for impairment

Water	(608 094 199)	(556 516 413)
Sewerage	(65 903 611)	(52 429 995)
Total allowance for impairments	(673 997 810)	(608 946 408)

Net balance

Water	42 868 247	85 412 498
Sewerage	30 153 366	80 312 059
Total net balance	73 021 613	165 724 557

Water

Current (0 -30 days)	6 850 882	8 983 625
31 - 60 days	8 602 678	3 823 778
61 - 90 days	3 845 386	3 379 997
91 - 120 days	3 158 242	2 907 115
121 - 365 days	9 605 265	7 853 656
> 365 days	618 899 993	660 112 375
Impairment	(588 318 736)	(529 587 083)
Total	62 643 710	157 473 463

Sewerage

Current (0 -30 days)	3 389 989	1 649 277
31 - 60 days	1 199 828	1 064 305
61 - 90 days	2 178 673	916 207
91 - 120 days	2 740 673	1 876 078
121 - 365 days	12 663 133	5 182 076
>365 days	73 884 462	78 204 792
Impairment	(85 679 075)	(80 641 641)
Total	10 377 683	8 251 094

Reconciliation of allowance for impairment

Balance at beginning of the year	(610 228 726)	(571 131 593)
Contributions to allowance	(65 967 707)	(37 814 815)
Bad debts written off	2 198 623	-
Total	(673 997 810)	(608 946 408)

Consumer debtors per local municipality

Consumer debtors	-	-
Ba - Phalaborwa Municipality	460 027 217	446 121 307
Greater Tzaneen Municipality	96 363 435	71 785 675
Greater Giyani Municipality	122 845 762	98 404 735
Greater Letaba	66 229 819	33 545 888
Consumer debtors	1 553 190	-

Total

747 019 423 649 857 605

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	18 026 614	5 431 485
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10. Cash and cash equivalents (continued)		
Short term deposits	113 277 047	2 329 532
	131 303 661	7 761 017

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 BANK - 40-5277-1364	18 021 112	5 431 485	16 804 189	18 021 112	5 431 485	16 804 189
ABSA BANK - 40-8091-1671	32 405 565	2 083 248	53 038 542	32 405 565	2 083 248	53 038 542
ABSA BANK - 40-8091-1613	80 871 817	237 738	39 514 968	80 871 817	237 738	39 514 968
Growbus - 40-8937-0832	5 502	-	-	5 502	-	-
Total	131 303 996	7 752 471	109 357 699	131 303 996	7 752 471	109 357 699

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2018	2017
Municipal Infrastructure Grant (MIG)	27 011 629	-
Rural Transport Grant	2 049 000	2 049 000
Water Services Infrastructure Grant	36 380 843	137 553
Total	65 441 472	2 186 553

12. Employee cost related provision

Reconciliation of employee cost related provision - 2018

	Opening Balance	Additions	Total
Post retirement medical aid benefits	64 052 881	2 669 792	66 722 673
Long service awards	16 449 628	2 176 817	18 626 445
Total	80 502 509	4 846 609	85 349 118

Reconciliation of employee cost related provision - 2017

	Opening Balance	Additions	Total
Post retirement medical aid benefits	62 168 459	1 884 422	64 052 881
Long service awards	16 531 270	(81 642)	16 449 628
Total	78 699 729	1 802 780	80 502 509

An actuarial valuation has been performed.

Post retirement medical aid benefit

The municipality offers employees LSA for every five years of service completed from ten years of service to 45 years of service inclusive. (Table shown below)

Completed Service (in years)	Long Service bonuses (% of Annual Earnings)	Description
10	4.0%	10/250xannual earnings

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12. Employee cost related provision (continued)

15	8.0%	10/250xannual earnings
20,25,30,35,40,45	12.0%	10/250xannual earnings

Past and future Changes in the Accrued Liability

The table shows the development of the Accrued Liability over the current period and projects the employer's unfunded accrued liability and periodic cost over the 2 years following the valuation date.

	Year ended 30/06/2018	Year ended 30/06/2019	Year ended 30/06/2020
Opening Accrued Liability	14,299,132	15,566,721	14,877,448
Current service costs	948,359	1,010,689	1,094,879
Interest cost	1,114,328	1,179,190	1,144,684
Benefits vesting	(1,835,728)	(2,879,152)	(2,317,855)
Total Annual Expense	226,959	(689,273)	(78,292)
Actuarial Loss	1,040,630	-	-
Closing Accrued Liability	15,566,721	14,877,448	14,799,156

History of Liabilities

The table below summarises accrued liabilities and the plan assets for the current period and the previous two periods

Liability history	30/06/2017	30/06/2018
Accrued liability	(54,241)	(54,456)
Fair value plan asset	-	-
Deficit	(54,241)	(54,456)

Provision for landfill site

	2018	2017
Opening Balance	11,971,993	11,971,993
Additions	6,128,788	
Total	18,100,781	11,971,993

13. Payables from exchange transactions

Trade payables	354 290 578	406 395 314
Retentions	57 473 945	45 272 129
Other payables	1 187 399	1 187 399

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Figures in Rand	2018	2017
13. Payables from exchange transactions (continued)		
Agency fees payables	4 533 567	2 674 123
Greater Letaba municipality	71 111 962	52 750 608
Greater Tzaneen municipality	209 840 441	176 890 916
Maruleng municipality	24 003 740	23 422 304
Lepelle Northern Water	547 977 908	490 042 470
Greater Glyanl Municipality	12 181 503	24 686 086
Trade creditors at local municipalities	5 519 449	5 325 233
Department of Water and Sanitation	319 453 786	242 807 282
Leave accrual	41 872 685	44 835 083
Bonus accrual	7 506 748	6 557 413
Total	1 656 953 711	1 522 846 360

The balance of payables pertains to inter-municipally transactions with the local municipalities for which the district municipality has a service level agreement for the provision of water and sanitation to the locals.

GRAP 104 has been considered in the valuation of these payables.

14. Revenue

Service charges	178 850 094	166 927 478
Interest on Outstanding Debtors	39 628 665	40 355 569
Other income	6 522 398	677 360
Interest received - investment	5 437 907	7 128 364
Government grants & subsidies	1 254 190 123	961 718 681
	1 484 629 187	1 176 807 452

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	178 850 094	166 927 478
Interest on Outstanding Debtors	39 628 665	40 355 569
Other Income	6 522 398	677 360
Interest received - investment	5 437 907	7 128 364
	230 438 064	215 088 771

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Transfer revenue		
Government grants & subsidies	1 254 190 123	961 718 681

15. Service charges

Sale of water	165 531 593	140 979 327
Sewerage and sanitation charges	13 318 501	25 948 151
	178 850 094	166 927 478

16. Other revenue

Interest on Outstanding Debtors	39 628 665	40 355 569
Other income	6 522 398	677 360
	46 151 063	41 032 929

17. Other income

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Figures in Rand	2018	2017
17. Other income (continued)		
Sundry Income	5 493 039	129 521
Insurance claims	68 964	95 914
Reconnection fees	69 627	64 502
Tender fees	890 768	387 423
Total	6 522 398	677 360
18. Government grants and subsidies		
Operating grants		
Equitable share grant	757 360 000	625 707 000
EPWP grant	1 725 000	1 943 000
Finance Management Grant (FMG)	1 795 000	1 460 000
LP - Health (EHP)	10 674 000	14 188 986
LGW SETA grant	725 042	569 248
LP Econ (Biosphere) grant	216 000	200 000
Total operating and capital grants	772 495 042	644 068 234
Capital grants		
Municipal infrastructure grant (MIG)	420 736 371	208 500 000
Water Services Infrastructure Grant	58 756 710	109 150 447
Rural Roads Asset Management Grant	2 202 000	-
	481 695 081	317 650 447
	1 254 190 123	961 718 681
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	75 662 544
Current-year receipts	447 748 000	208 500 000
Conditions met - transferred to revenue	(420 736 371)	(208 500 000)
Other	-	(75 662 544)
Total	27 011 629	-
The purpose of the grant is to improve access to basic service infrastructure for poor communities.		
Finance management grant		
Current-year receipts	1 795 000	1 460 000
Conditions met - transferred to revenue	(1 795 000)	(1 460 000)
Total	-	-
The purpose of this grant is to improve capacity in financial management		
Rural transport grant		
Balance unspent at beginning of year	2 049 000	85 875
Current-year receipts	2 202 000	2 049 000
Conditions met - transferred to revenue	(2 202 000)	(85 875)
Total	2 049 000	2 049 000
The purpose of the grant is to improve data on rural roads to guide infrastructure development.		
EHP Grant		

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18. Government grants and subsidies (continued)		
Balance unspent at beginning of year	-	450 486
Current-year receipts	10 674 000	13 738 500
Conditions met - transferred to revenue	(10 674 000)	(14 188 986)
	-	-

The purpose of the grant is to ensure that transferred schemes are fully functional and operated by skilled personnel to ensure optimal service delivery by the WSA.

LP Econ (Biosphere)

Balance unspent at beginning of year	-	200 000
Current-year receipts	216 000	-
Conditions met - transferred to revenue	(216 000)	(200 000)
	-	-

The purpose of the grant is for the implementation of man and bio-sphere programs for the conservation of nature and sustainable uses of natural resources.

Extended public works programme grant

Current-year receipts	1 725 000	1 943 000
Conditions met - transferred to revenue	(1 725 000)	(1 943 000)
Total	-	-

The purpose of the grant is to improve opportunities for sustainable employment due to experience and learning gained.

LGW SETA Grant

Current-year receipts	725 042	569 248
Conditions met - transferred to revenue	(725 042)	(569 248)
	-	-

The purpose of this grant is to support staff development.

Water Service Infrastructure Grant

Balance unspent at beginning of year	137 553	-
Current-year receipts	95 000 000	109 150 447
Conditions met - transferred to revenue	(58 756 710)	(109 012 894)
	36 380 843	137 553

The purpose of this grant is to support refurbishment of infrastructure projects.

Sub-heading

19. Employee related costs

Basic	205 213 289	173 844 736
Bonus	15 173 571	13 206 917
Medical aid - company contributions	11 140 893	10 344 503
UIF	1 452 876	1 382 570
Workman compensation	142 726	124 120

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	2018	2017
19. Employee related costs (continued)		
SDL	2 934 211	2 631 966
Other payroll levies	13 685 268	10 102 910
Leave pay provision charge	36 247	-
Post employments benefits	85 643	54 166
Defined contribution plans	30 449 110	26 181 390
Overtime payments	41 641 172	39 213 345
Long service awards	812 810	658 441
Transport allowance (bus coupons)	17 665 424	15 293 450
Car allowance	27 542 996	17 930 831
Housing benefits and allowances	5 763 212	6 114 033
Leave redemption	2 477 462	1 659 033
Bargaining council	15 724	14 582
Cellphone allowance	22 608	39 308
Shift allowance	63 078	52 335
Total	376 318 320	318 848 636
Remuneration of municipal manager		
Annual Remuneration	1 023 885	216 365
Car Allowance	317 188	111 901
Contributions to UIF, Medical and Pension Funds	235 213	38 289
Total	1 576 286	366 555
Remuneration of chief finance officer		
Annual Remuneration	852 541	852 541
Car Allowance	168 000	176 895
Performance Bonuses	-	131 935
Contributions to UIF, Medical and Pension Funds	63 569	63 569
Total	1 084 110	1 224 940
Remuneration of director community services		
Annual Remuneration	855	855 409
Car Allowance	143 531	252 790
Performance Bonuses	-	205 373
Contributions to UIF, Medical and Pension Funds	143 531	202 950
Total	287 917	1 516 522
Remuneration of director engineering services		
Annual Remuneration	856 262	163 473
Car Allowance	240 000	40 000
Contributions to UIF, Medical and Pension Funds	171 054	28 246
Total	1 267 316	231 719
Remuneration of director water services		
Annual Remuneration	634 632	754 374
Car Allowance	423 088	375 986
Contributions to UIF, Medical and Pension Funds	192 029	274 983
Cell	37 355	40 559
Total	1 287 104	1 445 902

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19. Employee related costs (continued)

Remuneration of director office of the executive Mayor

Annual Remuneration	634 091	600 629
Car Allowance	423 629	200 210
Contributions to UIF, Medical and Pension Funds	200 981	-
Cell	37 355	22 851
Total	1 302 056	823 690

Executive Mayor's allowances

Annual Remuneration	634 091	600 629
Car Allowance	423 629	200 210
Contributions to UIF, Medical and Pension Funds	206 981	-
Other	37 335	22 851
Total	1 302 036	823 690

Speaker's allowances

Annual Remuneration	600 135	480 502
Car Allowance	157 009	160 167
Contributions to UIF, Medical and Pension Funds	149 942	-
Other	32 800	22 851
Total	939 886	663 520

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19. Employee related costs (continued)

Remuneration of councillors 2018

Councillor's Names	Salary	Cellphone Allowance	Travel Allowance	Advance/Pay back	Total
Councillor NM Maswanga	475 926	32 800	124 209	27 677	660 612
Councillor B Ramorothwala	9 286	-	-	365	9 651
Councillor CM Ramathoka	251 659	28 800	-	21 869	302 328
Councillor D Malemela	22 880	-	-	4 640	27 520
Councillor DG Mushwana	251 659	28 800	-	21 869	302 328
Councillor FM Moroatsh	322 964	28 800	-	24 665	376 429
Councillor GA Maluleke	322 964	28 800	-	24 665	376 429
Councillor GH Modjadji	475 926	28 800	124 209	31 677	660 612
Councillor GM Malatji	42 642	-	-	9 280	51 922
Councillor JG Mashele	322 964	28 800	-	24 665	376 429
Councillor KI Rapatsa	35 502	-	-	9 280	44 782
Councillor KJ Malepe	322 964	28 800	-	24 665	376 429
Councillor M Mathedimo	9 286	-	-	365	9 651
Councillor MA Mathaba	80 591	-	-	3 161	83 752
Councillor MB Maenetsa	9 286	-	-	365	9 651
Councillor MC Mohale	475 926	28 800	124 209	31 677	660 612
Councillor MC Mkwashu	35 502	-	-	9 280	44 782
Councillor MD Maake	322 964	28 800	-	24 665	376 429
Councillor MD Popela	9 286	-	-	365	9 651
Councillor MF Madike	9 286	-	-	365	9 651
Councillor MF Manyama	80 591	-	-	3 161	83 752
Councillor MH Sefusi	263 950	28 800	68 775	25 048	386 573
Councillor MI Shimange	80 591	-	-	3 161	83 752
Councillor ML Maloko	263 950	28 800	68 775	25 048	386 573
Councillor ML Mokgobi	263 950	28 800	68 775	25 048	386 573
Councillor MM Makwala	35 850	-	-	6 960	42 810
Councillor MMA Mathebu	9 286	-	-	365	9 651
Councillor MO Maswanga	263 950	28 800	68 775	25 048	386 573
Councillor MR Chauke	251 659	28 800	-	21 869	302 328
Councillor MR Maake	9 286	-	-	365	9 651
Councillor MR Nyakane	251 659	28 800	-	21 869	302 328
Councillor MV Mangoro	9 286	-	-	365	9 651
Councillor NA Sono	475 926	28 800	124 209	69 934	698 869
Councillor NH Zandamel	475 926	28 800	124 209	69 934	698 869
Councillor NM Mahasha	47 278	-	-	12 528	59 806
Councillor NN Baloyi	475 926	28 800	124 209	69 934	698 869
Councillor Osi LP Rapha	14 380	-	4 793	-	19 173
Councillor Osi ML Mogob	29 333	3 388	6 391	1 535	40 647
Councillor Osi SSS Seko	29 333	3 388	6 391	1 535	40 647
Councillor Osigad MJ	29 333	3 388	6 391	1 535	40 647
Councillor Osigad MJ Se	29 333	3 388	6 391	1 535	40 647
Councillor PT Malatji	322 964	28 800	-	24 665	376 429
Councillor R Makasela	9 286	-	-	365	9 651
Councillor RE Pohl	29 556	-	-	8 352	37 908
Councillor SCT Shising	31 828	-	-	6 496	38 324
Councillor S EJ Mathons	475 926	28 800	124 209	31 677	660 612
Councillor S MA Helm	251 659	28 800	-	21 869	302 328
Councillor S MM Makwela	26 844	-	-	5 568	32 412
Councillor SC Makwala	20 724	-	-	5 568	26 292
Councillor SI M Ntsanwi	22 143	3 388	3 994	1 535	31 060
Councillor SI MAM Hlane	29 333	3 388	6 391	1 535	40 647
Councillor SI MC Mathev	29 333	3 388	6 391	1 535	40 647
Councillor SI TLP Nwami	29 333	3 388	6 391	1 535	40 647
Councillor SJ Nkuna	322 964	28 800	-	24 665	376 429

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19. Employee related costs (continued)					
Councillor SV Manganye	9 286	-	-	365	9 651
Councillor T Makhubela	9 286	-	-	365	9 651
Councillor TC Zitha	9 286	-	-	365	9 651
Councillor TJ Senyolo	9 286	-	-	365	9 651
Councillor TN Mthomben	9 286	-	-	365	9 651
Councillor W D Sedibeng	507 654	32 800	132 489	28 988	701 931
Councillor XJ Valoyi	9 286	-	-	365	9 651
Councillor CN Rakgoale	634 568	32 800	165 611	34 235	867 214
Councillor Osgad MA SH	29 333	3 388	6 391	1 535	40 647
	10 029 403	762 492	1 502 578	884 650	13 179 123

Remuneration per councillor - 2017

Names	Salary	Cellphone Allowance	Travel Allowance	Advance/Back pay	Total
Councillor CN Rakgoale	491 913	22 851	200 210	-	714 974
Councillor WD Sedibene	393 529	22 851	160 167	-	576 547
Councillor NM Maswanganyi	368 935	19 373	122 978	53 989	565 275
Councillor MC Mohale	368 935	17 873	129 999	53 989	570 796
Councillor MH Sefufi	220 381	17 873	133 047	53 989	425 290
Councillor ML Maloko	220 382	17 873	136 613	53 989	428 857
Councillor EJ Mathonsi	368 935	17 873	129 500	53 989	570 297
Councillor MO Maswanganyi	220 382	17 873	137 652	53 989	429 896
Councillor ML Mokgobi	220 382	17 873	-	53 989	292 244
Councillor NN Baloyi	352 429	17 873	129 999	37 740	538 041
Councillor NH Zandamela	352 429	17 873	143 194	23 751	537 247
Councillor NA Sono	352 429	17 873	125 400	24 268	519 970
Councillor GH Modjadji	75 263	17 873	136 174	304 970	534 280
Councillor KJ Malepe	203 954	17 873	98 920	46 007	366 754
Councillor PT Malatji	203 954	17 873	72 165	46 007	339 999
Councillor SJ Nkuna	203 954	17 873	107 656	46 007	375 490
Councillor MA Helm	165 472	17 873	34 597	39 886	257 828
Councillor MR Nyakane	165 472	17 873	34 597	39 886	257 828
Councillor BT Mathevula	44 482	5 217	27 881	36 723	114 303
Councillor CM Kamathoka	165 472	17 873	60 079	39 886	283 310
Councillor MR Chauke	165 472	17 873	42 148	39 886	265 379
Councillor MQ Mashatola	21 677	2 301	9 592	2 367	35 937
Councillor JG Mashela	203 954	-	50 584	43 094	297 632
Councillor GA Maluleke	203 954	17 873	59 865	46 007	327 699
Councillor Moroatshehla	203 954	17 873	75 945	46 007	343 779
Councillor MD Maake	203 954	17 873	103 468	46 007	371 302
Councillor MC Mkhwashu	25 974	-	14 770	2 397	43 141
Councillor KI Rapatsa	29 822	-	19 936	2 397	52 155
Councillor Mahasha NM	25 974	-	27 763	2 397	56 134
Councillor D Malemela	23 088	-	47 827	2 397	73 312
Councillor CT Shisinga	16 354	-	19 856	2 397	38 607
Councillor RE Pohl	16 354	-	12 610	2 397	31 361
Councillor MM Makwala	22 126	-	37 316	2 397	61 839
Councillor SC Makwala	16 354	-	33 447	2 397	52 198
Councillor GM Malatji	25 974	-	34 737	2 397	63 108
Councillor MF Madike	7 383	-	32 484	3 175	43 042
Councillor MA Mathaba	44 954	-	7 914	18 199	71 067
Councillor MD Popela	7 383	-	23 224	6 088	36 695
Councillor R Makasela	7 383	-	43 284	6 088	56 755
Councillor MMA Mathebula	7 383	-	43 240	6 088	56 711
Councillor B Ramothwala	7 383	-	55 478	6 088	68 949
Councillor TN Mthobeni	7 383	-	45 746	6 088	59 217
Councillor XJ Valoyi	7 383	-	29 754	6 088	43 225

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Figures in Rand			2018	2017
19. Employee related costs (continued)				
Councillor FMI Shimange	44 954	-	78 751	10 827
Councillor TC Zitha	7 383	-	30 863	6 088
Councillor T Makhubela	7 383	-	21 676	6 088
Councillor SV Manganye	7 383	-	10 545	6 088
Councillor MB Maenetsa	7 383	-	20 454	5 056
Councillor MR Maake	7 383	-	21 750	6 088
Councillor MV Mangoro	7 383	-	36 435	6 088
Councillor MF Manyama	44 954	-	44 940	18 199
Councillor MB Mathedimosa	7 383	-	52 736	6 088
Councillor TJ Senyolo	7 383	-	3 802	4 206
Councillor MJ Sekgopo	23 966	-	28 308	3 933
Councillor MM Makwela	16 354	-	-	-
Councillor I SSS Sekor	23 966	-	-	-
Councillor I MI Mogobo	23 966	-	-	-
Councillor I LP Raphah	23 966	-	-	-
Councillor IGAD MJ Mam	23 966	-	-	-
Councillor I SG Malatji	14 379	-	-	-
Councillor TLP Nwamit	23 966	-	-	-
Councillor IGAD Ma Sha	23 966	-	-	-
Councillor Mam Hlanek	23 966	-	-	-
Councillor MC Mathevu	23 966	-	-	-
Councillor G Mushwana	114 924	-	-	-
Resigned Councillors	1 054 291	-	-	-
	8 025 318	430 053	3 342 076	1 444 646
				13 242 093
20. Depreciation and amortisation				
Property, plant and equipment			177 883 702	225 786 592
Intangible assets			-	980 617
			177 883 702	226 767 209
21. Finance costs				
Interest Paid			225 612	214 110
22. Debt impairment				
Debt impairment			65 967 708	56 090 683
23. Bulk purchases				
Water			288 788 797	313 206 196
24. Contracted services				
Information Technology Services			18 837 525	38 184 902
Fleet Services			4 912 895	-
Operating Leases			12 831 978	2 841 230
Specialist Services			433 184	-
Other Contractors			31 483 106	21 523 680
			68 498 688	62 549 812
25. General expenses				

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25. General expenses (continued)		
Advertising	460 207	14 931 686
Auditors remuneration	2 029 319	3 890 681
Bank charges	164 311	142 436
Consulting and professional fees	12 741 648	43 152 533
Entertainment	1 086 216	4 305
Insurance	718 016	424 373
Conferences and seminars	392 672	548 713
Motor vehicle expenses	583 588	104 364
Fuel and oil	1 907 077	5 787 886
Postage and courier	1 778	4 261
Printing and stationery	500 649	1 135 632
Protective clothing	179 690	149 868
Secretarial fees	-	141 290
Software expenses	635 616	48 509
Subscriptions and membership fees	365 339	376 727
Telephone and fax	4 001 464	2 718 345
Travel - local	1 089 733	1 335 296
Electricity	422 607	519 122
Audit Committee Allowance	1 378 556	2 760 107
Disaster Relief Fund	8 281 342	209 400
Imbizo	2 524 725	2 344 025
Forensic Audit	-	856 168
Performance Management	4 220 603	16 046 975
Stores and Material	10 777 912	10 245 118
Chemicals	6 791 422	7 182 553
Other expenses	83 195 526	177 363 935
	144 450 016	292 424 308
26. Auditors' remuneration		
Fees	2 029 319	3 890 681
27. Cash generated from operations		
Surplus	257 279 960	45 973 360
Adjustments for:		
Depreciation and amortisation	177 883 702	171 751 370
Gain on sale of assets and liabilities	34 046 926	-
Debt impairment	63 720 973	56 580 736
Movements in operating lease assets and accruals	(6 813 967)	-
Movements in provisions	7 479 355	5 321 802
Water and sanitation transactions	(119 250 091)	(47 296 644)
Benefit vesting	(1 865 694)	-
Interest cost	6 538 278	-
Current service costs	3 624 362	-
Changes in working capital:		
Inventories	581 515	40 386 188
Receivables from exchange transactions	(33 839 032)	(52 473 085)
Consumer debtors	28 981 972	(9 153 433)
Payables from exchange transactions	123 918 581	262 893 633
VAT	(18 840 477)	12 758 355
Unspent conditional grants and receipts	63 254 919	(74 212 262)
Consumer deposits	311 870	(2 324 225)
	587 013 152	410 205 795

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Figures in Rand	2018	2017
28. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	648 278 973	371 312 018
Not yet contracted for and authorised by accounting officer		
• Purchase orders	11 589 010	12 765 281
Total capital commitments		
Capital commitments	648 278 973	371 312 018
Operational commitments	11 589 010	12 765 281
	659 867 983	384 077 299

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

29. Contingent liabilities

Litigations are in process against the municipality relating to a number of disputes. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Pending Legal cases:	30 June 2018	30 June 2017
1. The matter involves a service provider who did not honour his obligation to the supplier of materials in terms of a cession agreement between, Flotek MDM and the contractor	R571 957.26	R882 360
2. The plaintiff is suing the MDM for the injury she sustained allegedly at a MDM sewage manhole in Manhole in Modjadjiskloof	R950 000	R2 000 000
3. The plaintiff is suing the MDM as a result of motor vehicle collision involving an MDM employee.	R27 700.68	R150 000
4. The plaintiff is suing the MDM for awarding the tender to a JV which did not qualify, namely: Base Measure: Tlong Re Yeng JV was a CIDB Grade 8 company and the tender required Grade 9 company.	R10 000 000.	R10 000 000
5. The plaintiff is suing MDM for failing to honour its financial obligations - cession.	R1 680 499.05	R2 000 000
6. The plaintiff is suing the MDM for failure to prevent a veld fire.	R4 685 140.00	R5 000 000

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Figures in Rand	2018	2017
29. Contingent liabilities (continued)		
7. Plaintiff has issued simple summonses for the services rendered as a Sub Contractor at Nandoni pipeline project.	R939 641.11	R939 341
8. Plaintiff is claiming money as per the cession agreement.	R2 183 902.58	R2 200 000
9. Car accident: Plaintiff's motor vehicle hit a pothole and it was involved in an accident in Modjadjiskloof & G-Kgapane road. As a result the plaintiff suffered a right leg fracture injury. The plaintiff alleged that the accident was solely caused by the negligence of the Defendants (GLM & MDM).	R3 500 000	R
10. The plaintiff is suing the MDM for been involved in a motor vehicle accident with an employee of the MDM. The plaintiff alleges that the accident was solely caused by the negligence of the MDM.	R37 384.18	R150 000
11. The Plaintiff is suing the MDM for failing to pay the Water Use Licence holder. In terms of the law the MDM must pay the water use charges as a holder of the licence.	R175 645 917.12	R175 645 917.12
12. An application for an order to pay for work allegedly done. Technical report on Sefofotse to Ditshosane/Ramahlati Bulk and Reticulation (Bellevue, Sefofotse, Maupa, Jamela, Mohlabaneng, Lebaka, Shawela, Ditshosane and Maphalle)	R29 730 283.66	
13. Civil - contract: termination of contract for the building of Offices in Tzaneen.	R43 611 996.70	
14. Non-payment, a claim on the basis of a disputed invoice in the amount of:	R931 520.58	
15. A claim payment as a result of a cession in the amount of:	R231 361.02	
16. A claim for work done. The case is still pending	R4 500 135.99.	
17. The plaintiff is suing the MDM as a result of motor vehicle collision involving the MDM employee. The claim against the municipality amounts to:		R23 262.61
18. The plaintiff is suing MDM for cancelling the contract to build and office building in Tzaneen disaster center. The case is pending.		R1 900 000

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29. Contingent liabilities (continued)		
19. The plaintiff is suing the MDM for failing to honour its financial obligations	R2 000 000	
20. The matter involves an interdict: Stopping the implementation of the Kampersrus Sewer reticulation line Phase	R36 000 000	
21. The plaintiff is suing MDM for services rendered in respect of the installation of boreholes and transformers in Giyani area.	R413 900	
22. The plaintiff is claiming money for the services rendered under a sub-contract agreement during the construction of the Nandoni pipeline	R1 407 656	
23. The plaintiff is suing the MDM for failing to honour its financial obligations Limpopo Water Initiative is running a plant in Ba-Phalaborwa under a service level Agreement with the municipality	R54 000 000	
24. The plaintiff served the municipality with a letter of demand for an amount of on the Namakgale Sewage Works DM/2010/001. discussions held on the 1st June 2017 with the contractor and Engineering to resolve the matter	R11 499 509	
25. A claim is based on a cession between Tainama jv Civico on the Tours Bulk Water supply projec	R963 647	
26. The contractor is suing the MDM for cancellation of the contract to build an office building at the disaster management centre based in Tzaneen	R14 140 976	
Total	R283,727,575.92	
Contingent Assets		
1. The MDM is suing the service provider for fraudulently claiming money which was not due to them. The company was appointed to build 150 units of VIP Toilets. The company only built 15 out of that number and claimed the entire payment. The MDM is now suing the company for misrepresentation done.	R1 080 000	R1 080 000
2. The municipality is suing the contractor and contractor is suing the MDM for cancellation of the contract to build an office building at the Disaster Management Centre based in Tzaneen.	R14,140,976.84	R30 000 000

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29. Contingent liabilities (continued)

3. The MDM has launched an application to review and set aside its own decision to appoint the service provider. The service provider was appointed to render consultancy services at Extensions of Modjadjiskloof water works in Greater Letaba Municipality MDM want to declare this appointment null and void, Unconstitutional and Invalid.	R2 185 000	R650 000
Total	17,405,976.84	

30. Prior period errors

Description of prior period error	DR	CR
1. During the year it was noted that some projects that some projects were incorrectly expensed, these projects were subsequently capitalised in the current year. The effect of the adjustment is as follows	Property, plant & Equipment 9,372,828	Accumulated Surplus 9,372,828
2. It was noted that some of the completed projects were incorrectly not capitalised, these projects were subsequently capitalised in the current year. The reclassification was as follows;	Work in Progress 20,047,005	Infrastructure Assets 20,047,005
3. It was noted that some of the repairs and maintenance expenditure was incorrectly classified as work in progress, resulting in an overstatement in PPE and understatement in expenditure	Accumulated Surplus 5,247,642	Property, Plant and Equipment 5,247,642
4. It was noted that in the current year that some water assets not within the municipal jurisdiction were incorrectly capitalised, resulting in an overstatement in PPE. The entry was corrected as follows	Accumulated Surplus 35,052,540 Accumulated depreciation 16,112,616	Property, Plant and Equipment 51,165,157
5. It was noted that PPE was overstated due to some assets which were incorrectly capitalised; The entry was corrected as follows	Accumulated Depreciation 6,953,518	Accumulated Surplus 4,639,274 Property, plant and Equipment 11,592,793
6. It was noted that VAT was incorrectly accounted for and understated for. The entry was corrected as follows:	VAT Receivables 34,215,473	Accumulated Surplus 34,215,473
7. We noted that the prior year creditors schedule did not agree to the creditors balance as per trial balance which resulted in an understatement in payables;	Accumulated Surplus 112,616,172	Payables from exchange transactions 112,616,172

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30. Prior period errors (continued)

8. We noted that some of the projects were incorrectly expensed and not capitalised, resulting in an a overstatement in expenditure and understatement in PPE:	Property, plant and equipment 2 671 800	Accumulated surplus 2 671 800
9. It was noted that the prior year payments for staff debtors were incorrectly credited to the suspense account and not the staff debtors account resulting in an understatement in the salary suspense account and an overstatement in receivables.	Accumulated Surplus 12 719	Receivables from exchange transactions 12 719
10. We noted that the transactions for infrastructure water were incorrectly debited to assets under construction, resulting in an overstatement in PPE and understatement in expenditure	Accumulated Surplus 3,445,000	Property, plant and equipment 3,445,000
11. We noted that some of the staff debtors continued to be received even after the debt was fully settled, resulting in an understatement in receivables and an overstatement in employee related costs.	Accumulated surplus 1,607	Receivables from exchange transactions 1,607
12. It was noted that the Maruleng landfill site was omitted from the trial balance in the prior year, resulting in an understatement in PPE and understatement in expenditure:	Property, Plant and Equipment 2,803,844	Accumulated Surplus 2,615,722 Accumulated depreciation 188,122
13. It was noted that some infrastructure assets were incorrectly not capitalised even though the construction was completed in the prior year.	Property, Plant and Equipment 3,529,843	Accumulated Surplus 3,529,843
14. We noted that VAT was incorrectly claimed in the prior year even though it is not recoverable from SARS, resulting in overstatement in VAT:	Accumulated Surplus 69,824,733	Vat receivables 69,824,733
15. We noted that Vat was incorrectly accounted for in some of the prior year invoices resulting in an understatement of	Vat receivables 1,420,578	Accumulated Surplus 1,420,578
16. An audit finding raised in the prior period noted that there were differences between the trial balance, general ledger and financial statements. The adjustment was only corrected in the prior year as follows:	Accumulated Surplus 15,594,645	Payables from exchange transactions 15,594,645
17. We noted that some of the entries in the accruals listing were not noted in the general ledger which resulted in an understatement of trade payables.	Accumulated Surplus 10,303,320	Payables from exchange transactions 10,303,320
18. Interest on call account was incorrectly accounted for, resulting in an understatement in receivables and interest received.	Receivables from exchange transactions 99,838	Accumulated Surplus 99,838
19. A bank account was omitted from record resulting in an understatement of cash and cash equivalents.	Cash and cash equivalents 8,545	Accumulated Surplus 8,545

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30. Prior period errors (continued)

20. We noted that intermunicipal water transactions were incorrectly accounted for, resulting in a decrease in consumer deposits.	Accumulated Surplus 10,549,332	Consumer debtors 10,549,322
21. We noted that Intermunicipal water transactions were incorrectly accounted for, resulting in an overstatement in receivables and payable.	Payables from exchange transactions 337,442	Accumulated Surplus 976.13 Consumer debtors 336,446
22. We noted that service fees due to Maruleng was incorrectly mapped which resulted in an understatement in payables	Accumulated Surplus 174,665	Payables from exchange transactions 174,665
23. It was noted that inter-municipal accounts were incorrectly accounted for and the error was accounted for as follows:	Accumulated Surplus 233,284	Payables from exchange transactions 233,284
24. We noticed that indigent debtors were incorrectly accounted for, resulting in an understatement of in debt impairment. The error was accounted for as follows	Accumulated Surplus 1,330,429	Consumer Debtors 1,330,429
25. It was discovered that water inventory bought by Ba-Phalaborwa and ceded to Mopani, was incorrectly accounted for	Accumulated Surplus 3,836,449	Payables from exchange transactions 3,836,449
26. It was noted that some project were not capitalised. The error was corrected as follows:	PPE Infrastructure 182,275,436 Accumulated Surplus 6,451,029	PPE Work In Progress 182,275,463 Accumulated Depreciation 6,451,029
27. Boreholes were supposed to be written off in the prior year, but entry was omitted, the error was corrected as follows:	Accumulated Surplus 11,573,561 Accumulated Depreciation 12,805,937	PPE Infrastructure 24,379,498
28. We noted that some of the expenses were not posted to accumulated surplus by the system in the prior year, but treated as balance sheet notes, the reclassification was done as follows:	Accumulated Surplus 1,111,061	General expenses 1,105,060 Contracted Services 6,001.23
29. Debt impairment was incorrectly overstated in the prior year:	Consumer debtors 1,820,482	Accumulated Surplus 1,820,482
30. It was discovered that depreciation was incorrectly accounted for:	Accumulated surplus 89 683	Accumulated depreciation 89 683

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

Statement of financial position

Increase in Property, plant and equipment	(48 218 854)	-
Decrease in Vat receivable	(33 648 681)	-
Increase in receivables from exchange transactions	(3 750 936)	-

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Notes to the Annual Financial Statements

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30. Prior period errors (continued)			
Increase in payables in exchange transactions	(138 409 979)	-	
Increase in cash and cash equivalents	8 545	-	
Decrease in consumer debtors	(10 570 410)	-	
Decrease in accumulated surplus	234 590 316	-	
	<u>1</u>	<u>-</u>	
Statement of financial performance			
Increase in general expenses	172 327 962	-	
Increase in repairs and maintenance	(6 796 986)	-	
Decrease in depreciation	55 015 839	-	
Increase in employee related costs	14 326	-	
Increase in interest on investments	(99 838)	-	
Increase in debt impairment	(490 053)	-	
Increase in bulk water purchases	14 619 065	-	
Net decrease in accumulated surplus	<u>234 590 315</u>	<u>-</u>	
Statement of financial position			
Current Assets	Balance Previously Reported	Prior period adjustments	Restated Balance
Vat receivable	119 537 056	(33 648 681)	85 888 375
Receivable from exchange transactions	197 953 417	(3 750 936)	194 202 480
Cash and cash equivalents	7 752 471	8 545	7 761 016
Consumer debtors	176 294 968	(10 570 410)	165 724 558
Total current assets	<u>501 537 912</u>	<u>(47 961 483)</u>	<u>453 576 429</u>
Non current assets			
Property, plant and equipment	4,948,014,790	(48,218,854)	4,899,795,936
	<u>4,948,014,790</u>	<u>(48,218,854)</u>	<u>4,899,795,936</u>
Liabilities			
Current liabilities			
Payables from exchange transactions	1,333,043,885	138,409,979	1,471,453,864
Total current liabilities	<u>1,333,043,885</u>	<u>138,409,979</u>	<u>1,471,453,864</u>
Accumulated surplus	<u>3,989,739,359</u>	<u>(234 590 316)</u>	<u>3,755 149 042</u>
Net assets	<u>3,989,739,359</u>	<u>(234 590 316)</u>	<u>3,755, 149 042</u>
Statement of financial performance as at 30 June 2017			
Revenue			
Revenue from exchange transactions			
Interest received - investment	7,028,526	99,838	7,128,364
Total Revenue	<u>7 028 526</u>	<u>99,838</u>	<u>7,128,364</u>
Expenditure			
Employee related costs	(321,188,887)	(14,326)	(321,203,213)
Depreciation and amortisation	(171,751,370)	(55,015,839)	(226,767,209)
Debt Impairment	(56,580,736)	490,053	(56,090,682)
General expenses	(116,205,665)	(172 327 962)	(288 533 627)
Repairs and maintenance	(86,967,367)	6 796 985	(92,215,009)
Bulk water purchases	(298 587 131)	(14 619 065)	(313 206 196)
Total expenditure	<u>(1 051 281 156)</u>	<u>(234 690 154)</u>	<u>(1 285 971 310)</u>
Effect on accumulated surplus	<u>(1 044 252 630)</u>	<u>(234 590 317)</u>	<u>(1 278 842 947)</u>

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31. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus of 3 890 530 822 and that the municipality's total liabilities exceed its assets by 3 890 530 822.

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

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

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

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

As at 30 June 2018, the municipality's current liabilities exceeds current assets by **R 3,890,530,823**.

- a) The municipality is experiencing challenges of collecting own revenue from water and sanitation. This is due to weakness in controls involving management of revenue at the local municipalities since the latter are service providers and the district is the service authority.
- b) The municipality is service significant historic obligations that do not necessarily have source of funding other than the funding from National Treasury. These obligations include Lepelle Northern Water estimated at R540 million, Department of Water Affairs estimated at R320 million, as well as litigations and claims that come on an ad hoc basis. These litigations and claims can easily cost the municipality over R100 million per annum.
- c) There is a need to relook into the municipality's obligations against its resources as the situation currently is not sustainable.
- d) The municipality invests a significant amount of resources in the water and sanitation infrastructure with little if any return. This is as the municipality spend a full calendar year without a cent being received from water and sanitation consumers.
- e) It is extremely difficult to effectively monitor the cash flow of the municipality because a lot of payments are historic and come on surprise bases. These payments come in various form including, historic claims of contractors on projects, historic legal fees, unpredictable and excessive overtime payments from essential services sections, etc.
- f) More often than not, MIG funding transfer for committed projects from National Treasury gets delayed putting more pressure on the liquidity of the municipality.
- g) There is also a significant portion of payments for infrastructure projects funded through own funding outside budgets as most of the payments are made to avoid litigations.

Even though the current liabilities exceed the current assets the municipality is a going concern because of the following reasons:

- a) There is a commitment from National Treasury to fund the operations of the municipality through equitable share and conditional grants. This is substantiated by past practice and gazettes issued by National Treasury for the MTREF period under consideration.
- b) There is no change in the legislation that impact on the municipality's ability to continue as a going concern;
- c) There is plans to ensure that there is effective spending of funds.
- d) There are repayment arrangements in place to defer significant portions of the trade payables of Lepelle Northern Water and Department of Water Affairs to future years to allow for liquidity and solvency.

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31. Going concern (continued)		
(e) The municipality is taking consideration over water and sanitation function with the aim of maximising revenue collection and recovery of debtors, the monies which will be utilised to pay creditors with speed and return to good liquidity and solvency positions.		
32. Unauthorised expenditure		
Opening balance	198 991 315	159 154 582
Current year	154 239 337	39 836 733
	-	-
Unauthorised expenditure awaiting condonement	353 230 652	198 991 315
Unauthorised expenditure increased due to the significant difference between the budgeted and actual subsistence allowances, medical aid and stores and materials figures.		
33. Fruitless and wasteful expenditure		
Opening balance	166 015 978	165 834 771
Current year	17 885 948	181 207
	-	-
Fruitless and Wasteful Expenditure awaiting condonement	183 901 926	166 015 978
The fruitless and wasteful expenditure relates to incorrect allocation of late payments and vat incorrectly recorded.		
34. Irregular expenditure		
Opening balance	186 332 521	169 214 083
Add: Irregular Expenditure - current year	10 664 876	17 118 438
Irregular Expenditure awaiting condonement	196 997 397	186 332 521
35. Additional disclosure in terms of Municipal Finance Management Act		
Distribution Losses		
Sales (kl) Total	49 760 250	103 561 681
Purchases (kl) Total	29 283 992	50 785 366
Percentage water losses at the plants (%)	69	66
Audit fees		
Fees	2 029 319	3 890 681
PAYE and UIF		
Current year subscription / fee	53 536 466	40 000 000
Amount paid - current year	(57 937 157)	(47 888 000)
Amount paid - previous years	4 400 691	7 888 000
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	6 722 076	9 596 000

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35. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Amount paid - current year	6 722 076	(36 450 000)
	13 444 152	(26 854 000)
VAT		
VAT receivable	104 728 852	85 888 375

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

36. Deviation from supply chain management regulations

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 Municipal Manager. The total deviations for the quarter amounted to **R15 895 803.60** (2017: R4 328 185.75) which has been tabled to council for noting in terms of Section 36(2). Paragraph 12(1)(d)(i) of Government gazette No. 27636 Issued on 30 May 2005 states that deviations must be included as a note to the financial statements Major deviations related to emergency procurement of borehole spares and pipes in order to avoid interruption of essential service (Water Supply).

The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
37. Provision on Landfill Site		
	2018	2017
Opening balance	11 971 993	11 695 215
Current year movement	6 128 788	276 768
Closing Balance	<u>18 100 781</u>	<u>11 971 983</u>

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2017 is as follows:

Statement of financial position

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2018 annual financial statements is as follows:

38. Asset Held for Sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in municipality or deficit.

39. Finance lease obligation

Minimum lease payments due

- within one year	3 350 422	-
- in second to fifth year inclusive	5 584 037	-
	<u>8 934 459</u>	-
less: future finance charges	(1 897 021)	-
Present value of minimum lease payments	<u>7 037 438</u>	-
Present value of minimum lease payments due		
- within one year	2 251 500	-
- in second to fifth year inclusive	4 785 938	-
	<u>7 037 438</u>	-

It is municipality has leased printing machines under a finance lease, effective from 28 February 2018

The average lease term is 3 years and the average effective borrowing rate is 18.2% per annum

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Figures in Rand	2018	2017
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39. Finance lease obligation (continued)

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

40. Budget differences

Material differences between budget and actual amounts

There were material differences between the final budget and the actual amounts. The reasons were shown in the statement of comparison budget and actual amounts.

Differences between budget and actual amounts basis of preparation and presentation

The budget and the accounting bases differ. The annual financial statements for the whole-of-government are prepared on the accrual basis using a classification based on the nature of expenses in the statement of financial performance. The annual financial statements are consolidated statements that include all controlled entities, including government business enterprises for the fiscal period from 2017/07/01 to 2018/06/30. The annual financial statements differ from the budget, which is approved on the cash basis and which deals only with the general government sector that excludes government business enterprises and certain other non-market government entities and activities.

The amounts in the annual financial statements were recast from the accrual basis to the cash basis and reclassified by functional classification to be on the same basis as the final approved budget. In addition, adjustments to amounts in the annual financial statements for timing differences associated with the continuing appropriation and differences in the entities covered (government business enterprises) were made to express the actual amounts on a comparable basis to the final approved budget. The amounts of these adjustments are identified in the following table.

