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

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing Municipal Services
Members of Council	
Mayor	XM Duma
Councillors	L Shabalala LQ Mkhize Z Ismail B Khumalo N Ndlovu N Mthalane ME Majola N Ndaba
Grading of local authority	Grade 2
Accounting Officer	Mr S Mabaso
Acting Chief Finance Officer (CFO)	Mr M Ngcobo
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact details	033 263 1221/7700
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank
Auditors	The Auditor General of South Africa

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

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

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 deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The annual financial statements set out on pages 4 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Accounting Officer
S Mabaso

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	8	359 850	230 831
Receivables from exchange transactions	9	28 780 490	25 371 984
Receivables from non-exchange transactions	10	18 358 764	16 232 083
VAT receivable	11	6 034 425	2 529 178
Loan Receivables		399 638	399 638
Cash and cash equivalents	13	2 389 550	496 505
		56 322 717	**45 260 219**
Non-Current Assets			
Investment property	3	16 389 012	15 490 912
Property, plant and equipment	4	151 063 830	154 261 720
Intangible assets	5	882 604	1 121 735
Heritage assets	6	110 500	110 500
		168 445 946	**170 984 867**
Non-Current Assets		168 445 946	170 984 867
Current Assets		56 322 717	45 260 219
Total Assets		**224 768 663**	**216 245 086**
Liabilities			
Current Liabilities			
Finance lease obligation	14	4 665 680	3 446 395
Payables from exchange transactions	17	114 317 701	63 899 876
Consumer deposits	18	327 298	320 508
Employee benefit obligation	7	855 000	469 000
Unspent conditional grants and receipts	15	16 624 297	17 428 905
Provisions	16	3 181 835	3 429 444
		139 971 811	**88 994 128**
Non-Current Liabilities			
Finance lease obligation	14	14 079 062	19 513 726
Employee benefit obligation	7	13 155 000	12 098 000
Provisions	16	7 156 494	6 505 449
		34 390 556	**38 117 175**
Non-Current Liabilities		34 390 556	38 117 175
Current Liabilities		139 971 811	88 994 128
Total Liabilities		**174 362 367**	**127 111 303**
Assets		224 768 663	216 245 086
Liabilities		(174 362 367)	(127 111 303)
Net Assets		**50 406 296**	**89 133 783**
Accumulated surplus		50 406 296	89 133 783

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	61 872 254	52 611 137
Rental of facilities and equipment	21	71 477	212 701
Licences and permits		2 145 716	3 201 926
Other income	23	5 561 070	902 786
Interest income	24	4 068 917	2 992 995
Total revenue from exchange transactions		73 719 434	59 921 545
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	10 854 078	11 009 083
Property rates - penalties imposed	25	-	2 672 640
Donations received		-	324 925
Transfer revenue			
Government grants & subsidies	26	48 007 340	46 841 058
Fines, Penalties and Forfeits		12 804 507	7 078 495
Total revenue from non-exchange transactions		71 665 925	67 926 201
		73 719 434	59 921 545
		71 665 925	67 926 201
Total revenue	19	145 385 359	127 847 746
Expenditure			
Employee related costs	27	(38 920 465)	(33 219 768)
Remuneration of councillors	28	(2 524 606)	(2 717 560)
Depreciation and amortisation	29	(15 193 066)	(13 763 386)
Impairment loss	30	(2 339 994)	(122 218)
Finance costs	31	(2 145 214)	(385 413)
Debt Impairment	32	(16 264 850)	(16 237 359)
Loss on disposal of assets		-	(818 046)
Bulk purchases	33	(58 251 756)	(57 467 820)
Contracted services	34	(4 037 624)	(7 132 004)
Bank charges		(191 104)	(163 127)
General Expenses	35	(35 095 607)	(30 359 285)
Total expenditure		(174 964 286)	(162 385 986)
		-	-
Total revenue		145 385 359	127 847 746
Total expenditure		(174 964 286)	(162 385 986)
Operating surplus/deficit		-	-
Deficit before taxation		(29 578 927)	(34 538 240)
Taxation		-	-
Deficit for the year from continuing operations		(29 578 927)	(34 538 240)
Fair value adjustment		898 100	1 463 949
Deficit for the year		(28 680 827)	(33 074 291)

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	122 504 492	122 504 492
Changes in net assets		
Surplus for the year	(33 074 291)	(33 074 291)
Prior year adjusments	(296 418)	(296 418)
Total changes	(33 370 709)	(33 370 709)
Opening balance as previously reported	53 568 150	53 568 150
Adjustments		
Prior year adjustments	(9 596 405)	(9 596 405)
Restated* Balance at 01 July 2017 as restated*	**43 971 745**	**43 971 745**
Changes in net assets		
Surplus for the year	(28 680 827)	(28 680 827)
Total changes	(28 680 827)	(28 680 827)
Balance at 30 June 2018	**50 406 296**	**50 406 296**

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		66 242 011	56 953 056
Grants		51 418 905	53 277 785
Interest income		2 253 470	275 260
		119 914 386	110 506 101
Payments			
Employee costs		(41 445 071)	(34 101 814)
Suppliers		(26 974 372)	(57 284 855)
Finance costs		(2 145 214)	(385 413)
Other cash item		-	2 292 606
		(70 564 657)	(89 479 476)
Total receipts		119 914 386	110 506 101
Total payments		(70 564 657)	(89 479 476)
Net cash flows from operating activities	37	**49 349 729**	**21 026 625**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(11 756 832)	(40 400 298)
Proceeds from sale of property, plant and equipment	4	-	818 045
Purchase of other intangible assets	5	-	(1 200 000)
Purchase of other asset 1		-	(32 885 511)
Net cash flows from investing activities		**(11 756 832)**	**(73 667 764)**
Cash flows from financing activities			
Movement in other liability 1		-	(15 240)
Finance lease payments		(35 699 852)	18 433 825
Net cash flows from financing activities		**(35 699 852)**	**18 418 585**
Net increase/(decrease) in cash and cash equivalents		1 893 045	(4 447 695)
Cash and cash equivalents at the beginning of the year		496 505	4 944 200
Cash and cash equivalents at the end of the year	13	**2 389 550**	**496 505**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	55 684 000	3 327 000	59 011 000	61 872 254	2 861 254	(b)
Rental of facilities and equipment	252 000	(126 000)	126 000	71 477	(54 523)	(d)
Licences and permits	3 937 000	(1 395 000)	2 542 000	2 145 716	(396 284)	(g)
Other income - (rollup)	3 074 000	1 012 000	4 086 000	5 561 070	1 475 070	(i)
Interest received - investment	3 294 000	(286 000)	3 008 000	4 068 917	1 060 917	(e)
Dividends received	(6 372 130)	-	(6 372 130)	-	6 372 130	
Total revenue from exchange transactions	59 868 870	2 532 000	62 400 870	73 719 434	11 318 564	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 240 000	2 195 000	17 435 000	10 850 469	(6 584 531)	(a)
Transfer revenue						
Government grants & subsidies	56 778 000	(6 000 000)	50 778 000	48 007 340	(2 770 660)	(h)
Fines, Penalties and Forfeits	8 218 000	-	8 218 000	12 804 507	4 586 507	(f)
Total revenue from non-exchange transactions	80 236 000	(3 805 000)	76 431 000	71 662 316	(4 768 684)	
'Total revenue from exchange transactions'	59 868 870	2 532 000	62 400 870	73 719 434	11 318 564	
'Total revenue from non-exchange transactions'	80 236 000	(3 805 000)	76 431 000	71 662 316	(4 768 684)	
Total revenue	140 104 870	(1 273 000)	138 831 870	145 381 750	6 549 880	
Expenditure						
Personnel	(35 343 000)	-	(35 343 000)	(38 920 465)	(3 577 465)	(j)
Remuneration of councillors	(3 188 000)	447 000	(2 741 000)	(2 524 606)	216 394	(k)
Depreciation and amortisation	(7 622 000)	-	(7 622 000)	(15 193 066)	(7 571 066)	(k)
Impairment loss/ Reversal of impairments	(18 820 000)	9 000 000	(9 820 000)	(2 339 994)	7 480 006	(l)
Finance costs	(720 000)	(400 000)	(1 120 000)	(2 145 214)	(1 025 214)	(L)
Debt Impairment	(18 819 696)	-	(18 819 696)	(16 264 850)	2 554 846	
Bulk purchases	(66 390 173)	-	(66 390 173)	(58 251 756)	8 138 417	(m)
Contracted Services	(6 363 000)	(1 137 000)	(7 500 000)	(4 037 624)	3 462 376	(n)
Cost of housing sold	(169 992)	-	(169 992)	(191 104)	(21 112)	
General Expenses	(16 430 000)	(9 000 000)	(25 430 000)	(35 095 607)	(9 665 607)	(p)
Total expenditure	(173 865 861)	(1 090 000)	(174 955 861)	(174 964 286)	(8 425)	
	(33 760 991)	(2 363 000)	(36 123 991)	(29 582 536)	6 541 455	
	-	-	-	-	-	
Deficit before taxation	(33 760 991)	(2 363 000)	(36 123 991)	(29 582 536)	6 541 455	
Surplus before taxation	(33 760 991)	(2 363 000)	(36 123 991)	(29 582 536)	6 541 455	
Taxation	-	-	-	-	-	
Deficit for the year from continuing operations	(33 760 991)	(2 363 000)	(36 123 991)	(29 582 536)	6 541 455	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Discontinued operations	-	-	-	898 100	898 100	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(33 760 991)	(2 363 000)	(36 123 991)	(28 684 436)	7 439 555	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

(a) Property Rates
This was mainly due to under billing of farmers as a result iof outdated customer information.

(b) Service charges - Electricity Revenue
Electricty billing was under budgeted.

(c) Service charges - refuse revenue
In line with budget

(d) Rental of facilities and equipment
Hostel dwellers who occupied the town hall led to a substantial decrease in the rental collected.

(e) Interest earned - external investments
Lower than expected external investment of funds due to cashflow issues.

(f) Fines
Mobile camera was not working for three months

(g) Licences and permits
Operating grants not gazzetted on DORA provided by LG SETA and COGTA.

(h) Transfers recognised - operating
Increase in Income from SANRAL and income from N3TC

(i) Other revenue
Increase in overtime because of vacancies and Acting allowance not budgeted for.

(j) Employee related costs
Increase in overtime because of vacancies and Acting allowance not budgeted for.

(k) Remuneration of councillors
MEC Cogta did not approve increase of councilllers as per determination of upper limits

(l) Debt impairment
It was anticipated that more impairments would occur - however this was not the case

(k) Depreciation and asset impairment
On preparation of budget depreciation was underestimated

(L) Finance charges
Due to Cash flow contrains more interest paid to Eskom.

(m) Bulk purchases
Electricity revenue is low due to transmission losses and increase in electricity theft.

(n) Contracted services
On preparation of budget Contacted services was overbudgeted

(p) Other expenditure
Increase in hiring of equipment and maintenance expenditure.

The accounting policies on pages 11 to 27 and the notes on pages 28 to 51 form an integral part of the annual financial statements.

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.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

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 and loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

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

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.

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 16 - 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 7.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.3 Investment property

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

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

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

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

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

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised. Compensation from third parties for investment property that was impaired ,lost or given up is recognised in surplus or deficit when the compensation becomes receivables.

Subsequent measurement

Investment Property is measured at fair value model and shallmeasure all of its property at fair value.

The fair value of investment property is the price at which property could be exchanged between knowledgeable willing parties in an arms length transaction. fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances such as sale and leaseback arrangments, special considerations or concessions granted by anyone associated with the sale
An entity dertemines fair value without any deductions for transaction costs it may incur on sale or other disposal

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

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

1.4 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.

1.4 Property, plant and equipment (continued)

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.

Major spare parts and standby equipments which are expected to be used for more than one period are included in the property, plant and equipment, In addition spare parts and standby equipments which can only be used in connection with an item of property , pland and equipment are accounted for as 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.

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

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

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

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 a cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount, being the fair value at the date ofrevaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

1.4 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight line	5-25 years
Leased assets	Straight line	3-5 years
Infrastructure	Straight line	3-60 years
Other property, plant and equipment	Straight line	3-10 years

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

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

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

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

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

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

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

The municipality assesses the probability of expected future economic benefit or service potential using reasonable and supportable assumptions that represents managements best estimates of the set of economic conditions that will exist ove the useful life of the asset.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.6 Intangible assets

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

1.6 Intangible assets (continued)

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.

When 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
An Intangible asset is regarded as as having an indefinite useful life when based on all relevant factors , there is no foreseeable limit to the amortisation method for intangible assets are viewed at each reporting date
Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred .

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	Depreciation method	Average useful life
Computer software, internally generated	Straight line	2 years
Computer software, other	Straight line	2 years

Intangible assets are initially recognised at cost, and are carried at cost less any accumulated amortisation and any impairments losses
An intangible asset is recognised when it is probable that the expected future economic benefit or service potential that attributable the asset to the municipality and cost can be measured reliable .

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 is the difference between the net disposal proceeds , if any , and the carrying amount and is recognised in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
Heritage assets are considered to be indefinite assets and are therefore not depreciated

Recognition

The cost of an item of heritege asset is recognised as an asset if,and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliable
Heritage assets are initialy recognised at cost on its acqusition date or in the case of assets acquired by grant or donation, deemed cost , being the fair value on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition for it to be capable of operating in the manner intended by the municipality.
Trade discounts and rebates are deducted in arriving at the cost. The cost also include the neccessary cost of dismantling and removingthe assetand restoring the site on which it is located.
Where an asset is acquired by the municipality for no or nominal consideration (i.e non exchange transaction) the cost is deemed to be equal to the fair value of that asset on the date acquired
The cost of an item item of heritage assets acquired in axchange for a non monetary asset or monetary asset or a combinationof monetary and non monetary assets, is measured at the fair value of the assets given up, unless the fair value of the assetreceived is more clearly evident
if the required item could not be measured at its fair value its costs is measured at the carrying amount of the asset given up.

1.7 Heritage assets (continued)

Subsequent measurement

Subsequent expenditure relating to to heritage assets capitialised if its probable that future economic benefit or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an assetis only capitalised when its increases the capacity or future benefits associated with the asset. When the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component .

Subsequently all heritage assets are measured at cost less accumulated imparment losses or fair value if the initial cost cannot be measured reliably.

Derecognition

The carrying amountof an item of heritage assets is derecognised on disposal or when no future economic or service potential expected from its use or disposal.03The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognise. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Perfomance as a gain or loss on disposal of heritage assets.

1.8 Financial instruments

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

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

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.

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

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

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

A financial asset is:

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

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

- deliver cash or another financial asset to another entity; or

1.8 Financial instruments (continued)

- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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.

Classification

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

Class	Category
Cash and Bank	Financial asset measured at amortised cost
Receivables from exchange and non exchange transaction	Financial asset measured at amortised cost
Vat Receivables	Financial asset measured at amortised cost
Bank investments	Financial asset measured at amortised cost
Loan and receivables	Financial asset measured at amortised cost

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

Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grant	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Vat payable	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Derecognition

Financial assets

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

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

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

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

Financial liabilities

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

1.8 Financial instruments (continued)

Presentation

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

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

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

1.9 Loan and receivables

Identification

Loan and receivables are non- derivative financial assets with fixed or derteminable payments that are not quoted in an active market. Loand and receivables are subsequently measured at amortized cost using the effective interest rate.
The effective interest metjod is a method of calculating the amortised cost of financial asset or financial liability (or group of financial assets or financial liabilities) and of locating 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 and financial liability.

When calculating the effective interest rate, the municipality estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an intergral part of the effective interest rate, transaction costs and all other premiums or discounts.In those rare cases when it is not not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the municipality uses the contractual cash flows over the full contractual term of the financial financial instrument (or group of financial instruments).

1.10 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.

Operating leases - lessee

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

1.11 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.

1.11 Inventories (continued)

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an assets is diployed in a manner consistent with that adopted by a profit -oriented entity, it generates a commercial return .

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.

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

1.12 Impairment of cash-generating assets (continued)

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.

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.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

1.12 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.

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

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

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.

Redesignation

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

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. When an asset is diployed in a manner consistent with that adopted by a profit orientated entity.It generates a commercial return

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of an impairment loss

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

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

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

Redesignation

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

1.14 Employee benefits

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

Retirement Funds

The municipality provides retirements benefits for its employees and councillors. The contribution to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The municipality contributes to defined contribution and defined benefit funds. These funds are multi employer funds..

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.

1.15 Provisions and contingencies

Provisions are recognised when:

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

1.15 Provisions and contingencies (continued)

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.

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

Provisions are not recognised for future operating surplus (deficit).

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

Contingent assets and contingent liabilities are not recognised.

1.16 Commitments

Commitment is reffered to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incure a liability in the form of a purchase contract similar documentation . Such a contract commitment would be accompanied by but not limited to actions takes to dertemine the amount of the eventual resource outflow or a reliable estimate e.g quote and condition to be satisfied to establish an obligation e.g delivery schedule.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.
A municipality may enter on or before the reporting date for expenditure over subsequent accounting periods e.g a contract for construction of infrastructure assets ,the purchase of major items of plant and equipment or significant consultancy contracts. In these events , a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.
Commitments for which disclosure is neccessary 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 at significant cost (for example, contracts for computers or building maintenance, services) and
-Contracts should relate to something other than the routine, steady, state business of the of the entity - therefore salary commitments relating to employment contracts or social security benefit commitment are excluded

1.17 Revenue from exchange transactions

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

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

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

1.17 Revenue from exchange transactions (continued)

Measurement

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

Rendering of services

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

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

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

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

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

1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue from non exchange transactions is generallly recognised to the extent that the related receipt or receivables qualities for recognition as an assets and there is no liability to repay the amount.

Measurement

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

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria condition or obligation have not been met a liability is recognised.

1.19 Investment income

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

1.20 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.

1.21 Comparative figures

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

1.22 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.

1.23 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.

1.24 Irregular expenditure

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

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

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

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

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

1.25 Investments

When the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 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 municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

1.26 Budget information (continued)

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.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by South African Government as a consequence of constitutional independence of the three spheres of government in South Africa only entities within the local sphere of government are considered to be related parties.
Only transactions with related parties not at arms length or not in the ordinary course of business and disclosed.
Key management personnel - Their costs are disclosed in note 27.

1.28 Events after reporting date

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

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

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

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

1.29 Prior Period error accounting

Prior period errors are ommission from, and mistatements in the municipality financial statements for one or more prior periods arising from failure to use, or misuse of available reliable information

Unless it is impracticable to dertemine the effects of the error, the municipality corrects material prior period retrospectively by restating the comparative amountsfor the prior period

1.30 Use of estimates

The preparation of financial statements is conformity with standards of GRAP requires use of certain critical accounting estimates.
Sections of the financial statements. Although these estimates are based on managements best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
◦ GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
◦ GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
◦ GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
◦ IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	16 389 012	-	16 389 012	15 490 912	-	15 490 912

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	15 490 912	898 100	16 389 012

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	14 614 561	876 351	15 490 912

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.
The municipality recognises Investment property at cost and subsequntly measures it at fair value
The fair valuation was perfomed by the Professional Independent Valuers (MIlls Fitchet) as at 30 June 2018
The valuation is based on the market evidence as per the report available at the registered office of the municipality
Repairs and maintenance on the investment are done by the lessees

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

4. 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	4 632 716	-	4 632 716	4 632 716	-	4 632 716
Buildings	9 158 832	(5 142 721)	4 016 111	9 491 449	(5 142 721)	4 348 728
Budildings - Revaluation	7 172 037	-	7 172 037	7 172 037	-	7 172 037
Infrastructure	162 110 256	(67 540 466)	94 569 790	162 084 819	(58 527 666)	103 557 153
Other property, plant and equipment	10 241 157	(7 074 001)	3 167 156	10 265 899	(6 944 927)	3 320 972
Work in progress	18 733 978	-	18 733 978	7 144 696	-	7 144 696
Leased assets	27 253 043	(9 565 684)	17 687 359	27 095 970	(4 448 771)	22 647 199
Landfil site	8 402 815	(7 318 132)	1 084 683	8 367 194	(6 928 975)	1 438 219
Total	**247 704 834**	**(96 641 004)**	**151 063 830**	**236 254 780**	**(81 993 060)**	**154 261 720**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Change in accounting estimates	Depreciation	Impairment loss	Total
Land	4 632 716	-	-	-	-	4 632 716
Buildings	4 348 728	-	84 962	(417 579)	-	4 016 111
Buildings - Revaluations	7 172 037	-	-	-	-	7 172 037
Infrastructure	103 557 153	-	409	(8 987 772)	-	94 569 790
Other property, plant and equipment	3 320 972	167 550	1 732 947	(2 053 264)	(1 049)	3 167 156
Work in progress	7 144 696	11 589 282	-	-	-	18 733 978
Leased assets	22 647 199	-	210 465	(5 170 305)	-	17 687 359
Landfil site	1 438 219	-	-	(353 536)	-	1 084 683
	154 261 720	11 756 832	2 028 783	(16 982 456)	(1 049)	151 063 830

Reconciliation of property, plant and equipment - 2017

	Opening balance	Restatements	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	4 742 716	-	-	-	-	-	(110 000)	4 632 716
Buildings	3 554 649	(101 793)	803 235	-	374 048	(261 960)	(19 451)	4 348 728
Buildings - Revaluation	6 587 439	-	-	-	-	-	584 598	7 172 037
Infrastructure	88 973 632	(527 384)	-	-	24 302 545	(9 208 648)	17 008	103 557 153
Other property, plant and equipment	3 314 130	(430 307)	1 464 376	(6 978)	-	(1 020 249)	-	3 320 972
Capital Work in Progress	15 447 810	-	16 373 480	-	(24 676 594)	-	-	7 144 696
Finance lease assets	3 575 713	(53 018)	21 759 207	(811 067)	-	(1 823 636)	-	22 647 199
Landfill site	1 999 065	(14 615)	-	-	-	(546 231)	-	1 438 219
	128 195 154	(1 127 117)	40 400 298	(818 045)	(1)	(12 860 724)	472 155	154 261 720

Figures in Rand	2018	2017

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	5 878 496	1 266 200	7 144 696
Additions/capital expenditure	10 997 605	591 457	11 589 062
	16 876 101	1 857 657	18 733 758

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Total
Opening balance	15 447 810	-	15 447 810
Additions/capital expenditure	14 733 232	1 640 249	16 373 481
Transferred to completed items	(24 302 546)	(374 049)	(24 676 595)
	5 878 496	1 266 200	7 144 696

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Office equipment	29 087	-
Roads - Materials and Supplies	563 718	-
Telephone - Maintenance frame	4 320	-
Tools - Electricicty	3 044 636	-
Roads	334 634	-
Other	-	393 698
	3 976 395	393 698

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.

5. 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	1 272 258	(389 654)	882 604	1 272 258	(150 523)	1 121 735

Reconciliation of intangible assets - 2018

	Opening balance	Other changes, movements	Amortisation	Total
Computer software, other	1 121 735	3 471	(242 602)	882 604

Figures in Rand	2018	2017

5. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	3 470	1 200 000	(81 735)	1 121 735

6. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	110 500	-	110 500	110 500	-	110 500

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral Chain	110 500	110 500

Reconciliation of heritage assets 2017

	Opening balance	Revaluation increase/(decrease)	Total
Mayoral Chain	107 500	3 000	110 500

7. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-Post Employment Medical Subsidy	(11 720 000)	(11 663 000)
Present value of the defined benefit obligation-Long term service award	(2 290 000)	(904 000)
	(14 010 000)	**(12 567 000)**
Non-current liabilities	(13 155 000)	(12 098 000)
Current liabilities	(855 000)	(469 000)
	(14 010 000)	**(12 567 000)**

Net expense recognised in the statement of financial performance

Current service cost	576 000	627 000
Interest cost	1 163 000	956 000
Actuarial (gains) losses	(381 000)	(302 000)
	1 358 000	**1 281 000**

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.09 %	11.11 %
Consumer price inflation (C)	6.43 %	8.04 %
Health care cost inflation (H)	7.93 %	9.54 %
Net discount rate ((1+D)/(1+H)-1)	2.00 %	1.43 %

Other assumptions - Post retirement medical aid
It is assumed that healthcare cost trends rates have a significant effect on the amounts recognised is surplus or deficit

Other assumptions- Long service bonus awards
The valuation bases assumed that the salary inflation rate (which manifests itself as as an annual increase in employees salaries which dertemine the bonuses payable) will be 0.09% less than the corresponding discount rate in the long term

Defined contribution plan

Certain councillors and certain employees belong to the defined benefit plan of the Natal Joint Superannuation and retirements funds, and the Municipal Councillors Pension Fund. Employees of Mpofana make up less than 1% of the total members of the funds. Mpofana's liability in these funds could not be dertemined owing mainly to the assets not being allocated to each municipality and one set of financial being prepared for each fund and not per municipality. These funds are subject to triennial acturial valuations. The last statutory valuations was perfomed in March 2015 on the retirement and provident funds and in March 2014 on the Superannuation Fund. An interim valuation of the Superannuation fund was done in March 2015

Superannuition Fund

The acturial value of total assets was R10 113 227 million at the acturial date
1.surplus of R0.00 in respect of pensioners (Funding level 100%)
2.surplus of R0.00 in respect of members (funding level 100%)
3. the fund was thus 100% funded
4. the fund did not hold any an investment reserve.
5.the total contribution rate payable, including the surcharge by and on behalf of members, exceeded that required for future services by 1.41% of members pensionable emoluments.
6. An additional contribution by the way of surcharge amounting to 9.5% of salaries is currently in place to fund the deficit. The surcharge will build up the Solvency Reserve

Retirement Fund

The acturial value of total assets was R3 650 776 million at the acturial valuation date .
1. surplus of R0.00 in respect of pensioners (funding level 100%)
2. deficit of R148 694 million in respect of members (funding level 91.1%)
3. the fund was thus 96.1% funded
4.the fund did not hold an investment reserve
5. the total contribution rate payable will include a surcharge of 17.5% payable to reduce the deficit in the fund

Provident Fund

The acturial value of the total assets was R2 636 064 million at the acturial valuation date
1. surplus/deficit of R0.00 and the funding levels is 107.4%
2. the fund was thus 107.4 funded
3. the fund did not hold an investment reserve

8. Inventories

Consumable stores	359 850	230 831

Figures in Rand	2018	2017

9. Receivables from exchange transactions

Consumer debtors - Electricity	11 678 939	8 719 543
Consumer debtors - Refuse	18 892 408	15 366 886
Consumer debtors - Sundry	45 898 723	45 954 293
Provision for bad debts - Electricity	(2 335 788)	(1 743 908)
Provision for bad debts - Refuse	(13 224 686)	(10 756 820)
Provsion for bad debts - Sundry	(32 129 106)	(32 168 010)
	28 780 490	25 371 984

10. Receivables from non-exchange transactions

Property Rates	29 964 592	26 910 384
Fines	40 402 710	28 086 228
Sundry debtors	352 841	352 841
Provision for bad debts - Rates	(14 982 296)	(13 455 189)
Provision for bad debts - Fines	(37 379 083)	(25 662 181)
	18 358 764	16 232 083

11. VAT receivable

VAT	6 034 425	2 529 178

Vat is payable on the receipt basis. Only once payment is received from debtors is VAT paid over to SARSt

12. Receivables from exchange transactions

Gross balances		
Property Rates	29 694 592	26 910 384
Electricity	11 678 939	8 719 543
Refuse	18 892 408	15 366 886
Sundry debtors	45 898 723	45 954 293
	106 164 662	96 951 106
Less: Allowance for impairment		
Rates	(14 982 296)	(13 455 189)
Electricity	(2 335 788)	(1 743 908)
Refuse	(13 224 685)	(10 756 820)
Sundries	(32 129 106)	(32 168 010)
	(62 671 875)	(58 123 927)
Net balance		
Electricity	9 343 151	6 975 635
Rates	14 982 296	13 455 195
Refuse	5 667 722	4 610 066
Sundries	13 769 617	13 786 283
	43 762 786	38 827 179
Net balance	43 762 786	38 827 179

Figures in Rand	2018	2017

12. Receivables from exchange transactions (continued)

Rates		
Current (0 -30 days)	(3 087 314)	1 409 243
31 - 60 days	1 807 973	462 862
61 - 90 days	913 677	416 674
91 - 120 days	30 331 256	24 621 605
	29 965 592	26 910 384
Electricity		
Current (0 -30 days)	3 014 510	2 910 742
31 - 60 days	2 728 049	474 240
61 - 90 days	490 697	411 662
91 - 120 days	5 445 683	4 922 899
	11 678 939	8 719 543
Refuse		
Current (0 -30 days)	312 486	559 880
31 - 60 days	646 526	262 712
61 - 90 days	320 490	259 217
91 - 120 days	17 612 907	14 285 077
	18 892 409	15 366 886
Sundries		
Current (0 -30 days)	-	1 066 851
31 - 60 days	-	525 910
61 - 90 days	-	504 125
91 - 120 days	45 898 723	43 857 407
	45 898 723	45 954 293

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 389 550	496 505

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Current account - 53050399907	2 225 941	357 892	2 096 789	2 225 941	362 866	2 096 789
First National Bank - Current account - 62101108034	140 614	24 856	70 807	135 632	24 856	70 807
First National Bank - Call account - 62187203957	433	19 326	18 664	18 664	19 326	18 664
First National Bank - Call account - 62237621760	1 941	31 609	449	449	449	449
ABSA Bank - Investment - 6303799366	-	-	962 256	-	-	962 256
First National Bank - Investment account - 74630870406	31 609	16 018	-	16 018	16 018	-
First National Bank - Call account - 62172488085	214	36 856	510 311	214	36 856	510 311
First National Bank - Call account - 62141712001	376	1 376	205 493	376	1 376	205 493
First National Bank - Call account - 62134172890	345	16 169	4 345	16 169	16 168	4 345
First National Bank - Call account - 62172498183	272	4 345	1 376	4 345	4 345	1 376
First National Bank - Call account - 62172493935	181	1 181	1 181	1 181	1 181	1 181
First National Bank - Call account - 62036716746	215	215	215	215	215	215
First National Bank - Call account - 62173946040	306	5 278	5 095	5 278	5 278	5 095
First National Bank - Call account - 62066847553	580	7 571	1 067 220	7 571	7 571	1 067 220
Total	**2 403 027**	**522 692**	**4 944 201**	**2 432 053**	**496 505**	**4 944 201**

14. Finance lease obligation

Minimum lease payments due		
- within one year	6 324 435	5 591 610
- in second to fifth year inclusive	16 161 361	23 274 193
	22 485 796	28 865 803
less: future finance charges	(3 741 054)	(5 905 682)
Present value of minimum lease payments	**18 744 742**	**22 960 121**
Present value of minimum lease payments due		
- within one year	4 665 680	3 446 395
- in second to fifth year inclusive	14 079 062	19 513 726
	18 744 742	**22 960 121**

The average lease term was 5 years and the average effective borrowing rate was 2% (2017: 2%).

Figures in Rand	2018	2017

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Craigburn Housing Project Grant	5 840 388	5 840 388
Municipal Assistance Grant- Small Town grant	2 083 510	3 186 725
Townview Housing Project Grant	8 168 481	8 168 481
Library subsidy	57 384	21 411
Learnership Awareness Project Grant	(1)	211 900
Intergrated National Electrification Program	474 535	-
	16 624 297	17 428 905

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

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

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

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

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	6 714 263	442 231	-	7 156 494
Provision for leave pay	3 220 630	429 547	(468 342)	3 181 835
	9 934 893	871 778	(468 342)	10 338 329

Reconciliation of provisions - 2017

	Opening Balance	Restatement	Additions	Total
Provision for landfill site	6 966 274	-	(252 011)	6 714 263
Provision for leave pay	2 654 658	(239 441)	805 413	3 220 630
	9 620 932	(239 441)	553 402	9 934 893

Non-current liabilities	7 156 494	6 505 449
Current liabilities	3 181 835	3 429 444
	10 338 329	9 934 893

The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be the case soon.
A discount factor based on prime interest and adjustment for municipali specific risk was applied

The provision is for the obligation for leave due to staff members at year end based on staff salaries and days leave due
The timing and amounts of any resulting outflows of economic benefit cannot be estimated.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Payables from exchange transactions

Trade payables	99 779 750	54 694 385
Retentions	3 475 357	3 475 357
Debtor payments received in advance	4 343 696	4 343 698
Unallocated receipts	70 220	70 220
Salary suspense	5 572 626	366 930
13th Cheque Accrual	959 308	832 542
Receipting errors	116 744	116 744
	114 317 701	63 899 876

18. Consumer deposits

Electricity	319 509	312 719
Other	7 789	7 789
	327 298	320 508

19. Revenue

Service charges	61 872 254	52 611 137
Rental of facilities and equipment	71 477	212 701
Licences and permits	2 145 716	3 201 926
Fair value adjustment	5 561 070	902 786
Interest received - investment	4 068 917	2 992 995
Property rates	10 854 078	11 009 083
Property rates - penalties imposed	-	2 672 640
Donations received	-	324 925
Government grants & subsidies	48 007 340	46 841 058
Fines, Penalties and Forfeits	12 804 507	7 078 495
	145 385 359	127 847 746

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

Service charges	61 872 254	52 611 137
Rental of facilities and equipment	71 477	212 701
Licences and permits	2 145 716	3 201 926
Other income - (rollup)	5 561 070	902 786
Interest received - investment	4 068 917	2 992 995
	73 719 434	59 921 545

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

Taxation revenue		
Property rates	10 854 078	11 009 083
Property rates - penalties imposed	-	2 672 640
Donations received	-	324 925
Transfer revenue		
Government grants & subsidies	48 007 340	46 841 058
Fines, Penalties and Forfeits	12 804 507	7 078 495
	71 665 925	67 926 201

20. Service charges

Sale of electricity	58 486 179	49 470 410
Refuse removal	3 386 075	3 140 727
	61 872 254	52 611 137

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Rental of facilities and equipment

Premises		
Premises	66 562	207 438
Venue hire	4 915	5 263
	71 477	212 701

22. Other revenue

Other income - (rollup)	5 561 070	902 786

23. Other income

Other income	430 096	243 074
Income from N3 TC	857 146	659 712
Income from Sanral	4 273 828	-
	5 561 070	902 786

24. Investment revenue

Interest revenue		
Bank	71 542	275 260
Interest on debtors	3 997 375	2 717 735
	4 068 917	2 992 995

Figures in Rand	2018	2017

25. Property rates

Rates received

Residential	5 368 893	8 463 311
Commercial	2 828 839	2 744 516
State	301 411	283 056
Municipal	7 784 294	6 866 907
Hospitality and Tourism	-	1 059 148
Communal Property Land	559 459	(60 971)
PSI: Public Benefit Organisation	849 386	802 778
Less: Income forgone	(6 838 204)	(9 149 662)
	10 854 078	11 009 083
Property rates - penalties imposed	-	2 672 640
	10 854 078	**13 681 723**

Valuations

Agricultural	1 846 235 000	1 845 126 000
Protected Area (NEMA)	91 100 000	91 100 000
Agricultural and smallholding	148 700 000	149 550 000
Business and Commercial	193 635 000	193 645 000
Industrial	2 260 000	2 260 000
Municipal	12 784 000	12 739 000
Place of worship	24 850 000	24 850 000
Public benefit organisation	121 945 000	121 945 000
Public service infrastracture	25 979 000	23 753 000
Residential	576 860 700	580 254 700
Residential -Sectional Tittle	8 330 000	8 030 000
Residential -Small Holding	333 010 000	333 145 000
State Owned	74 767 000	74 767 000
Tourism & Hospitality - Rural	120 070 000	120 070 000
Tourism & Hospitality - Urban	3 729 000	3 729 000
Business and Commercial -Sectional tittles	2 200 000	2 200 000
Communal Property association & Land Reform Beneficiaries	70 820 000	70 820 000
	3 657 274 700	**3 657 983 700**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2012.

Rebates of 30% (2017: 30%) are granted to residential properties,55% (2017: 55%) are granted to agricultural properties, 30% (2017: 30%) on public service infrastructure and 20% (2017. 20%) on public service benefits.

Rates are levied on an monthly basis.

Figures in Rand	2018	2017

26. Government grants and subsidies

Operating grants		
Equitable Share	29 225 000	27 693 000
Learnership awareness programme	1 161 750	1 719 753
Provincial Library subsidy	1 270 374	925 589
Museum grant	183 000	175 000
Skills development grant	-	26 132
Finance management grant (FMG)	1 900 000	1 825 000
Extended Public Works Program	1 000 000	1 000 000
	34 740 124	**33 364 474**
Capital grants		
Municipal Infrastracture grant	12 164 000	11 680 000
Municipal assistance small town grant	1 103 216	1 796 584
	13 267 216	**13 476 584**
	34 740 124	33 364 474
	13 267 216	13 476 584
	48 007 340	**46 841 058**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	18 806 998	27 148 058
Unconditional grants received	29 225 000	27 693 000
	48 031 998	**54 841 058**

Equitable Share

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

The equitable share grant also provides funding for the community to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

Craigburn Housing Project Grant

Balance unspent at beginning of year	5 840 388	5 840 388

Municipal Assistance Grant - Small Town Grant

Balance unspent at beginning of year	3 186 725	4 983 309
Conditions met - transferred to revenue	(1 103 215)	(1 796 584)
	2 083 510	**3 186 725**

This subsidy is provided by the Department of Cooperative Governance and Traditional Affairs to perfom feasibility studies with a view to developing the town by improving its economic state and attracting investment.

Financial Management Grant

Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
	-	-

Townview Housing Project Grant

Figures in Rand	2018	2017

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	8 168 481	8 168 481

Museum Grant

Current-year receipts	183 000	175 000
Conditions met - transferred to revenue	(183 000)	(175 000)
	-	-

This subsidy has been granted to the municipality for operational upkeep of the museum.

Expanded Public wor Works Programme Grant

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

This subsidy is provided by Department of Public Works to assist with the alleviation of poverty in the municipal area by providingtemporary employment for the unemployed.

Library Grant

Balance unspent at beginning of year	21 411	-
Current-year receipts	1 306 000	947 000
Conditions met - transferred to revenue	(1 270 027)	(925 589)
	57 384	21 411

Leanership Awareness Programme Grant

Balance unspent at beginning of year	211 900	-
Current-year receipts	640 905	1 931 653
Conditions met - transferred to revenue	(831 141)	(1 719 753)
	21 664	211 900

This grant is provided by SETA to employ unemployed learners in the municipal area - 100 learners for administrative work and 100 learners for cleaning and hygiene work.

Municipal Infrastructure Grant

Current-year receipts	12 164 000	11 680 000
Conditions met - transferred to revenue	(12 164 000)	(11 680 000)
	-	-

This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

Integrated National Electrification Programme

Current-year receipts	5 000 000	8 000 000
Conditions met - transferred to revenue	(4 525 465)	(8 000 000)
	474 535	-

\Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Employee related costs

Basic	23 605 254	19 250 424
Commissions	5 400	14 500
Bonus	1 704 253	1 155 212
Medical aid - company contributions	1 847 171	1 610 522
UIF	213 595	187 399
SDL	297 764	252 408
Other payroll levies	545 675	32 000
Leave pay provision charge	1 676 417	2 087 504
Defined contribution plans	4 918 166	4 162 231
Travel, motor car, accommodation, subsistence and other allowances	1 030 986	1 043 965
Overtime payments	1 684 761	1 778 362
13th Cheques	126 766	279 457
Acting allowances	818 564	902 458
Housing benefits and allowances	156 665	321 882
Redemption of Leave	63 528	130 508
Other payroll levies	225 500	10 936
	38 920 465	**33 219 768**

Remuneration of Municipal Manager

Annual Remuneration	716 263	753 360
Car travel, accommodation allowance and other	185 500	195 962
	901 763	**949 322**

Mr Moyo started acting from August 2017 to June 18

Remuneration of Chief Finance Officer

Annual Remuneration	360 414	281 581
Car travel, accommodation allowance and other	-	142 210
	360 414	**423 791**

Mr M ngcobo started acting February 2018

Remuneration of Director Corporate Services

Annual Remuneration	414 412	401 857
Car travel, accommodation allowance and other	16 712	186 207
	431 124	**588 064**

Mr B Ngubane started acting July 2018

Remuneration of Director Technical Services

Annual Remuneration	481 500	481 500
Car travel, accommodation allowance and other	143 156	147 056
	624 656	**628 556**

Remuneration of Director Social Services

Annual Remuneration	140 438	337 050
Car Allowance	152 846	345 381
	293 284	**682 431**

Figures in Rand	2018	2017

28. Remuneration of councillors

Mayor	672	638 331
Councillors	1 944 030	1 292 723
Councillors' pension contribution	-	106 722
Councillors' allowances	580 576	679 784
	2 525 278	2 717 560

In-kind benefits

The Mayor, is full-time. The Mayor is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has two bodyguards. .

Arrears owed by Councillors

There were no councillors in arrears as at 30 June 2018

29. Depreciation and amortisation

Property, plant and equipment	14 953 934	13 763 386
Intangible assets	239 132	-
	15 193 066	13 763 386

30. Impairment of assets

Impairments		
Property, plant and equipment	2 339 994	122 218
Impairment losses are calculated based on the results of a physical verification conducted during which condition assessment is perfomed.]		
	2 339 994	122 218
	-	-

31. Finance costs

Finance Lease and external loans	2 145 214	385 413

32. Debt impairment

Contributions to debt impairment provision	16 264 850	16 237 359

33. Bulk purchases

Electricity	58 251 756	57 467 820

34. Contracted services

Outsourced Services		
Hygiene Services	75 725	156 514
Security Services	3 837 123	6 975 490
Contractors		
Maintenance of Equipment	124 776	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
34. Contracted services (continued)		
Presented previously	-	-
Outsourced Services	3 912 848	7 132 004
Consultants and Professional Services	-	-
Contractors	124 776	-
	4 037 624	7 132 004

35. General expenses

Advertising	206 762	589 357
Auditors remuneration	2 312 510	1 306 664
Cleaning	-	5 131
Consulting and professional fees	5 780 451	2 047 387
Consumables	105 375	50 851
Deeds transfers	108 207	9 450
Entertainment	-	109 100
Service connections	-	316 685
Hire	9 509 328	4 275 493
Insurance	-	259 582
Conferences and seminars	34 970	2 085
Motor vehicle expenses	1 013 222	31 001
Penalties and interest	748 867	1 484 577
Fuel and oil	1 507 605	1 253 000
Postage and courier	104 801	100 445
Printing and stationery	85 812	312 156
Youth programme	1 264 700	1 719 753
Electricity Maintenance (Materials and Supplies)	203 373	6 723 766
EPWP casuals	987 750	959 104
Software expenses	1 452 047	222 124
Electricity	782 195	440 278
Telephone and fax	1 266 368	1 156 422
Transport and freight	4 784	9 908
Training	490 202	740 678
Travel - overseas	17 242	438 273
Pensioners medical aid	(100 380)	190 643
Assets expensed	3 900	311 921
Uniforms	-	295 534
Sundry costs	38 501	316 532
Ward committee support	123 450	1 096 900
Legal expenses	2 392 357	380 342
Electrification project internaly funded	-	2 311 765
Accommodation	166 468	-
Repairs and maintenance	4 029 644	393 698
Other expenses	455 096	498 680
	35 095 607	**30 359 285**

36. Auditors' remuneration

Auditor General	2 312 510	1 306 664

Figures in Rand	2018	2017

37. Cash generated from operations

Deficit	(28 680 827)	(21 925 145)
Adjustments for:		
Depreciation and amortisation	15 193 066	13 763 386
Impairment deficit	2 339 994	122 218
Debt impairment	16 264 850	16 237 359
Movements in retirement benefit assets and liabilities	1 443 000	941 000
Movements in provisions	403 436	(252 011)
Other non-cash items Disposal of leased assets	-	818 046
Other non-cash items	1 935 656	-
Changes in working capital:		
Inventories	(129 019)	30 204
Receivables from exchange transactions	(3 408 506)	(23 549 410)
Other receivables	(2 126 681)	95 962
Payables from exchange transactions	50 417 825	39 414 981
VAT	(3 505 247)	(3 142 024)
Unspent conditional grants and receipts	(804 608)	(1 563 273)
Consumer deposits	6 790	35 332
	49 349 729	**21 026 625**

38. Commitments

Authorised capital expenditure

Capital expenditure approved and contracted for		
• Mooi River Rehabilitation programme	1 457 928	686 726
• Sthembiso access road	5 049 538	2 474 764
• Mangaung access road	2 809 937	784 246
• Nyamvubu Community Hall	994 382	1 324 111
• Mooi River Upper Town	3 024 143	-
	13 335 928	**5 269 847**

Total capital commitments		
Already contracted for but not provided for	13 335 928	5 269 847

Authorised operational expenditure

Already contracted for but not provided for		
• Contract Commitments	34 812 072	40 103 837
• orders (30 June)	219 060	1 065 012
	35 031 132	**41 168 849**

Total operational commitments		
Already contracted for but not provided for	35 031 132	-

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

Figures in Rand	2018	2017

39. Contingencies

Mpofana v L Sithole & Others – Eviction of occupiers from town hall. Matter finalised. Judgement against Mpofana dated 19 Dec 2017: R250 000.

L Sithole & Others v Mpofana – Contempt of court app for non-compliance with judgement in eviction matter of 19 Dec 2017 :R75 000

Mpofana & Big 5 Municipality / JM Bird – Property transfer dispute. Resolution passed by council. Matter settled : R20 000

40. Related parties

Umgungundlovu District Municipality	Mpofana municipality falls within Umgungundlovu District
N3TC	Private Public Partnership
Sanral	Private Public Partnership

Related party balances

Loan accounts - Owing by related parties		
Umgungundlovu District Municipality	399 638	399 638
Amounts included on revenue) regarding related parties		
N3TC	856 546	659 712
SANRAL	4 273 828	-

41. Prior period errors

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

Property Plant and Equipment	Balance previously reported	Prior period	Total
PPE Buildings Accumulated Depreciation	(5 488 167)	(101 793)	(5 589 960)
Electricity- Accumulated Depreciation	(7 934 026)	144 656	(7 789 370)
Roads -Accumulated Depreciation	(56 654 649)	(660 216)	(57 314 865)
Roads -Impairment loss	(4 580 977)	-	(4 580 977)
Solid waste -Accumulated Depreciation	(51 573)	(2 054)	(53 627)
Machinery & Equipment -Accumulated Depreciation	(2 416 134)	(221 585)	(2 637 719)
Computer Equipment -Accumulated Depreciation	(2 698 763)	(17 603)	(2 716 366)
Computer equipment - Impairment loss	(5 604)	-	(5 604)
Furniture and equipment- Accumulated Depreciation	(1 807 415)	(189 895)	(1 997 310)
Transport - Accumulated Depreciation	(139 340)	(1 226)	(140 566)
Finance lease -Accumulated Depreciation	(4 395 754)	(53 017)	(4 448 771)
Landfill site -- Accumulated Depreciation	(6 741 204)	(14 612)	(6 755 816)
Roads - Impairment loss	(20 162)	(9 775)	(29 937)
Computer Equipment - Impairment loss	(5 604)	(285)	(5 889)
	(92 939 372)	(1 127 405)	(94 066 777)

Heritage asset	Balance previously reported	Prior period	Total
Fair value	107 500	3 000	110 500

Figures in Rand	2018	2017

41. Prior period errors (continued)

Income statement	Balance previously reported	Reclassification	Prior period	Total
Depreciation and amortisation	12 941 504	-	821 881	13 763 385
Repairs and maintenance	393 697	(393 697)	-	-
General expenses	-	393 697	-	393 697
Employee related costs	33 459 209	-	(239 441)	33 219 768
Revenue - INEP Grant	(8 000 000)	-	8 000 000	-
	38 794 410	-	8 582 440	47 376 850

Payables from exchange transaction	Balance previously reported	Prior period	Total
Trade payables	55 538 980	844 594	56 383 574
Leave pay provision	3 460 071	(239 441)	3 220 630
	58 999 051	605 153	59 604 204

Finance lease	Balance previously reported	Prior period	Total
Current portion	4 290 989	(844 594)	3 446 395

42. Risk management

Liquidity risk

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

Credit risk

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

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

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Interest rate risk

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

43. Going concern

We draw attention to the fact that the municipality has unspent conditional grants liabilities that are not fully cash backed. While the municipality had an accumulated surplus of R88 330 228, the current liabilities exceeded the current assets by R45 662 538 and the available cash resource did not cover the commitment for unspent conditional grants with an amount of R16 932 400 being recoverd
The financial statements have been prepared on the basis of accounting policies applicable to a going concern
This basis presumes that both Provincial and National Government have neither the intention nor need to liquidate or curtail materially the scale of funding of the municipality.

Figures in Rand	2018	2017

44. Events after the reporting date

At the time of completion of the financial statements there were no event safter the reporting date affecting these financial statements

45. Unauthorised expenditure

Balance at the beginning if the year	95 651 135	44 665 640
During the year	37 518 680	50 985 495
	133 169 815	95 651 135

46. Fruitless and wasteful expenditure

Balance at the begining of the year	2 694 878	1 171 547
During the year	2 129 706	1 523 331
Condoned	-	-
	4 824 584	2 694 878

Interest and penalty charges were incurred for the late payments for the Auditor General, Eskom for bulk purchases on electricity, to Telkom and to SARS for late payments of employees tax and VAT.

47. Irregular expenditure

Opening balance	32 500 286	26 425 633
Add: Irregular Expenditure - current year	16 219 110	6 074 653
	48 719 396	32 500 286

Analysis of expenditure awaiting condonation per age classification

Current year	16 219 110	6 074 653
Prior years	32 500 286	26 425 633
	48 719 396	32 500 286

48. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

49. Deviation from supply chain management regulations

In terms of section 36(2) of the Municipal Supply Chain Management Regulations approved by council, any deviations from the Supply Chain management Policy needs to be approved / condoned by the Municipal Manager and noted by Council
The following deviations from the tender stipulations in terms of the Municipalitys Supply Chain management Policy were ratified by the Municipal Manager and reported to council.

The municipality incurred deviations in terms of section 36(2) of Municipal Supply Chain Regulations to the value of R1 901 900.70 in the 2017-2018 financial year

50. Electricity Losses

Electricity units(kWh) lost in distribution		
Electricity Units (kWh) purchased from Eskom	65 371 523	57 977 594
Electricity units (kWh) sold	(47 106 172)	(51 547 500)
	18 265 351	6 430 094

Electricity losses for the financial year are 27.94% (2017:11.09%)

The Rand value of the electricity losses for the financial year R11 587 102 (2017: 6 000 796)

Figures in Rand	2018	2017

50. Electricity Losses (continued)

These losses are a combination of line losses within the network infrastructure and theft