



**Mbizana Local Municipality
Audited annual financial statements
for the year ended 30 June 2017**

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Nature of business and principal activities

Mbizana Local Municipality provides the following services:
Electricity
Solid Waste

Mayoral committee

Mayor

T.D. Mafumbatha / M.M.Twabu

Speaker

S. Magini / T.D. Mafumbatha

Chief whip

M.C. Mpetshwa / L. Makholosa

Executive committee

L.T. Somadlangathi / S. Magini

N. Hlebo / D.D. Mnisi

L. Makholosa / N. Giyama-Bongwana

F. Siramza / N. Mjoli-Mbadlanyana

R.T. Nkomo-Khwela / N. Msokana

N.N. Mhlelebana / A. Maquthu

I.M. Sabuka

M.S. Mapetshana

A.M. Specman

N. Dlamini

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Councillors

J.M. Valiko / N.N. Mhlembana
V. Mbhekwa / N.E. Cengimbo
B. Luwele / H.M. Mpukwana
N.C. Cengimbo / N. Stata
M. Mbele / L. Nojila
L.B. Mbuzi / V.T. Mbele
N.C. Matyeni / S. Godi
Z. Mashiyi / P. Boo
M.S. Msindo / K. Ndzinya
S.M. Faku / N. Mbewu
N. Cwele / R.T. Nkomo
Y.N. Mfana / M.H. Nonqane
V. Sotubhu / T. Maphasa
N. Sipatala / P.V. Ndovela
M.W. Kheswa / N. Hlebo
M. Mpofana / J.M. Dimane
M. Qumba / T.H. Kango
M.J. Dekede / N.H. Magqabi
M.M. Manyathela / I.M. Sabuka
N. Bengu / L.A. Njomi
S.A. Maphasi / L.T. Somadlangathi
N. Dayimani / Z.P. Ndebele
M. Ndovela / T. Mlomo
L. Silangwe
M.R. Dlamini
L. Nqodi
N. Madikizela
N. Langasiki
F.N. Sobazile
E. Voko
N. Mavundla
N.M. Mgolozana
N. Sikibi
N. Bongwana
C.N. Mfingwana
R.N. Madikizela
F. Mbuyelwa
N. Sikibi
N.S. Ngonini
M.J. Ndesi
N. Madikizela
O. Nofemele
T. Faku
B.A. Jalubane
A.I. Guqaza
L.G. Mcambalala
Z. Mhlwazi
P. Mfingwana
S.M. Faku

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

Grading of local authority	Grade 03
Accounting Officer	L. Mahlaka
Chief Finance Officer (CFO)	B. Fikeni
Registered office	51 Main Street Bizana 4800
Business address	51 Main Street Bizana 4800
Postal address	P.O. Box 12 Bizana 4800
Bankers	First National Bank
Attorneys	N.Z. Mtshabe Ndobela and Lamola Attorneys Le Roux Attorneys Credit Intelligence (Pty) Ltd Jafta Inc Vuyani Gwebindlala Mbabane and Sokutu Gcaweni Shabalala Inc Prenesha Sugudhav/Sewpersadh
Auditors	Auditor General of South Africa Registered Auditors

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Index

The reports and statements set out below comprise the annual financial statements presented to the municipal council:

	Page
Accounting Officer's Responsibilities and Approval	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 12
Appropriation Statement	13 - 15
Accounting Policies	16 - 45
Notes to the Annual Financial Statements	46 - 83

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern 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)

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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 placed 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 2018 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 external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements set out on pages 6 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2017 and were signed on its behalf by:



Mr L. Mahlaka
Municipal Manager

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	9	472 394	578 568
Operating lease asset	7	1 183 753	1 406 115
Other receivables from exchange transactions	10	1 768 551	1 888 844
Receivables from non-exchange transactions	11	23 425 036	9 933 085
VAT receivable	12	16 052 285	12 410 166
Prepayments	8	5 830 235	6 368 398
Receivables from exchange transactions	13	7 528 525	12 768 975
Cash and cash equivalents	14	67 026 233	96 906 936
		123 287 012	142 261 087
Non-Current Assets			
Investment property	3	5 793 770	5 661 500
Property, plant and equipment	4	608 116 052	574 812 319
Intangible assets	6	1 468 838	2 080 719
Heritage assets	5	1 230 799	-
		616 609 459	582 554 538
Total Assets		739 896 471	724 815 625
Liabilities			
Current Liabilities			
DBSA Loan	17&50	16 273 890	23 850 000
Payables from exchange transactions	18	36 906 868	41 506 048
Consumer deposits	19	458 815	440 500
Unspent conditional grants and receipts	15	1 534 958	2 954 514
Provisions	16	2 405 683	1 124 641
		57 580 214	69 875 703
Non-Current Liabilities			
DBSA Loan	17&50	-	16 550 000
Provisions	16	3 585 447	3 774 677
		3 585 447	20 324 677
Total Liabilities		61 165 661	90 200 380
Net Assets		678 730 810	634 615 245
Accumulated surplus		678 730 809	634 615 245

* See Note 42

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	29 904 275	21 841 669
Rental of facilities and equipment	26	470 216	608 183
Licences and permits		3 289 147	2 441 633
Other income	25	1 151 248	833 153
Interest received	24	10 554 299	8 449 441
Total revenue from exchange transactions		45 369 185	34 174 079
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	20 255 597	16 510 518
Transfer revenue			
Government grants & subsidies	23	255 556 626	259 401 903
Fines, Penalties and Forfeits		1 162 800	1 659 306
Total revenue from non-exchange transactions		276 975 023	277 571 727
Total revenue	20	322 344 208	311 745 806
Expenditure			
Employee related costs	29	(84 245 062)	(71 789 908)
Remuneration of councillors	30	(19 648 747)	(18 956 602)
Depreciation and amortisation	32	(39 229 322)	(36 677 482)
Finance costs	33	(2 168 113)	(547 262)
Debt Impairment	31	(1 109 848)	(4 569 368)
Repairs and maintenance		(5 017 008)	(5 291 717)
Bulk purchases	36	(27 606 329)	(24 528 456)
Grants related expenditure	35	(15 072 440)	(86 385 234)
General Expenses	27	(76 588 245)	(68 916 146)
Total expenditure		(270 685 114)	(317 662 175)
Operating surplus (deficit)		51 659 094	(5 916 369)
Loss on disposal of assets and liabilities	28	(7 675 799)	(19 235 585)
Fair value adjustments		132 270	269 600
		(7 543 529)	(18 965 985)
Surplus (deficit) for the year		44 115 565	(24 882 354)

* See Note 42

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	660 087 862	660 087 862
Adjustments		
Prior year adjustments	(590 263)	(590 263)
Balance at 01 July 2015 as restated*	659 497 599	659 497 599
Surplus/(Deficit) for the year	(24 882 354)	(24 882 354)
Total changes	(24 882 354)	(24 882 354)
Restated balance at 30 June 2016	634 615 244	634 615 244
Balance at 01 July 2016 as restated*	634 615 244	634 615 244
Surplus/(Deficit) for the year	44 115 565	44 115 565
Total changes	44 115 565	44 115 565
Balance at 30 June 2017	678 730 809	678 730 809

Note(s)

* See Note 42

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		48 903 339	32 325 322
Grants		249 916 049	257 292 543
Interest income		10 554 299	8 442 669
Other receipts		-	6 772
		<u>309 373 687</u>	<u>298 067 306</u>
Payments			
Employee costs		(103 893 809)	(90 746 510)
Suppliers		(125 469 713)	(128 797 168)
Finance costs		(2 168 113)	(547 262)
		<u>(231 531 635)</u>	<u>(220 090 940)</u>
Net cash flows from operating activities	37	<u>77 842 052</u>	<u>77 976 366</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(83 164 435)	(99 518 051)
Proceeds from sale of property, plant and equipment	4	20 148	1 323 758
Purchase of other intangible assets	6	-	(127 183)
Purchases of heritage assets	5	(452 358)	-
		<u>(83 596 645)</u>	<u>(98 321 476)</u>
Net cash flows from investing activities		<u>(83 596 645)</u>	<u>(98 321 476)</u>
Cash flows from financing activities			
Repayment of dbsa loan		(24 126 110)	31 416 917
		<u>(24 126 110)</u>	<u>31 416 917</u>
Net cash flows from financing activities		<u>(24 126 110)</u>	<u>31 416 917</u>
Net increase/(decrease) in cash and cash equivalents		<u>(29 880 703)</u>	<u>11 071 807</u>
Cash and cash equivalents at the beginning of the year		96 906 936	85 835 129
Cash and cash equivalents at the end of the year	14	<u>67 026 233</u>	<u>96 906 936</u>

* See Note 42

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	26 742 274	3 131 699	29 873 973	29 904 275	30 302	Appendix E1
Rental of facilities and equipment	721 344	-	721 344	470 216	(251 128)	Appendix E1
Licences and permits	2 236 041	-	2 236 041	3 289 147	1 053 106	Appendix E1
Other income	1 829 894	-	1 829 894	1 151 248	(678 646)	Appendix E1
Interest received	7 477 533	-	7 477 533	10 554 299	3 076 766	Appendix E1
Total revenue from exchange transactions	39 007 086	3 131 699	42 138 785	45 369 185	3 230 400	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21 057 300	-	21 057 300	20 255 597	(801 703)	Appendix E1
Transfer revenue						
Government grants & subsidies	250 844 000	30 806 792	281 650 792	255 556 626	(26 094 166)	Appendix E1
Fines, Penalties and Forfeits	775 241	-	775 241	1 162 800	387 559	Appendix E1
Total revenue from non-exchange transactions	272 676 541	30 806 792	303 483 333	276 975 023	(26 508 310)	
Total revenue	311 683 627	33 938 491	345 622 118	322 344 208	(23 277 910)	
Expenditure						
Personnel	(87 842 980)	3 057 162	(84 785 818)	(84 245 062)	540 756	Appendix E1
Remuneration of councillors	(23 185 792)	2 952 287	(20 233 505)	(19 648 747)	584 758	Appendix E1
Depreciation and amortisation	(39 400 000)	-	(39 400 000)	(39 229 322)	170 678	Appendix E1
Finance costs	(1 499 715)	-	(1 499 715)	(2 168 113)	(668 398)	Appendix E1
Debt Impairment	(1 900 000)	-	(1 900 000)	(1 109 848)	790 152	Appendix E1
Repairs and maintenance	(12 873 366)	(2 162 501)	(15 035 867)	(5 017 008)	10 018 859	Appendix E1
Bulk purchases	(27 711 869)	(1 272 406)	(28 984 275)	(27 606 329)	1 377 946	Appendix E1
Transfers and Subsidies	(3 880 800)	(1 000 000)	(4 880 800)	(4 490 819)	389 981	Appendix E1
General Expenses	(77 306 014)	(4 678 290)	(81 984 304)	(87 169 866)	(5 185 562)	Appendix E1
Total expenditure	(275 600 536)	(3 103 748)	(278 704 284)	(270 685 114)	8 019 170	
Operating surplus	36 083 091	30 834 743	66 917 834	51 659 094	(15 258 740)	
Transfers recognised-capital contributions	-	-	-	(7 675 799)	(7 675 799)	Appendix E1
Fair value adjustments	-	-	-	132 270	132 270	Appendix E1
	-	-	-	(7 543 529)	(7 543 529)	
Surplus before taxation	36 083 091	30 834 743	66 917 834	44 115 565	(22 802 269)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	36 083 091	30 834 743	66 917 834	44 115 565	(22 802 269)	

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	465 000	-	465 000	472 394	7 394	
Operating lease asset	1 616 807	-	1 616 807	1 183 753	(433 054)	
Other receivables from exchange transactions	1 591 664	-	1 591 664	1 768 551	176 887	
Receivables from non-exchange transactions	-	-	-	23 425 036	23 425 036	
VAT receivable	-	-	-	16 052 285	16 052 285	
Prepayments	-	-	-	5 830 235	5 830 235	
Consumer debtors	8 825 615	-	8 825 615	7 528 525	(1 297 090)	
Cash and cash equivalents	58 717 520	-	58 717 520	67 026 233	8 308 713	
	71 216 606	-	71 216 606	123 287 012	52 070 406	
Non-Current Assets						
Investment property	8 296 637	-	8 296 637	5 793 770	(2 502 867)	
Property, plant and equipment	544 841 549	64 866 448	609 707 997	608 116 052	(1 591 945)	
Intangible assets	2 213 413	-	2 213 413	1 468 838	(744 575)	
Heritage assets	-	-	-	1 230 799	1 230 799	
	555 351 599	64 866 448	620 218 047	616 609 459	(3 608 588)	
Total Assets	626 568 205	64 866 448	691 434 653	739 896 471	48 461 818	
Liabilities						
Current Liabilities						
DBSA Loan	19 400 000	(4 000 542)	15 399 458	16 273 890	874 432	
Payables from exchange transactions	10 174 616	-	10 174 616	36 906 868	26 732 252	
Consumer deposits	438 718	-	438 718	458 815	20 097	
Unspent conditional grants and receipts	-	-	-	1 534 958	1 534 958	
Provisions	2 070 409	-	2 070 409	2 405 683	335 274	
	32 083 743	(4 000 542)	28 083 201	57 580 214	29 497 013	
Non-Current Liabilities						
Provisions	6 150 753	-	6 150 753	3 585 447	(2 565 306)	
Total Liabilities	38 234 496	(4 000 542)	34 233 954	61 165 661	26 931 707	
Net Assets	588 333 709	68 866 990	657 200 699	678 730 810	21 530 111	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Reserves	55 729 259	-	55 729 259	-	(55 729 259)	
Accumulated surplus	532 604 450	68 866 990	601 471 440	678 730 810	77 259 370	
Total Net Assets	588 333 709	68 866 990	657 200 699	678 730 810	21 530 111	

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and other	56 920 617	3 131 620	60 052 237	48 903 339	(11 148 898)	
Government - operating	204 685 000	(25 000 000)	179 685 000	179 410 939	(274 061)	
Interest income	7 477 533	-	7 477 533	10 554 299	3 076 766	
Government - capital	46 159 000	54 700 000	100 859 000	70 505 110	(30 353 890)	
	315 242 150	32 831 620	348 073 770	309 373 687	(38 700 083)	
Payments						
Employee costs	(111 028 772)	6 009 449	(105 019 323)	(103 893 809)	1 125 514	
Suppliers	(118 049 673)	(7 954 773)	(126 004 446)	(120 978 894)	5 025 552	
Finance costs	(1 499 715)	-	(1 499 715)	(2 168 113)	(668 398)	
Transfers and grants	(3 880 800)	(1 000 000)	(4 880 800)	(4 490 819)	389 981	
	(234 458 960)	(2 945 324)	(237 404 284)	(231 531 635)	5 872 649	
Net cash flows from operating activities	80 783 190	29 886 296	110 669 486	77 842 052	(32 827 434)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(52 383 091)	(64 866 448)	(117 249 539)	(83 164 435)	34 085 104	
Proceeds from sale of property, plant and equipment	-	-	-	20 148	20 148	
Purchases of heritage assets	-	-	-	(452 358)	(452 358)	
Net cash flows from investing activities	(52 383 091)	(64 866 448)	(117 249 539)	(83 596 645)	33 652 894	
Cash flows from financing activities						
Repayment of dbsa loan	(25 000 000)	(542)	(25 000 542)	(24 126 110)	874 432	
Net increase/(decrease) in cash and cash equivalents	3 400 099	(34 980 694)	(31 580 595)	(29 880 703)	1 699 892	
Cash and cash equivalents at the beginning of the year	55 317 421	41 596 575	96 913 996	96 906 936	(7 060)	
Cash and cash equivalents at the end of the year	58 717 520	6 615 881	65 333 401	67 026 233	1 692 832	

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s31 of the MFMA)	Final adjustments (i.t.o. s28 and budget s31 of the MFMA)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	21 057 300	-	21 057 300	-	-	21 057 300	20 255 597		(801 703)	96 %	96 %
Service charges	26 742 274	3 131 620	29 873 894	-	-	29 873 894	29 904 275		30 381	100 %	112 %
Investment revenue	7 477 533	-	7 477 533	-	-	7 477 533	10 554 299		3 076 766	141 %	141 %
Transfers recognised - operational	181 992 950	1 106 792	183 099 742	-	-	183 099 742	182 911 828		(187 914)	100 %	101 %
Other own revenue	5 562 520	-	5 562 520	-	-	5 562 520	6 205 681		643 161	112 %	112 %
Total revenue (excluding capital transfers and contributions)	242 832 577	4 238 412	247 070 989	-	-	247 070 989	249 831 680		2 760 691	101 %	103 %
Employee costs	(87 842 980)	3 057 162	(84 785 818)	-	-	(84 785 818)	(84 245 062)		540 756	99 %	96 %
Remuneration of councillors	(23 185 792)	2 952 287	(20 233 505)	-	-	(20 233 505)	(19 648 747)		584 758	97 %	85 %
Debt impairment	(1 900 000)	-	(1 900 000)	-	-	(1 900 000)	1 109 848		3 009 848	(58)%	(58)%
Depreciation and asset impairment	(39 400 000)	-	(39 400 000)	-	-	(39 400 000)	(39 229 322)		170 678	100 %	100 %
Finance charges	(1 499 715)	-	(1 499 715)	-	-	(1 499 715)	(2 168 113)		(668 398)	145 %	145 %
Materials and bulk purchases	(27 711 869)	(1 272 406)	(28 984 275)	-	-	(28 984 275)	(27 606 329)		1 377 946	95 %	100 %
Transfers and grants	(3 800 800)	(1 000 000)	(4 800 800)	-	-	(4 800 800)	(4 490 819)		309 981	94 %	118 %
Other expenditure	(90 259 380)	(6 840 791)	(97 100 171)	-	-	(97 100 171)	(102 082 369)		(4 982 198)	105 %	113 %
Total expenditure	(275 600 536)	(3 103 748)	(278 704 284)	-	-	(278 704 284)	(278 360 913)		343 371	100 %	101 %
Surplus/(Deficit)	(32 767 959)	1 134 664	(31 633 295)	-	-	(31 633 295)	(28 529 233)		3 104 062	90 %	87 %

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	68 851 050	29 700 000	98 551 050	-	-	98 551 050	72 644 798		(25 906 252)	74 %	106 %
Surplus (Deficit) after capital transfers and contributions	36 083 091	30 834 664	66 917 755	-	-	66 917 755	44 115 565		(22 802 190)	66 %	122 %
Surplus/(Deficit) for the year	36 083 091	30 834 664	66 917 755	-	-	66 917 755	44 115 565		(22 802 190)	66 %	122 %
Capital expenditure and funds sources											
Total capital expenditure	52 383 091	64 866 448	117 249 539	-	-	117 249 539	83 616 793		(33 632 746)	71 %	160 %
Sources of capital funds	43 851 050	29 700 000	73 551 050	-	-	73 551 050	43 423 235		(30 127 815)	59 %	99 %
Transfers recognised - capital	-	34 133 468	34 133 468	-	-	34 133 468	34 133 468		-	100 %	DIV/0 %
Borrowing	8 532 041	1 032 980	9 565 021	-	-	9 565 021	6 060 090		(3 504 931)	63 %	71 %
Internally generated funds	-	-	-	-	-	-	-		-	-	-
Total sources of capital funds	52 383 091	64 866 448	117 249 539	-	-	117 249 539	83 616 793		(33 632 746)	71 %	160 %

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments and budget (i.t.o. s28 and s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows										
Net cash from (used) operating	80 783 190	29 886 296	110 669 486	-	-	110 669 486	77 842 052	(32 827 434)	70 %	96 %
Net cash from (used) investing	(52 383 091)	(64 866 448)	(117 249 539)	-	-	(117 249 539)	(83 596 645)	33 652 894	71 %	160 %
Net cash from (used) financing	(25 000 000)	(542)	(25 000 542)	-	-	(25 000 542)	(24 126 110)	874 432	97 %	97 %
Net increase/(decrease) in cash and cash equivalents	3 400 099	(34 980 694)	(31 580 595)	-	-	(31 580 595)	(29 880 703)	1 699 892	95 %	(879)%
Cash and cash equivalents at the beginning of the year	58 717 520	6 615 881	65 333 401	-	-	65 333 401	96 906 936	31 573 535	148 %	165 %
Cash and cash equivalents at year end	62 117 619	(28 364 813)	33 752 806	-	-	33 752 806	67 026 233	(33 273 427)	199 %	108 %

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

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 Going concern assumption

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

1.3 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:

Fair value estimation

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

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

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.

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.

Provision for Rehabilitation of landfill site

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, site water balance, the rehabilitation cost, the monitoring and the rehabilitation period.

Provisions, contingent liabilities and contingent assets

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets as set out in note 15 of the financial statements. Provisions are discounted where the effect is material.

Depreciation and Amortization

Depreciation and amortization recognised on property plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the of the period of use, its current use, expected, expected future use and the municipality's expectations about the availability of finance to replace the asset at the end of its useful life.

1.4 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.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Investment property (continued)

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

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

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

Property, plant and equipment 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.

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

Item	Depreciation method	Average useful life
Land	Straight line	Undefined
Buildings	Straight line	5 - 100 years
Furniture and fixtures	Straight line	2 - 21 years
Motor vehicles	Straight line	3 - 14 years
Office equipment	Straight line	3 - 21 years
IT equipment	Straight line	3 - 17 years
Infrastructure	Straight line	
• Roads, bridges and pavements		5 - 100 years
• Electricity, reticulation and supply		9 - 60 years
• Waste disposal facilities		7 - 30 years
• Storm water		40 - 100 years
• Traffic lights		10 years
• Water supply reticulation		20 years
• Landfill sites		15 - 30 years
• Metering Infrastructure credit		25 years
Community	Straight line	
• Cemeteries		10 - 30 years
• Community halls		25 - 50 years
• Housing scheme houses		15 years
• Recreational facilities		10 - 50 years
Plant and Machinery	Straight line	2 - 15 years
Other property, plant and equipment	Straight line	5 - 21 years
Park Facilities	Straight line	10 - 50 years

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

The depreciation charge for each period is recognised in 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 separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

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

1.6 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Intangible assets (continued)

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

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

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

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

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

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

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, other	Straight line	3 - 5 years

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Financial Instruments

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

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

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

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

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

Classification

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

Class	Category
Call accounts	Financial asset measured at amortised cost
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
DBSA Loan	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial Instruments (continued)

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The entity assess 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.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

If the entity 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.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.8 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.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.9 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.10 Impairment of cash-generating assets

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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

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

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

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

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:

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

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

Identification

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

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.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.11 Employee benefits

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

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

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

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

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

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Employee benefits (continued)

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Leave pay

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

The liability is based on the total amount of leave days due to employees at reporting date and on basic salary of the employees.

Long service awards

The municipality provides long service awards to eligible employees, payable on completion of a certain number of years of employment. A provision is raised to account for the expected long service awards due to be paid in the preceding year

Annual Bonuses

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

The municipality pays out an annual bonus to its employees during the month of their birthday or annually from date of employment. A liability relating to the anticipated bonuses payable is raised and is based on the monthly basic salary of the individual.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits

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

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

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

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

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

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

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Provision for rehabilitation of Landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill site used for waste disposal. It is calculated as the present value of the future obligation, discounted over an average period as determined by valuers.

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Service Charges-Electricity

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on average consumption. Revenue arising from consumption of electricity in the month of June is fully accounted for whether invoiced or not.

Prepaid electricity

Revenue from the sale of electricity prepaid meter cards and other services provided on pre-payment basis are recognised at the point of sale.

Refuse removal

Revenue relating to refuse removal is recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Rental income

Revenue from the rental of facilities and equipment is recognised on a straight line basis over the term of the lease agreement.

Tariff charges

Revenue arising from the application of the approved tariff charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Income from agency fees

Revenue arising out of situations where the municipality acts as an agent on behalf of another municipality (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Investment income

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Revenue arising from the use by others of municipality assets yielding interest, is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality and the amount of the revenue can be measured reliably. Interest received is recognised, in surplus or deficit using the effective interest rate method.

Interest, royalties and dividends

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

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

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

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

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

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

1.14 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 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.

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imburement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Concessionary loans received

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

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Recovery of unauthorised, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain

Taxes

The Municipality accounts for Value Added Tax on the invoice basis. Revenue, expenses and assets are recognised net of the VAT amount. The net amount of VAT recoverable from or payable to the taxation authority is disclosed on the face of the statement of financial position.

1.15 Investment income

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

1.16 Borrowing costs

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

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

1.17 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended prior period comparative amounts are also reclassified and restated unless such comparative reclassification and/or restatement is not required by a standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

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

The presentation and classification of items in the current year is consistent with the prior periods. Where there has been a reclassification or restatement the nature and reasons for the reclassification and restatement are disclosed in note 40 'Prior Period Errors' to the financial statements.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.19 Fruitless and wasteful expenditure

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

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.20 Irregular expenditure

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

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

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

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

1.21 Conditional Grants and Receipts

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

1.22 Segment information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendix D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.23 Change in accounting policy, estimate and errors

Changes in accounting policy that are affected by management have been applied retrospectively in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the accumulative effect of the change in policy. In such cases the municipality restates the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the annual financial statements where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.23 Change in accounting policy, estimate and errors (continued)

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative effects of the error. In such cases the municipality restates the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of prior period errors are disclosed in note 40 of the financial statements where applicable.

1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

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

1.25 Related parties

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

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

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

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

1.26 Share capital / contributed capital

Gains and losses arising from fair value adjustments on investments, loans and disposal of assets are presented separately from other revenue in the Statement of Financial Performance. Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a standard of GRAP.

1.27 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.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.28 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in an outflow of resources embodying economic benefits or service potential. Commitments are not recorded in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- Approved and contracted commitments
- where the expenditure has been approved and the contract has been awarded at the reporting date;
- where disclosure is required by a specific standard of GRAP

1.29 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.29 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.30 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets but discloses them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is a possible inflow of resources embodying economic benefits or service potential that is subject to one or more uncertain future events beyond the control of the municipality.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 20: Related parties	01 April 2017	Unlikely there will be a material impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 18 (as amended 2016): Segment Reporting	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 108: Statutory Receivables	01 April 2016	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	Unlikely there will be a material impact
<ul style="list-style-type: none">IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 16 (as amended 2016): Investment Property	01 April 2018	Unlikely there will be a material impact

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	5 793 770	-	5 793 770	5 661 500	-	5 661 500

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	5 661 500	132 270	5 793 770

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	5 391 900	269 600	5 661 500

Pledged as security

There are no investment properties that have been pledged as security and there are no restrictions on the title.

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.

Details of valuation

The effective date of the revaluations was Friday, 30 June 2017. Revaluations were performed by an independent valuer, Mrs Penny Lindstrom. Mrs Lindstrom is not connected to the municipality and has recent experience in location and category of the investment property being valued. It was determined that since there have been no movements in commercial property sales for the past 5 years the changed was based on inflation.

Changes in the opening balance of the Investment property

It was found that a portion of land which was recognised as investment property did not belong to the municipality. The correction of this error resulted in a decrease in the opening balance of investment properties for 2015/16 of R964 000.

Mbizana Local Municipality
Annual Financial Statements for the year ended 30 June 2017
Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6 815 040	(460 151)	6 354 889	7 534 037	(297 066)	7 236 971
Buildings	31 665 555	(3 598 713)	28 066 842	36 413 315	(3 523 267)	32 890 048
Plant and machinery	11 469 733	(3 823 015)	7 646 718	11 304 533	(2 968 418)	8 336 115
Furniture and fixtures	13 427 990	(6 451 848)	6 976 142	11 488 434	(4 494 615)	6 993 819
Motor vehicles	9 750 183	(2 706 193)	7 043 990	7 469 056	(2 035 290)	5 433 766
Infrastructure	526 748 327	(157 881 675)	368 866 652	488 381 151	(127 193 190)	361 187 961
Community	79 767 647	(11 583 337)	68 184 310	73 774 136	(9 536 342)	64 237 794
Work in progress	114 976 509	-	114 976 509	88 495 845	-	88 495 845
Total	794 620 984	(186 504 932)	608 116 052	724 860 507	(150 048 188)	574 812 319

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers from WIP	Depreciation	Total
Land	7 236 971	-	(718 997)	-	(163 085)	6 354 889
Buildings	32 890 048	965 000	(5 046 232)	165 000	(906 974)	28 066 842
Plant and machinery	8 336 115	165 200	-	-	(854 597)	7 646 718
Furniture and fixtures	6 993 819	1 982 034	(22 143)	-	(1 977 568)	6 976 142
Motor vehicles	5 433 766	2 492 490	(119 000)	-	(763 266)	7 043 990
Infrastructure	361 187 961	19 680 051	(688 738)	20 592 333	(31 904 955)	368 866 652
Community	64 237 794	5 290 393	(50 000)	753 118	(2 046 995)	68 184 310
Work in progress	88 495 845	52 589 267	(1 050 837)	(25 057 766)	-	114 976 509
Total	574 812 319	83 164 435	(7 695 947)	(3 547 315)	(38 617 440)	608 116 052

Mbizana Local Municipality
Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers from WIP	Depreciation	Total
Land	7 826 856	-	(426 800)	-	(163 085)	7 236 971
Buildings	35 797 167	622 500	(2 588 234)	-	(941 385)	32 890 048
Plant and machinery	9 422 326	-	-	-	(1 086 211)	8 336 115
Furniture and fixtures	4 852 475	3 598 837	(9 458)	-	(1 448 035)	6 993 819
Motor vehicles	6 390 380	-	(207 524)	-	(749 090)	5 433 766
Infrastructure	360 697 782	28 104 817	(17 327 327)	19 420 134	(29 707 445)	361 187 961
Community	56 891 575	6 150 378	-	3 135 225	(1 939 384)	64 237 794
Work in progress	116 997 884	61 041 519	-	(89 543 558)	-	88 495 845
	598 876 445	99 518 051	(20 559 343)	(66 988 199)	(36 034 635)	574 812 319

Pledged as security

There are no property, plant and equipment pledged as security and there are no restrictions on the title.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

4. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Buildings	319 000	165 000
Electricity infrastructure	75 908 320	50 023 967
Infrastructure	28 229 651	29 408 387
Community	10 519 538	8 120 050
Heritage	-	778 441
	114 976 509	88 495 845

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Community assets	2 759 503	2 596 959
Bizana sports field is a multi-year project that will be completed in 2020.		
Infrastructure	6 872 164	6 872 164
Sidanga AR, Mntomkhulu to gxeni AR delayed due to the fine the municipality got from DEDEA for working on the bridge without the ORD.		
Electricity infrastructure	47 328 275	37 528 219
Tswana to ludeke, monti ntlozelo project has delayed due to shortage of funds.		
	56 959 942	46 997 342

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Infrastructure	1 578 148	1 578 148
Mntomkhulu to gxeni AR delayed due to the fine the municipality got from DEDEA for working on the bridge without the ORD.		
Community	-	1 050 836
Khumbuza community hall, it was discovered that the location of the hall was going to be affected by the N2 Wild Coast route and had to be moved to a different location.		
	1 578 148	2 628 984

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	79 432 354	8 120 050	943 441	88 495 845
Additions/capital expenditure	48 066 825	4 203 442	319 000	52 589 267
Write-offs	-	(1 050 837)	-	(1 050 837)
Transferred to completed items	(23 361 207)	(753 118)	(943 441)	(25 057 766)
	104 137 972	10 519 537	319 000	114 976 509

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	110 466 715	6 531 168	-	116 997 883
Additions/capital expenditure	55 373 972	4 724 107	943 441	61 041 520
Transferred to completed items	(86 408 333)	(3 135 225)	-	(89 543 558)
	79 432 354	8 120 050	943 441	88 495 845

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

4. Property, plant and equipment (continued)

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

Employee related costs	2 681 741	2 563 770
Contracted services	5 017 008	5 291 717
Fuel and oil	-	24 663
	7 698 749	7 880 150

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.

Change in the opening balance of the PPE

There were no changes made to the opening balances of PPE during the financial year.

5. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	1 230 799	-	1 230 799	-	-	-

Reconciliation of heritage assets 2017

	Opening balance	Additions	Transfers from WIP	Total
Historical monuments	-	452 358	778 441	1 230 799

Restrictions on heritage assets

There were no restrictions on the title of heritage assets.

Pledged as security

There were no heritage assets pledged as security.

6. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	2 893 949	(1 425 111)	1 468 838	2 893 949	(813 230)	2 080 719

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Intangible assets	2 080 719	(611 881)	1 468 838

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

6. Intangible assets (continued)

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Intangible assets	2 596 381	127 183	(642 845)	2 080 719

Pledged as security

There are no intangible assets pledged as security and there are no restrictions on the title.

Changes in the opening balance of the Intangible assets

There were no changes made to the opening balances of intangible assets during the financial year.

7. Operating lease asset

Current assets	1 183 753	1 406 115
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Certain of the municipality's property is held to generate rental income. Lease agreements are renewable and have varying terms of between 9 to 20 years. There are no contingent rentals receivable. The operating lease asset arose as a result of straight-lining the lease rentals per requirements of GRAP 13.

8. Prepayments

Prepayments	5 830 235	6 368 398
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Prepaid expenses are expenditure that are paid for in one accounting period, but for which the underlying services will be received in a future period.

During the year under review, there were no prepayments made but services or goods have been received for some prepayments made in the prior years which has resulted in the movement in the amount for prepayments in the current year.

9. Inventories

Inventories	472 394	578 568
Inventories (write-downs)	-	-
	<u>472 394</u>	<u>578 568</u>

Inventories consists of consumables stores.

Inventory pledged as security

There are no inventories pledged as security

There was no inventory write downs in the current financial year.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
10. Other receivables from exchange transactions		
Trade debtors	1 149 242	1 627 972
Consumer debtors - Electricity	619 309	260 872
	1 768 551	1 888 844
Other receivables from exchange transactions		
Trade debtors	1 149 242	1 627 972
Consumer debtors - Other 1	210 030	210 030
Provision for bad debts consumer debtors - Land sales	(210 030)	(210 030)
Consumer debtors - Electricity	956 457	956 457
Provision for bad debts consumer debtors - Electricity	(337 148)	(695 585)
	1 768 551	1 888 844

Trade and other receivables pledged as security

The municipality does not have debtors that are pledged as security.

Fair value of trade and other receivables

Trade and other receivables	1 768 551	1 888 844
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Trade and other receivables past due but not impaired

Trade and other receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2017, R 1 149 242 (2016: R 1 627 972) were past due but not impaired.

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

3 months past due	1 149 242	1 627 972
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Trade and other receivables impaired

As of 30 June 2017, trade and other receivables of R 1 166 487 (2016: R 1 166 487) were impaired and provided for.

The amount of the provision was R (547 178) as of 30 June 2017 (2016: R (905 615)).

The ageing of these amounts is as follows:

Over 6 months	1 166 487	1 166 487
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Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
11. Receivables from non-exchange transactions		
Fines	951 699	1 049 470
Government grants and subsidies	4 221 021	-
Payroll debtors	183 840	158 289
Overpayment - Councillors remuneration	1 922 376	1 981 622
Rates	16 146 100	6 743 704
	23 425 036	9 933 085
Rates		
Consumer debtors - Rates	20 863 434	17 166 194
Provision for bad debts consumer debtors - Rates	(4 717 334)	(10 422 490)
	16 146 100	6 743 704
Rates: Aging		
Current (0 - 30 days)	604 349	1 552 165
31 - 60 days	179 712	172 329
61 - 90 days	140 597	157 343
91 - 120 days	138 639	150 061
121 - 150 days	115 597	116 221
>150 days	19 684 540	15 018 075
	20 863 434	17 166 194
12. VAT receivable		
VAT	16 052 285	12 410 166
VAT is recognised on an invoice basis.		
13. Receivables from exchange transactions		
Gross balances		
Receivables-service charges	17 967 058	17 588 273
Less: Allowance for impairment		
Provision for bad debts	(10 438 533)	(4 819 298)
Net balance		
Receivables-service charges	7 528 525	12 768 975
Receivables - service charges		
Current (0 -30 days)	2 592 228	2 835 047
31 - 60 days	1 628 474	1 328 868
61 - 90 days	490 118	766 130
91 - 120 days	454 180	622 121
121 - 365 days	429 212	828 163
> 365 days	12 372 846	11 207 944
	17 967 058	17 588 273

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
13. Receivables from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	185 350	446 725
31 - 60 days	128 941	134 264
61 - 90 days	123 648	152 207
91 - 120 days	117 669	145 240
121 - 365 days	113 662	116 634
> 365 days	6 813 008	6 963 384
	<u>7 482 278</u>	<u>7 958 454</u>
Less: Allowance for impairment	(6 266 382)	(5 922 241)
	<u>1 215 896</u>	<u>2 036 213</u>
Industrial/ commercial		
Current (0 -30 days)	2 294 597	2 268 203
31 - 60 days	912 176	829 043
61 - 90 days	240 240	478 027
91 - 120 days	213 287	348 838
121 - 365 days	179 637	773 304
> 365 days	6 442 243	5 177 758
	<u>10 282 180</u>	<u>9 875 173</u>
Less: Allowance for impairment	(7 818 088)	(8 034 096)
	<u>2 464 092</u>	<u>1 841 077</u>
National and provincial government		
Current (0 -30 days)	716 630	1 825 892
31 - 60 days	767 069	(132 802)
61 - 90 days	26 827	(515 315)
91 - 120 days	261 864	(538 705)
121 - 365 days	251 511	49 292
> 365 days	19 020 792	12 208 966
	<u>21 044 693</u>	<u>12 897 328</u>
Receivables - service charges		
Current (0 -30 days)	2 592 228	2 835 047
31 - 60 days	1 628 474	1 328 868
61 - 90 days	490 118	766 130
91 - 120 days	454 180	622 121
121 - 365 days	429 212	828 163
> 365 days	12 372 846	11 207 944
	<u>17 967 058</u>	<u>17 588 273</u>
Less: Allowance for impairment	(10 438 533)	(4 819 298)
	<u>7 528 525</u>	<u>12 768 975</u>
Less: Allowance for impairment		
31 - 60 days	(98 163)	(45 301)
61 - 90 days	(94 483)	(43 856)
91 - 120 days	(146 165)	(67 470)
121 - 365 days	(145 079)	(66 988)
> 365 days	(9 954 643)	(4 595 683)
	<u>(10 438 533)</u>	<u>(4 819 298)</u>

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

13. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(4 819 298)	(8 375 533)
Contributions to allowance	(11 048 950)	(5 960 677)
Reversal of allowance	5 429 715	9 516 912
	<u>(10 438 533)</u>	<u>(4 819 298)</u>

Consumer debtors pledged as security

There were no consumer debtors pledged as security in the 2016-17 financial year.

Credit quality of consumer debtors

In determining the recoverability of consumer debt the municipality considers any changes in the credit quality of the consumer debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the consumer base being large and unrelated. Accordingly, the provision for impairment is determined according to the past payment patterns of each consumers within the various categories. The calculation of the provision for bad debts is automated in the system which is configured according to the national treasury scoring method.

Fair value of receivables- service charges

Consumer debtors	<u>7 528 525</u>	<u>12 768 975</u>
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The fair value of receivables from services charges is determined by taking the gross amount less allowance for impairment.

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	25	1 674
Bank balances	1 622 866	4 698 856
Short-term deposits	65 403 342	92 206 406
	<u>67 026 233</u>	<u>96 906 936</u>

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB BANK - Public Sector - Cheque Account-51704922107	1 627 398	4 700 891	2 246 476	1 622 866	4 698 856	2 266 873
FNB BANK - Public Sector - Account- 61170003788	396 661	374 236	355 472	396 662	374 236	356 528
FNB BANK - Public Sector - Cheque Account - 51701039997	1 788 870	1 685 117	1 592 195	1 779 314	1 675 561	1 588 819
FNB BANK - 32 day notice - 740-0292-4914	244 699	232 789	222 887	244 699	232 789	222 887
FNB BANK - Business Call Account - 611700303564	42 221	42 221	42 221	42 221	42 221	42 221
FNB BANK - Business Call Account - 620003246693	21 237	21 237	21 237	21 237	21 237	21 237
FNB BANK - Business Call Account - 61170003374	99 304	99 304	100 574	99 304	99 304	100 574
FNB BANK - Business Call Account - 62022692439	389 660	392 054	394 565	389 660	392 054	394 565
FNB BANK - Business Call Account - 6202224555	1 241	1 241	1 241	1 241	1 241	1 241
FNB BANK - Business Call Account - 62028477992	61 745 885	88 008 565	80 200 374	61 745 885	88 008 565	80 200 374
FNB BANK - Business Call Account - 62122946447	4 482	4 482	4 482	4 482	4 482	4 482
FNB BANK - Business Call Account - 6212246661	619 443	619 443	619 443	619 443	619 443	619 443
FNB BANK - Business Call Account - 62459758078	23 123	7 476	1 064	23 108	7 461	1 049
FNB BANK - Business Call Account - 62122946778	6 495	6 495	6 495	6 495	6 495	6 495
FNB BANK - Business Call Account - 62122946926	6 495	6 495	6 495	6 495	6 495	6 495
FNB BANK - Business Call Account - 62550720257	-	394 951	-	-	394 951	-
FNB BANK - Business Call Account - 62550715828	-	319 871	-	-	319 871	-
FNB BANK - Business Call Account - 62550717767	23 096	-	-	23 096	-	-
Total	67 040 310	96 916 868	85 815 221	67 026 208	96 905 262	85 833 283

15. Unspent conditional grants and receipts

The conditions relating to full expenditure were not met for the grants disclosed as unspent conditional grants and receipts. These amounts are accounted for as a current liability until a roll-over is granted by national treasury and the spending condition is met.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
15. Unspent conditional grants and receipts (continued)		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
DSRAC: Library Grant	139 240	33 150
LED : Economic Master Plan	301 868	301 868
Electricity Grant	1 008	3 550
DHLTA-Fraud Prevention	160 280	160 280
LED-Grant	120 920	120 920
Road Maintenance IEC	263 124	263 124
IDP Grant	-	256 939
Pilot Housing Trust Fund	391 620	391 620
EXT 2 Residents Trust Fund-Grant	33 802	33 802
Financial Management Grant	-	407 848
Municipal Infrastructure Grant	23 096	-
Municipal Systems Improvement Grant	-	394 951
Municipal Support Grant	-	275 148
GIS Grant - Alfred Nzo	100 000	100 000
DEDEAT- Alien Plant Vegetation	-	211 314
	1 534 958	2 954 514
Movement during the year		
Balance at the beginning of the year	2 954 514	5 063 874
Additions during the year	74 403 000	75 838 000
Income recognition during the year	(75 822 556)	(77 947 360)
	1 534 958	2 954 514

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

16. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	4 824 635	990 046	5 814 681
Provision for long service bonuses	74 683	101 766	176 449
	4 899 318	1 091 812	5 991 130

Reconciliation of provisions - 2016

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	5 958 077	(1 133 442)	4 824 635
Provision for long service bonuses	392 209	(317 526)	74 683
	6 350 286	(1 450 968)	4 899 318

Non-current liabilities	3 585 447	3 774 677
Current liabilities	2 405 683	1 124 641
	5 991 130	4 899 318

Environmental rehabilitation provision

The municipality operates a refuse disposal site. In accordance with legislation and to comply with the Department of Water Affairs (DWA) and Department of Economic Development and Environmental Affairs (DEDEA) on the landfill waste sites, the municipality raises a provision every year for the estimated cost of rehabilitating the land over which the site is situated.

Provision has been made for this cost based on the construction budget to rehabilitate the landfill site at 30 June 2017 taking into account price escalations of 11.92% relating to inflation.

A valuation of the rehabilitation was conducted by an independent valuer (IKAMVA consulting) and a liability has been raised. Movements in the provision are recognised in the statement of financial performance. The provision has been determined on the basis of a recent independent financial requirement and viability study.

Long service bonus provision

The municipality offers employees long service awards (LSA) for every 5 years of service completed form 5 years of service to 45 years of service inclusive. The LSA is not a funded arrangement.

Movements in the provision are recognised in the statement of financial performance

17. DBSA loan

DBSA loan will be due in 7 days from the payment dates of INEP grants to Municipalities as they are published in the Government Gazette in terms of the applicable Division of Revenue Act. The capital together with interest shall be paid within 2 years and the interest rate is fixed at 9.1%.

Current liabilities	16 273 890	23 850 000
Non-current liabilities	-	16 550 000
	16 273 890	40 400 000

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
18. Payables from exchange transactions		
Trade payables	4 065 562	2 487 636
Payments received in advanced - contract in process	4 717 334	5 053 125
Other payables	42 939	42 939
Payroll creditors	89 990	32 583
Accrued expense	3 657 877	12 219 323
Unallocated receipts	783 652	2 525 740
Other Payables	80 471	80 471
Provision for workmen's compensation	1 401 177	613 802
Staff leave provision	10 547 650	8 029 547
Provision for staff bonuses	1 337 552	1 185 647
Retention	10 173 961	9 226 532
Other Creditors	8 703	8 703
	36 906 868	41 506 048

The average payment period for services received is 30 days from the receipt of the invoice as required by the MFMA.

Interest charged and penalties charged for late payments have been disclosed separately.

The municipality has considered the effect of discounting trade creditors to fair value and the difference was considered immaterial. Accordingly trade and other payables approximate fair value.

Staff leave provision: The staff leave provision is based on number of leave days accruing to the employees multiplied by the most recent salaries. Movements in the provision are recognised in the statement of financial performance.

Staff bonus provision: The municipality pays employees an annual bonus for every complete year worked. The bonus is equivalent to basic salary on the month of their birthday. At year end a provision is raised to account for employees due to receive a bonus and is based on the completed number of months worked at year end and the basic rate of the employee. Movements in the provision are recognised in the statement of financial performance.

Workmen's compensation provision: In terms of COID Act every employer must pay workmen's compensation to the Department of Labour. The compensation fund sends employers notices of assessment every year in April indicating the amount that must be paid. The municipality thus raises a provision for the amount payable in the following year. This is based on the budgeted total personnel expenditure for the year and a percentage as determined by the Department of Labour.

Movements in the provision are recognised in the statement of financial performance.

19. Consumer deposits

Electricity	325 769	325 769
Electricity New Connections	78 000	69 000
Hall Hire	55 046	45 731
	458 815	440 500

Consumer deposits for electricity are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts council can utilise the deposits as payment for the outstanding amount.

Hall hire deposits are paid by consumers on hiring any of the municipal community halls. The deposit is a damage deposit and is paid back to the consumer after the event and if no damages occurred.

Consumer deposits collected do not accrue any interest.

The carrying value of consumer deposits approximates their fair value.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
20. Revenue		
Service charges	29 904 275	21 841 669
Rental of facilities and equipment	470 216	608 183
Licences and permits	3 289 147	2 441 633
Other income - (rollup)	1 151 248	833 153
Interest received	10 554 299	8 449 441
Property rates	20 255 597	16 510 518
Government grants & subsidies	255 556 626	259 401 903
Fines, Penalties and Forfeits	1 162 800	1 659 306
	322 344 208	311 745 806

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

Service charges	29 904 275	21 841 669
Rental of facilities and equipment	470 216	608 183
Licences and permits	3 289 147	2 441 633
Other income - (rollup)	1 151 248	833 153
Interest received	10 554 299	8 449 441
	45 369 185	34 174 079

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

Taxation revenue		
Property rates	20 255 597	16 510 518
Transfer revenue		
Government grants & subsidies	255 556 626	259 401 903
Fines, Penalties and Forfeits	1 162 800	1 659 306
	276 975 023	277 571 727

21. Property rates

Rates income

Residential	20 255 597	16 510 518
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Valuations

Residential	226 013 000	226 013 000
Commercial	759 771 000	759 771 000
State	1 113 298 500	1 113 298 500
Municipal	55 114 500	55 114 500
	2 154 197 000	2 154 197 000

The general valuation on properties is performed every 4 years by an independent valuer (currently being Kanyisa Properties). The last general valuation roll came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.0090 (businesses), R 0.0050 (residential), R 0.0120 (State) is applied to property valuations to determine assessment rates. Rebates of R 55 000 are granted to residential property owners.

Rates are levied on an annual basis with the final date for payment being 30 September for annual payments. Interest at prime plus 1% per annum (2016: prime plus 1%) is levied on rates outstanding 30 days after due date.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

22. Service charges

Sale of electricity	28 761 324	20 833 508
Refuse removal	1 142 951	1 008 161
	<u>29 904 275</u>	<u>21 841 669</u>

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
23. Government grants and subsidies		
Operating grants		
Equitable share	175 910 000	181 314 000
Planning: Rural housing	-	33 000
Spatial development framework	275 148	-
LGSET / Skills Development	-	1
Dept Sport & Culture - Library	243 910	240 054
Municipal Systems Improvement Grant	-	535 049
IDP Grant	256 939	-
MIG Operational	2 712 669	2 270 537
Financial Management Grant	2 217 848	1 267 152
LGSET / Skills Development Grant	-	152 289
EPWP Grant	1 084 000	1 000 300
DEDEAT- Alien Plant Vegetation	211 314	3 078 886
	182 911 828	189 891 268
Capital grants		
Municipal Infrastructure Grant	43 423 235	44 512 463
Integrated National Electrification Programme	25 000 542	24 998 172
Provincial Electrification Grant	4 221 021	-
	72 644 798	69 510 635
	255 556 626	259 401 903
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	74 403 000	75 838 000
Unconditional grants received	175 910 000	181 314 000
	250 313 000	257 152 000
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents received free basic electricity amounting to R3 870 341 and free basic services amounting to R 620 448.		
Current year receipts	175 910 000	181 314 000
Conditions met - transferred to revenue	(175 910 000)	(181 314 000)
	-	-
DSRAC Library Grant		
Balance unspent at beginning of year	33 150	23 204
Current-year receipts	350 000	250 000
Conditions met - transferred to revenue	(243 910)	(240 054)
	139 240	33 150
The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).		
Provincial Grant-Legislature		
Balance unspent at beginning of year	301 868	301 868

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

23. Government grants and subsidies (continued)

The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

EPWP Grant

Current-year receipts	1 084 000	1 000 000
Conditions met - transferred to revenue	(1 084 000)	(1 000 000)
	<u>-</u>	<u>-</u>

The Municipality fully met the spending conditions and the whole allocation was transferred to revenue.

Integrated National Electrification Grant

Balance unspent at beginning of year	3 550	1 722
Current-year receipts	25 000 000	25 000 000
Conditions met - transferred to revenue	(25 002 542)	(24 998 172)
	<u>1 008</u>	<u>3 550</u>

The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

DHLTA-Fraud Prevention Grant

Balance unspent at beginning of year	<u>160 280</u>	<u>160 280</u>
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The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

LED Capacity Grant

Balance unspent at beginning of year	<u>120 920</u>	<u>120 920</u>
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The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

IEC Grant

Balance unspent at beginning of year	<u>263 124</u>	<u>263 124</u>
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The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

IDP Grant

Balance unspent at beginning of year	256 939	156 939
Current-year receipts	-	100 000
Conditions met - transferred to revenue	(256 939)	-
	<u>-</u>	<u>256 939</u>

The Municipality fully met the spending conditions and the whole allocation was transferred to revenue.

Pilot Housing Trust

Balance unspent at beginning of year	<u>391 620</u>	<u>391 620</u>
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Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
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23. Government grants and subsidies (continued)

The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

Ext 2 Residence Grant

Balance unspent at beginning of year	33 802	33 802
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The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

Financial Management Grant

Balance unspent at beginning of year	407 848	756
Current-year receipts	1 810 000	1 675 000
Conditions met - transferred to revenue	(2 217 848)	(1 267 152)
Other	-	(756)
	<u>-</u>	<u>407 848</u>

The Municipality fully met the spending conditions and the whole allocation was transferred to revenue.

Municipal Infrastructure Grant

Current-year receipts	46 159 000	46 783 000
Conditions met - transferred to revenue	(46 135 904)	(46 783 000)
	<u>23 096</u>	<u>-</u>

The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

Municipal Systems Improvement Grant

Balance unspent at beginning of year	394 951	44 291
Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(535 049)
Surrendered back to NRF	(394 951)	(44 291)
	<u>-</u>	<u>394 951</u>

The unspent funds were returned back to the national revenue fund.

Municipal Support Grant

Balance unspent at beginning of year	275 148	275 148
Conditions met - transferred to revenue	(275 148)	-
	<u>-</u>	<u>275 148</u>

The Municipality fully met the spending conditions and the whole allocation was transferred to revenue

GIS Grant - Alfred Nzo

Balance unspent at beginning of year	100 000	-
Current-year receipts	-	100 000
	<u>100 000</u>	<u>100 000</u>

The spending condition in relation to the grant received was not met fully therefore the grant remains a liability as disclosed in the statement of financial position in unspent conditional grants (see note 15).

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
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23. Government grants and subsidies (continued)

DEDEAT- Alien Plant Vegetation

Balance unspent at beginning of year	211 314	3 290 200
Conditions met - transferred to revenue	(211 314)	(3 078 886)
	<u>-</u>	<u>211 314</u>

The Municipality fully met the spending conditions and the whole allocation was transferred to revenue

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Bill, (Bill No. 02 of 2016), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Investment revenue

Interest revenue		
Bank	7 796 441	6 034 359
Interest charged on trade and other receivables	2 757 858	2 415 082
	<u>10 554 299</u>	<u>8 449 441</u>

25. Other income

Other income - (rollup)	<u>1 151 248</u>	<u>833 153</u>
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The amount included in other revenue arising from exchanges of goods or services are as follows:

Tender fees	242 119	327 909
Photocopy	-	1 415
Commission received	100 249	85 114
Zoning fees	8 492	3 980
Sundry income	448 801	-
Asset disposal fees	-	80 475
Building plans	137 801	79 321
Advertising income	83 357	226 700
Vending and hawking	108 470	83 495
Land sales	4 909	(62 295)
Funeral fees	5 969	7 039
Pound fees	11 081	-
	<u>1 151 248</u>	<u>833 153</u>

26. Rental of facilities and equipment

Facilities and equipment		
Leasehold fees	434 757	549 689
Rental for billboards	-	140
Hall hire	35 012	58 354
Rental of recreational facilities	447	-
	<u>470 216</u>	<u>608 183</u>

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
27. General expenses		
Advertising	684 881	690 198
Auditors remuneration	4 300 954	5 116 946
Bank charges	182 944	58 944
Cleaning	894 372	483 523
Consulting and professional fees	6 044 667	7 227 555
Service delivery expenses	4 103 358	2 844 602
Insurance	1 362 395	1 014 568
IT expenses	2 532 809	3 317 334
Magazines, books and periodicals	660 875	433 333
Motor vehicle expenses	1 514 003	2 074 768
Postage and courier	1 111	2 618
Printing and stationery	1 090 305	989 213
Protective clothing	1 464 103	1 193 247
Telephone and fax	4 269 025	3 479 279
Travelling and accommodation	6 174 081	5 097 478
Training	1 806 560	1 165 774
Ward committee fees	3 876 084	4 733 500
Water	78 356	58 676
Entertainment	895 993	999 135
Environmental projects	2 274 637	1 528 455
Free basic services	4 490 819	4 000 937
Institutional support	276 465	206 744
License fees	441 580	652 211
Security costs	4 207 285	2 212 801
Other expenses	22 960 583	19 334 307
	76 588 245	68 916 146
28. Gain or loss on disposal of assets and liabilities		
Property, plant and equipment	7 675 799	19 235 585

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
29. Employee related costs		
Basic	54 378 895	48 102 853
Bonus	3 781 977	2 853 312
Medical aid - company contributions	3 748 647	3 251 825
UIF	383 853	356 472
SDL	259 474	385 034
Provision for leave	3 867 491	330 627
Cellphone allowance	506 134	620 021
Pension fund contribution	4 757 735	4 105 748
Bargaining council contribution	20 329	18 189
Travel motor allowances	6 844 836	6 130 907
Housing benefits and allowances	2 894 989	2 434 596
Other allowances	1 283 183	2 230 286
Overtime	910 810	411 279
Standby allowances	606 709	558 759
	84 245 062	71 789 908
Remuneration of Municipal Manager		
Annual remuneration	891 098	834 427
Car allowance	339 187	319 077
Other	122 107	115 196
	1 352 392	1 268 700
Remuneration of Chief Finance Officer		
Annual remuneration	723 977	678 581
Car allowance	282 303	265 413
Other	117 825	110 291
	1 124 105	1 054 285
Remuneration of Senior Manager: Corporate Services		
Annual remuneration	793 977	744 539
Car allowance	168 119	158 602
Other	156 911	147 119
	1 119 007	1 050 260
Remuneration of Senior Manager: Community Services		
Annual remuneration	759 117	712 114
Car allowance	190 647	178 995
Other	164 308	155 008
	1 114 072	1 046 117
Remuneration of Senior Manager: Engineering Services		
Annual remuneration	725 065	685 480
Car allowance	168 119	157 692
Other	221 963	209 452
	1 115 147	1 052 624
Remuneration of Senior Manager: Planning and Development Services		
Annual remuneration	763 611	715 959
Car allowance	190 647	178 945
Other	164 308	155 008
	1 118 566	1 049 912

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
30. Remuneration of councillors		
Annual Remuneration	12 761 041	12 101 653
Car Allowance	4 431 289	4 272 865
Cellphone Allowance	1 584 802	1 328 692
Contributions to UIF, Medical and Pension Funds	-	330 545
Public Office Allowance	871 615	854 572
Skills Development Levy	-	68 275
	19 648 747	18 956 602
31. Debt impairment		
Movement-provision for bad debts	1 035 170	3 746 291
Bad debts written off	74 678	823 077
	1 109 848	4 569 368
32. Depreciation and amortisation		
Property, plant and equipment	39 229 322	36 677 482
33. Finance costs		
Other interest paid	2 168 113	547 262
34. Auditors' remuneration		
Fees	4 300 954	5 116 946
35. Grants related expenditure		
Other subsidies		
DEDEAT - Alien plant vegetation	166 857	3 078 886
Integrated Electrification	11 101 198	80 088 408
MIG Projects	408 052	20 381
Library Grant	243 910	240 054
EPWP Casuals	1 084 000	1 201 413
Municipal Systems Improvement Grant	-	489 045
Financial Management Grant	1 983 926	1 187 369
MIG - Project Management	84 497	79 678
	15 072 440	86 385 234
Grant related expenditure consists of expenses incurred during the period in respect of various grants received. These expenses include salaries paid to interns, project management, consulting fees and project related travelling expenses.		
36. Bulk purchases		
Electricity	27 606 329	24 528 456

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
37. Cash generated from operations		
Surplus (deficit)	44 115 565	(24 882 354)
Adjustments for:		
Depreciation and amortisation	39 229 322	36 677 482
Gain on sale of assets and liabilities	7 675 799	19 235 585
Fair value adjustments	(132 270)	(269 600)
Debt impairment	1 109 848	4 569 368
Movements in operating lease assets and accruals	222 362	186 913
Movements in provisions	1 091 812	(1 450 968)
Transfers and non-cash disposals	2 768 873	62 414 919
Changes in working capital:		
Inventories	106 174	288 187
Other receivables from exchange transactions	120 293	(862 894)
Consumer debtors	4 130 602	(9 162 700)
Other receivables from non-exchange transactions	(13 491 951)	(291 028)
Prepayments	538 163	1 222 583
Payables from exchange transactions	(4 599 180)	(6 157 290)
VAT	(3 642 119)	(1 439 431)
Unspent conditional grants and receipts	(1 419 556)	(2 109 360)
Consumer deposits	18 315	6 954
	77 842 052	77 976 366

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure assets	21 910 024	27 376 667
• Integrated Electrification	39 700 598	40 539 223
• Community Assets	13 889 217	7 293 558
• Other commitments	4 770 929	3 795 423
	80 270 768	79 004 871
Total capital commitments		
Already contracted for but not provided for	80 270 768	79 004 871
Authorised operational expenditure		
Already contracted for but not provided for		
• Consultants and professional fees	545 241	6 811 991
Total operational commitments		
Already contracted for but not provided for	545 241	6 811 991
Total commitments		
Total commitments		
Authorised capital expenditure	80 270 768	79 004 871
Authorised operational expenditure	545 241	6 811 991
	80 816 009	85 816 862

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

Operating leases - as lessee (expense)

Aloe office minimum lease payments due		
- within one year	24 364	377 624
- in second to fifth year inclusive	-	24 364
	24 364	401 988
Capital Office Automation Minimum lease payment		
- within one year	-	56 400

Operating lease payments represents rentals payable by the municipality for certain of its office equipment that is negotiated for an average term of three years and rentals are fixed for an average of three years. This committed expenditure relates to capital and operating expenditure and will be financed by available facilities, retained surplus, existing cash resources, funds internally generated, etc

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	1 923	2 204
- in second to fifth year inclusive	-	1 923
	1 923	4 127

The municipality is leasing out certain property to Collins Property Investments. The lease agreement has a term of 20 years and rentals escalate by 8% every annum. No contingent rents are receivable.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
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38. Commitments (continued)

Minimum lease payments receivable

- within one year	339 936	314 755
- in second to fifth year inclusive	907 102	1 274 038
	<u>1 247 038</u>	<u>1 588 793</u>

The municipality is leasing out certain property to Africa's Best 350. The lease agreement has a term of 10 years and rentals escalate by prime lending rate at each anniversary date. No contingent rents are receivable.

Minimum lease payment receivable

- within one year	17 630	65 839
- in second to fifth year inclusive	-	17 630
	<u>17 630</u>	<u>83 469</u>

The municipality is leasing out certain property to Blue Raindrops Trading CC. The lease agreement has a term of 12 years and rentals escalate by 8% at each anniversary date. No contingent rents are receivable.

Minimum lease payments receivable

- within one year	37 067	34 321
- in second to fifth year inclusive	113 692	150 759
	<u>150 759</u>	<u>185 080</u>

The municipality is leasing out certain property to Slip Knot Investments 11 (Proprietary) Limited. The lease agreement has a term of 20 years and rentals escalate by 8% at each anniversary date. No contingent rents are receivable.

Minimum lease payments receivable

- within one year	374 935	347 162
- in second to fifth year inclusive	1 230 667	1 605 602
	<u>1 605 602</u>	<u>1 952 764</u>

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
39. Contingencies		
Contingent liabilities		
At year end the municipality had the following contingent liabilities		
Cases against the municipality:		
Case 1: Gift Fynn vs Mbizana Local Municipality (Case no. 885/2011)		
The case relates to a claim for land (ERF 41 Bizana) made by Gift Fynn against the Mbizana Local Municipality. The case is still pending and no outcome has been reached. The municipality's lawyers are of the opinion that the chances of the municipality winning the case are 50:50.	-	150 000
Case 2: Thembelihle vs Mbizana Local Municipality		
Land invasion Execution writ	100 000	-
Case 3: Zwelenkosi Ngidi vs Mbizana Local Municipality		
Land invasion Execution writ	100 000	-
Case 4: L.M Damoyi vs Mbizana Local Municipality		
Negligence of municipal employee	100 000	-
Case 5: TCN Architects vs Mbizana Local Municipality (case no. 3460/14)		
TCN Architects had failed to pay plaintiff the sum of R368 838.37 in respect of account No.2. This claim was for professional fees for specific performance	200 000	200 000
Case 6: Ngalonkulu vs Mbizana Local Municipality (case no. 3131/14)		
Mr Ngalonkulu lodged a claim for personal injuries, medical expenses & permanent disabilities sustained as a result of being electrocuted whilst on duty (employee of the municipality).	200 000	200 000
Case 7: Mfanafuthi Simon Thukwana vs Mbizana Local Municipality		
Review application in respect of the dismissed councillors	200 000	200 000
Case 8: Zukiswa Mkhizwana & Many vs Mbizana Local Municipality		
Eviction, ERF 27	2 520 000	2 520 000
Case 9: Lulama Ngxabi vs Mbizana Local Municipality		
Interdict in respect of demolished shacks and caravans	-	250 000
Case 10: Nomazwi T. Njomi and Nomnikelo Madiba vs Mbizana Local Municipality		
Demolished structures	200 000	200 000
Case 11: Noncedile Dlamini & others vs Mbizana Local Municipality		
Unlawful structures or caravans	1 180 000	1 330 000
Case 12: Imatu obo N Xoko and others vs Mbizana Local Municipality		
CCMA	-	200 000
Case 13: Mbizana Local Municipality vs C Nwafor		
Internal	-	200 000
Case 14: Land Invasion		
Cases to be finalised before the end of the year	-	200 000
Case 15: CPA vs Mbizana Local Municipality		
Land claim against the municipality by CPA	-	200 000
Case 16: Mbizana Local Municipality vs Nomonde Kwelemtini & Many		
Default judgement against the municipality, application to stay warrant & rescission of judgement to be argued	740 000	-
Case 17: S.S Msekelwa//Mbizana Local Municipality		
The case arose out of a claim of wrongful arrest and detention of plaintiff when he tempered with the electrical meter box. Claiming +/-R2 639 718	2 639 718	-
Case 18: T.C Nuba//Mbizana Local Municipality		
The case arose out of a claim of wrongful arrest and detention of plaintiff when he tempered with the electrical meter box. Claiming +/-R1 843 106	1 843 106	-
Case 19: L.P Teyise vs Mbizana Local Municipality		
Municipal Employees wrong management of lease	100 000	-
	10 122 824	5 850 000

Contingent assets

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

39. Contingencies (continued)

Subsequent to the disciplinary hearing in respect of the cases mentioned above referred to in Note 47, civil proceedings have commenced against the employees concerned to recover an amount of R -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is not virtually certain.

At year end the municipality had the following contingent assets

Cases lodged by the municipality:

Case 1: Mbizana Municipality vs Mvumeza Trading To recover property of the municipality	300 000	-
Case 2: Mbizana Municipality vs A.S Ngubo To recover property of the municipality	30 000	-
Case 3: Ukhanyo Infrastructure Managers (Pty) Ltd Case no. 830/2015 The case arose out of a claim for professional fees on electrification project of Tsawana. The case is awaiting a court date, expert evidence and consultation with official of Mbizana Municipality. We are represented by N.Z. Mtshabe Incorporated.	200 000	200 000
Case 4: N. Sidoyi case no.570/2013		
Case 5: MbizanaLocal Municipality vs Noloyiso Mdingi		
Case 6: Mbizana Local Municipality vs Jabbar Ul hassan Ali (case no.2457/2013)		
Case 7: Mr Charles Charalombos t/a Bizana Cash & Carry vs Mbizana Local Municipality Unlawful extension of building without the approval of the plans	200 000	200 000
Case 8: M.M.N Investments (PTY) Ltd t/a Bizana Funeral Parlour vs Mbizana Local Municipality This is a matter wherein the parlour was spreading water on the street	8 000	8 000
Case 9: Cato Ridge vs Mbizana Local Municipality Over payment in the sum of R14 773 662.58 to Cato Ridge	-	400 000
Case 10: Mfanafuthi Simon Thukwana & others vs Mbizana Local Municipality Dismissed councillor application dismissed with costs	350 000	350 000
Case 11: Mbizana Local Municipality vs Prince Madikizela Lawyers are preparing an affidavit resisting the application	300 000	-
Case 12: Mbizana Local Municipality vs Aveng Infraset Lawyers have filed an opposing affidavit resisting summary judgement	300 000	-
Case 13: Mbizana Local Municipality vs Baleni & Others Opposing affidavits have been prepared and will travel to Port Elizabeth for upliftment	500 000	-
Case 14: S. Vundla & 15 others//Mbizana Local Municipality The municipaltiy demolished properties for development purposes. The plaintiffs suffered structural loss as well as a loss of personal belongings. Actions have been withdrawn and plaintiffs have failed to make payment, the municipality is moving forward with proceedings to recover the funds	300 000	-
	2 488 000	1 158 000

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

40. Related parties

Relationships

Section 57 managers

Refer to key management information

Mayor

Ms T.D. Mafumbatha

Speaker

Mr S. Magini

Chief whip

Mr M. Mphetshwa

Executive council members

9 members

Ordinary council members

49 councillors

Related party balances

Debtors

Councillors overpayment

1 922 376

1 981 622

In the financial period ended in 2013 councillors were paid remuneration that was above gazetted limits.

A debtor was raised to account for the amounts owed.

Apart from the remuneration disclosed no further transactions occurred with councillors and section 57 managers.

Compensation to accounting officer and other key management

Municipal manager

1 352 392

1 268 700

Chief financial officer

1 124 105

1 054 285

Corporate services senior manager

1 119 006

1 050 260

Community services senior manager

1 114 071

1 046 117

Engineering services senior manager

1 115 146

1 052 624

Planning and development senior manager

1 118 566

1 049 912

Mayor

775 061

778 880

Speaker

626 862

627 278

Councillors

18 242 725

17 550 444

Key management information

Class	Description	Number
Municipal manager	Accounting officer	1
Chief financial officer	Senior manager	1
Senior manager: Corporate services	Senior manager	1
Senior manager: Development planning	Senior manager	1
Senior manager: Engineering services	Senior manager	1
Senior manager: Community services	Senior manager	1
Mayor	Councillor	1
Speaker	Councillor	1
Chief whip	Councillor	1
Executive committee	Councillor	9
Councillors	Councillors	49

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

41. Prior period errors

The following adjustments were made to the prior year financial statements due to errors noted in the prior period financial statements.

Cash and cash equivalents

In the prior year, accrued interest on investment of R6 772 was recorded as received and interest of R446 recorded during the year was recorded twice. The correction of the error has resulted in a decrease of R7 060 in the cash and cash equivalents.

Interest received

In the prior year, interest on investment of R6 772 was not recorded. The correction of the error has resulted in an increase of R6 772 in the interest received.

Other income

In the prior year, an amount of R6 500 was incorrectly recorded. The correction resulted in a decrease in other income of R6 500.

Remuneration of councillors

In the prior year, UIF of R446 relating to remuneration of councillors was not recorded. The correction resulted in an increase of R446 in the remuneration of councillors.

Repairs and maintenance

In the prior year, accrued expenditure of R16 096 was not recorded due to documentation that only surfaced during the current year. The correction resulted in an increase of R16 096 in the repairs and maintenance.

Other receivables from exchange

In the prior year, accrued interest income of R13 990.30 was not recorded.

The correction of the above issues resulted in an increase of R13 990.30 on other receivables from exchange transactions.

Receivables from non-exchange

The correction of this resulted in an increase in receivables from non-exchange transactions by R3 919.

VAT receivable

The correction of errors in revenue, expenditure, receivables and payables resulted in an increase to the VAT receivable by R 209 482.

Accumulated surplus/loss

During the preparation of financial statements various journals were processed in order to correct prior year figures.

The cumulative effect of all the changes that have occurred resulted in a decrease in the accumulated surplus by R2 091 991

During the audit it was discovered that some assets that were depreciated incorrectly affected years before 2015/16, the correction of these was therefore processed against the accumulated surplus. The correction of this resulted in an increase in accumulated surplus of R 1 692 104.

Receivables from exchange

During 2014/15 and 2015/16, land sales were incorrectly billed. The correction of this error resulted in a decrease of R13 000 in receivables from exchange transactions.

Depreciation

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

In the 2015/16 financial year depreciation was incorrectly calculated on some assets using incorrect useful lives. The correction of this error resulted in a decrease in depreciation of R 1 314 454.

General expenditure

In the prior year, accrued expenditure of R1 852 969 was not recorded due to documentation that only surfaced during the current year. The correction resulted in an increase of R1 852 969 in general expenses.

In the prior year, expenditure of R745 000 was recorded in an incorrect accounting period and a correction relating to petty cash transactions of R157 was done. This resulted in a decrease of R745 157 in the general expenses

In the prior year, loss on disposal of assets of R19 235 585 was classified as general expenses. The reclassification of this amount resulted in a further decrease in general expenditure of R19 235 585.

Investment properties

In the valuation of investment properties, the municipality previously included a portion of land which does not belong to the municipality. The correction of this error resulted in a decrease of R964 000 in the value of investment properties.

Property, plant and equipment

In the 2015/16 financial year depreciation was incorrectly calculated on some assets using incorrect useful lives. The correction of this error resulted in an increase in property, plant and equipment of R 1 692 104.

Payables from exchange

In the prior year, there were accrued expenses which were not recorded due to documentation that only surfaced during the current year. There was also payables which were recorded in an incorrect period. The correction resulted in an increase of R1 335 322 in payables from exchange transactions.

Loss on disposal of assets and liabilities

In the prior year, loss on disposal of assets of R19 235 585 was classified as general expenses. The reclassification of this amount resulted in an increase in loss on disposal of assets by R19 235 585.

42. Prior-year adjustments

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

Statement of financial position

2016

	Note	As previously reported	Correction of error	Restated
Other receivables from exchange transactions		1 874 854	13 990	1 888 844
Vat receivable		12 200 684	209 482	12 410 166
Cash and cash equivalents		96 913 996	(7 060)	96 906 936
Payables from exchange transactions		(40 170 726)	(1 335 322)	(41 506 048)
Accumulated surplus		(635 015 132)	(399 887)	(634 615 245)
Receivables from non-exchange		9 929 166	3 919	9 933 085
Receivables from exchange transactions		12 781 975	(13 000)	12 768 975
Investment properties		6 625 500	(964 000)	5 661 500
Property, plant and equipment		573 120 215	1 692 104	574 812 319
		38 260 532	(799 774)	38 260 532

Statement of financial performance

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

42. Prior-year adjustments (continued)

2016

	Note	As previously reported	Correction of error	Reclassification	Restated
Interest received		(8 442 669)	(6 772)	-	(8 449 441)
Repairs and maintenance		5 275 621	16 096	-	5 291 717
General expenses		87 043 919	1 108 085	(19 235 585)	68 916 146
Loss on disposal of assets and liabilities		-	-	19 235 585	19 235 585
Other income		(839 653)	6 500	-	(833 153)
Remuneration of councillors		18 956 156	446	-	18 956 602
Depreciation and amortisation		37 991 936	(1 314 454)	-	36 677 482
Surplus for the year		139 985 310	(190 099)	-	139 794 938

Cash flow statement

2016

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Sale of goods and services		32 546 213	(220 891)	32 325 322
Interest income		8 442 669	6 772	8 449 441
Employee costs		(90 746 063)	(447)	(90 746 510)
Suppliers		(127 790 656)	(1 006 512)	(128 797 168)
		(177 547 837)	(1 221 078)	(178 768 915)
Cash flow from investing activities				
Proceeds on sales of property, plant and equipment		109 740	1 214 018	1 323 758

43. Change in estimate

Property, plant and equipment

The useful lives of certain property, plant and equipment was estimated to be 2 - 15 years. In the current period management have revised their estimate to 2 - 21 years. The effect of this revision has decreased the depreciation charges for the current by R R 2 174 492.-

This resulted in an increase in the carrying amount of certain property, plant and equipment by R 2 174 492.

The amount of the effect in future periods is not disclosed because estimating it is impracticable due to the quantity and the nature of the assets affected.

44. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (municipality treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

44. Risk management (continued)

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilized borrowing facilities are monitored.

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

At 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	36 906 868	-	-	-
Consumer deposits	18 315	6 954	433 546	-
	36 925 183	6 954	433 546	-

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	41 506 048	-	-	-
Consumer deposits	6 954	-	433 546	-
	41 513 002	-	433 546	-

Liquidity risk is mainly concentrated on the trade and other payables balance. The municipality does not have any collateral and/or credit enhancements that aid in the mitigation of the liquidity risk.

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

44. Risk management (continued)

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The financial assets carried at amortized cost expose the municipality to credit risk. The value of the maximum exposure to credit risk are as follows for each class of financial assets at amortized cost

Financial instrument	2017	2016
Cash and cash equivalents	67 026 233	96 906 936
Other receivables from exchange transactions	1 768 551	1 888 844
Receivables from non-exchange transactions	23 425 036	9 933 085
Receivables from exchange transactions	7 528 525	12 768 975

45. Electricity Distribution Losses

Distribution losses in units for the period 2016-2017

Units purchased during the year	24 435 190	24 175 048
Units sold during the year	(22 723 746)	(17 376 259)
	1 711 444	6 798 789

Distribution losses in Rand for the period 2016 - 2017

Purchases	27 709 647	24 901 504
Prepaid consumer sold	(8 511 789)	(6 573 709)
Conventional consumer billed	(21 331 151)	(13 814 640)
	(2 133 293)	4 513 155

46. Unauthorised expenditure

Opening balance	123 513 486	10 835 951
Current unauthorised expenditure	15 367 251	112 677 535
	138 880 737	123 513 486

Unauthorised expenditure incurred in the current year is made up of the following:

R1 674 216,51 over expenditure from the office of the municipal manager caused by overspending on personnel expenditure

R 11 391 over expenditure from the office of the speaker

R62 083 over expenditure from refuse removal caused by the adjustment of the landfill site rehabilitation

R8 976 733 over expenditure from electricity caused by the completed electrification project transferred to Eskom

R4 642 828,31 over expenditure from budget and treasury caused by loss on disposal resulting from review of fixed asset register.

The were no disciplinary actions taken against the municipality

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
--	------	------

47. Fruitless and wasteful expenditure

Opening balance	8 110 325	8 110 325
Fruitless expenditure for the year	67 260	1 184 793
Written off by council	(67 260)	(1 184 793)
	<u>8 110 325</u>	<u>8 110 325</u>

Details of fruitless and wasteful expenditure incurred in the current year.

Interest on late payments and penalties for exceeding prescribed usage limit-Eskom	67 260	133 958
Expenditure on the construction of Khumbuza Community Hall that was stopped and had to be moved to a different location	-	1 050 835
	<u>67 260</u>	<u>1 184 793</u>

48. Irregular expenditure

Opening balance	11 302 573	10 926 800
Add: Irregular Expenditure - current year	125 660	2 655 200
Less: Amounts written off	(125 660)	(2 279 427)
	<u>11 302 573</u>	<u>11 302 573</u>

Details of irregular expenditure – current year

Irregular expenditure incurred during the year amounted to R125 660 which resulted from the municipality doing business with a supplier that is not registered on the central supplier database as was required of all service providers from 1 July 2016. This relates to Progress Service Station who was supplying fuel for municipal plant.

Details of irregular expenditure condoned

Irregular expenditure incurred during the year amounted to R125 660 which resulted from the municipality doing business with a supplier that is not registered on the central supplier database as was required of all service providers from 1 July 2016. This relates to Progress Service Station who was supplying fuel for municipal plant.

Deviations from supply chain management regulations

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

Paragraph 36 of the Treasury Supply Chain Regulations states that the accounting officer may dispense with the official procurement processes in certain circumstances, provided he records the reasons for any deviations and reports them to the next meeting of the council and include a note to the annual financial statements.

There are no deviations during the year

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	191	-
Current year subscription / fee	262 489	222 797
Amount paid - current year	(262 489)	(222 606)
	191	191

Audit fees

Current year subscription / fee	4 313 340	5 116 946
Amount paid - current year	(4 212 485)	(5 116 946)
	100 855	-

PAYE and UIF

Opening balance	2 994	1 195
Current year subscription / fee	16 749 140	14 892 574
Amount paid - current year	(16 749 140)	(14 890 775)
	2 994	2 994

Pension and Medical Aid Deductions

Opening balance	(13 742)	(10 559)
Current year subscription / fee	13 060 712	10 478 579
Amount paid - current year	(13 055 232)	(10 481 762)
	(8 262)	(13 742)

Skills Development Levy

Current year subscription	996 545	963 978
Amount paid - current year	(996 545)	(963 978)
	-	-

VAT

VAT receivable	16 052 285	12 410 166
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Ms N.N Mhlembana	596	5 090	5 686
30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Ms N.N Mhlembana	651	8 041	8 692

Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand	2017	2016
50. Other financial liabilities		
At amortised cost		
DBSA loan	16 273 890	40 400 000
Non-current liabilities		
At amortised cost	-	16 550 000
Current liabilities		
At amortised cost	16 273 890	23 850 000

MBIZANA LOCAL MUNICIPALITY
APPENDIX B - UNAUDITED
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2017

	Cost / Revaluation				Accumulated Depreciation						Carrying Value			
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of Impairment loss	Closing Balance	Transfers	Other movements	R	R
Land														
Land	4 291 177	-	(718 996)	-	3 572 180	-	-	-	-	-	-	-	3 572 180	-
Landfill Sites	3 242 860	-	-	-	3 242 860	(297 066)	(163 085)	-	-	(460 151)	-	-	2 782 709	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	7 534 037	-	(718 996)	-	6 815 040	(297 066)	(163 085)	-	-	(460 151)	-	-	6 354 889	-
Buildings														
	36 413 315	965 000	(5 877 760)	165 000	31 665 555	(3 523 267)	(906 974)	831 529	-	(3 598 713)	-	-	28 066 842	-
Infrastructure														
Drains	8 627 338	3 601 633	-	-	12 228 971	(405 168)	(120 617)	-	-	(525 785)	-	-	11 703 186	-
Roads	484 358 049	12 118 340	(1 905 209)	20 592 333	495 163 513	(124 948 610)	(31 245 668)	1 216 470	-	(154 977 808)	-	-	340 185 705	-
Signage	612 450	367 431	-	-	979 881	(160 864)	(75 530)	-	-	(236 394)	-	-	743 487	-
Electricity Mains	12 786 037	-	-	-	12 786 037	(1 653 811)	(374 768)	-	-	(2 028 579)	-	-	10 757 458	-
Electricity Peak Load Equip	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reservoirs – Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Storm Water	1 997 277	3 592 646	-	-	5 589 923	(24 737)	(88 372)	-	-	(113 108)	-	-	5 476 815	-
Under construction	88 495 845	52 589 267	(1 050 836)	(25 057 767)	114 976 509	-	-	-	-	-	-	-	114 976 509	-
	576 976 996	72 269 318	(2 958 045)	(4 465 434)	641 724 835	(127 193 190)	(31 904 955)	1 216 470	-	(157 881 675)	-	-	483 843 160	-
Community Assets														
Parks & Gardens	4 805 960	195 000	(50 000)	-	4 950 960	(657 764)	(130 052)	-	-	(787 816)	-	-	4 163 143	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation Grounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic Buildings	34 903 796	194 025	-	-	35 097 821	(6 463 022)	(1 198 706)	-	-	(7 661 729)	-	-	27 436 092	-
Stadiums	33 840 156	4 901 368	-	753 118	39 494 643	(2 348 991)	(704 923)	-	-	(3 053 915)	-	-	36 440 728	-
Halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Theatre	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming Pools	224 224	-	-	-	224 224	(66 564)	(13 313)	-	-	(79 877)	-	-	144 347	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	73 774 136	5 290 393	(50 000)	753 118	79 767 647	(9 536 342)	(2 046 995)	-	-	(11 583 337)	-	-	68 184 310	-
Heritage Assets														
Historical Buildings	-	452 358	-	778 441	1 230 799	-	-	-	-	-	-	-	1 230 799	-
Paintings & Artifacts	-	452 358	-	778 441	1 230 799	-	-	-	-	-	-	-	1 230 799	-
	694 598 484	78 977 068	(9 602 802)	(2 768 875)	761 203 876	(140 549 865)	(35 022 009)	2 047 999	-	(173 523 876)	-	-	587 680 001	-
Total carried forward														

MBIZANA LOCAL MUNICIPALITY
APPENDIX B - UNAUDITED
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2017

	Cost / Revaluation				Accumulated Depreciation						Carrying Value		
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance		Transfers	Other movements
	R	R	R	R	R	R	R	R	R	R	R	R	R
Total brought forward	694 598 484	78 977 068	(9 602 802)	(2 768 875)	761 203 876	(140 549 865)	(35 022 009)	2 047 999	-	(173 523 876)	-	-	587 680 001
Other Assets													
Office Equipment	5 651 036	800 692	-	-	6 651 717	(1 988 250)	(1 069 086)	-	-	(3 057 336)	-	-	3 594 381
Furniture & Fixings	1 809 523	154 116	-	-	1 963 638	(591 323)	(357 100)	-	-	(948 423)	-	-	1 015 215
Bins and Containers	501 542	133 000	-	-	634 542	(127 845)	(44 322)	-	-	(172 167)	-	-	462 375
Emergency Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles	7 469 057	2 492 490	(211 363)	-	9 750 183	(2 035 289)	(763 266)	92 363	-	(2 706 192)	-	-	7 043 991
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Refuse tankers	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	3 326 335	894 237	(42 479)	-	4 178 093	(1 787 197)	(507 060)	20 335	-	(2 273 922)	-	-	1 904 171
Computer Software (part of computer equipment)	2 893 949	-	-	-	2 893 949	(813 230)	(611 881)	-	-	(1 425 111)	-	-	1 468 838
Other Assets (Plant & Machinery)	11 304 533	165 200	-	-	11 469 733	(2 968 418)	(854 597)	-	-	(3 823 016)	-	-	7 646 717
	33 155 974	4 639 724	(253 842)	-	37 541 856	(10 311 553)	(4 207 312)	112 699	-	(14 406 167)	-	-	23 135 689
Finance Lease Assets													
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	727 754 458	83 616 793	(9 858 644)	(2 768 875)	798 745 732	(150 861 419)	(39 229 321)	2 160 698	-	(187 930 042)	-	-	610 815 690

MBIZANA LOCAL MUNICIPALITY
APPENDIX B - UNAUDITED
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2016

	Cost / Revaluation				Accumulated Depreciation						Carrying Value			
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance	Transfers	Other movements	R	R
Land														
Land	4 291 177	-	(426 800)	-	4 291 177	(133 981)	(163 085)	-	-	(297 066)	-	-	4 291 177	-
Landfill Sites	3 242 860	-	-	-	3 242 860	-	-	-	-	-	-	-	2 945 794	-
Quarries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings	7 960 837	-	(426 800)	-	7 534 037	(133 981)	(163 085)	-	-	(297 066)	-	-	7 236 971	-
	36 473 306	622 500	(2 682 893)	-	36 413 315	(2 526 524)	(941 385)	94 659	-	(3 523 267)	-	-	32 890 048	-
Infrastructure														
Drains	8 163 625	523 712	-	-	8 627 338	(313 849)	(91 328)	-	-	(405 168)	-	-	8 222 170	-
Roads	447 380 116	24 776 636	(27 218 837)	19 420 134	464 358 049	(105 633 805)	(29 206 314)	9 891 510	-	(124 948 610)	-	-	339 409 439	-
Signage	421 148	191 302	-	-	612 450	(108 025)	(52 839)	-	-	(160 864)	-	-	451 586	-
Electricity Mains	11 961 355	824 682	-	-	12 786 037	(1 310 375)	(343 436)	-	-	(1 653 811)	-	-	11 132 226	-
Electricity Peak Load Equip	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Mains & Purification	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reservoirs - Water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water Meters	308 791	1 788 486	-	-	1 997 277	(11 209)	(13 528)	-	-	(24 737)	-	-	1 972 540	-
Storm Water	116 997 884	61 041 519	-	(89 543 558)	88 495 845	-	-	-	-	-	-	-	88 495 845	-
Under construction	585 072 920	89 146 337	(27 218 837)	(70 123 424)	576 876 996	(107 377 254)	(29 707 445)	9 891 510	-	(127 193 190)	-	-	449 683 807	-
Community Assets														
Parks & Gardens	4 805 920	-	-	-	4 805 960	(526 846)	(128 916)	-	-	(657 764)	-	-	4 148 195	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreation Grounds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Stadiums	32 550 525	2 353 270	-	-	34 903 796	(5 295 620)	(1 167 403)	-	-	(6 463 022)	-	-	28 440 774	-
Halls	26 907 823	3 787 108	-	3 135 225	33 840 156	(1 719 239)	(629 752)	-	-	(2 348 991)	-	-	31 491 165	-
Theatre	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming Pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	224 224	-	-	-	224 224	(53 252)	(13 313)	-	-	(66 564)	-	-	157 660	-
Heritage Assets														
Historical Buildings	64 488 533	6 150 378	-	3 135 225	73 774 136	(7 596 958)	(1 939 384)	-	-	(9 536 342)	-	-	64 237 794	-
Paintings & Artifacts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total carried forward	695 995 998	95 919 215	(30 328 530)	(66 988 199)	694 598 494	(117 764 734)	(32 751 300)	9 986 169	-	(140 549 865)	-	-	554 048 619	-

MBIZANA LOCAL MUNICIPALITY
APPENDIX B - UNAUDITED
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT
as at 30 June 2016

	Cost / Revaluation				Accumulated Depreciation						Carrying Value		
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of Impairment loss	Closing Balance		Transfers	Other movements
	R	R	R	R	R	R	R	R	R	R	R	R	
Total brought forward	695 995 998	95 919 215	(30 328 530)	(66 988 199)	694 598 484	(117 784 734)	(32 751 300)	9 986 169	-	(140 549 865)	-	-	554 048 619
Other Assets	3 783 996	2 078 266	(11 187)	-	5 851 036	(1 487 097)	(508 848)	7 283	-	(1 988 250)	-	-	3 862 786
Office Equipment	1 089 320	729 677	(9 474)	-	1 809 523	(321 432)	(230 315)	10 424	-	(591 323)	-	-	1 218 199
Furniture & Fittings	368 562	132 980	-	-	501 542	(67 848)	(39 997)	-	-	(127 845)	-	-	373 696
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-
Emergency Equipment	7 852 296	-	(383 180)	-	7 469 057	(1 475 085)	(735 971)	175 767	-	(2 035 289)	-	-	5 433 767
Motor vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire engines	-	-	-	-	-	-	-	-	-	-	-	-	-
Refuse tankers	2 415 147	940 888	(29 699)	-	3 326 335	(1 146 591)	(663 802)	23 195	-	(1 787 197)	-	-	1 539 138
Computer Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Software (part of computer equipment)	2 768 786	127 183	-	-	2 893 949	(170 385)	(642 845)	-	-	(813 230)	-	-	2 080 719
Other Assets (Plant & Machinery)	11 304 533	-	-	-	11 304 533	(1 892 202)	(1 086 211)	-	-	(2 968 418)	-	-	8 336 115
Finance Lease Assets	29 580 520	4 008 994	(433 540)	-	33 155 974	(6 620 236)	(3 907 988)	216 670	-	(10 311 553)	-	-	22 844 420
Office Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	725 576 518	99 928 209	(30 782 070)	(66 988 199)	727 754 458	(124 404 970)	(36 659 288)	10 202 839	-	(150 661 419)	-	-	576 893 039

MBIZANA LOCAL MUNICIPALITY

APPENDIX D - UNAUDITED SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2017

	PRIOR YEAR			CURRENT YEAR		
	2016		2016	2017		2017
	Actual Income	Actual Expenditure	Surplus / (Deficit)	Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R	R	R	R	
-	56 393 807	(56 393 807)	Executive & Council	532 086	62 134 670	(61 602 584)
209 375 836	109 868 800	99 507 036	Finance & Admin	210 149 679	104 851 341	105 298 338
149 298	13 078 645	(12 929 347)	Planning & Development	120 976	13 921 418	(13 800 441)
7 245 018	27 399 373	(20 154 355)	Health	4 903 914	29 339 703	(24 435 789)
2 008 461	9 392 255	(7 383 794)	Community & Social Services	2 226 951	14 428 711	(12 201 760)
46 077 786	108 730 814	(62 653 027)	Housing	58 038 887	42 700 248	15 338 639
47 159 005	12 034 065	35 124 940	Public Safety	46 503 988	10 984 825	35 519 163
312 015 404	336 897 758	(24 882 354)	Sport & Recreation	322 476 480	278 360 915	44 115 564
			Environmental Protection			
			Waste Management			
			Road Transport			
			Water			
			Electricity			
			Engineering			
			Other			
			Other Charges			
			Total	322 476 480	278 360 915	44 115 564
				322 476 480	278 360 915	44 115 564

MBIZANA LOCAL MUNICIPALITY

APPENDIX E (1) - UNAUDITED

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2017 AS AT 30 JUNE 2017

Description	Final Budget R	Actual Amount R	Variance R	% Variance R	Explanation of significant variances greater than 10% versus budget R
REVENUE					
Property rates	21 057 300,00	20 255 597,00	801 703,00	3,81	The municipality also rates for government properties in the rural areas. Most of these properties have not been surveyed and as such the government does not pay for them. The municipality has always experienced challenges in ensuring that all billing for consumed services is done. Steps have however been taken to ensure that all meters are billed accurately and on a monthly basis
Service charges - refuse and electricity	29 873 973,00	29 904 275,00	-30 302,00	-0,10	There has been an increased number of wardens appointed and therefore there has been a wider reach for law enforcement.
Fines	775 241,00	1 182 800,00	-387 559,00	-49,99	The municipality just increased its operations by also including the Driver's Testing Station. This has resulted in increased revenue on licenses and permits.
Licences and permits	2 236 041,00	3 289 147,00	-1 053 106,00	-47,10	
Government grants and subsidies	281 650 792,00	255 556 625,98	26 094 166,02	9,28	
Rental of facilities and equipments	721 344,00	470 216,00	251 128,00	34,81	The rental of facilities depends on the hiring of halls by individuals and the municipality can only hope that there is an increased demand. On the other hand the lease agreements have been smoothed and most of them are nearing their agreement term.
Recoveries					
Other income	1 829 894,00	1 151 248,00	678 646,00	37,09	
Interest income	7 477 533,00	10 554 299,00	-3 076 766,00	-41,15	
Total Revenue	345 822 118,00	322 344 207,98	23 277 910,02	6,74	
EXPENDITURE					
Personnel	84 785 818,00	84 245 062,00	540 756,00	0,64	
Remuneration of Councilors	20 233 505,00	19 848 747,00	384 758,00	2,89	
Depreciation and amortisation	39 400 000,00	39 229 321,65	170 678,35	0,43	
Bad debt impairment	1 900 000,00	1 109 848,00	790 152,00	41,59	
Repairs and maintenance	15 035 867,00	5 017 008,00	10 018 859,00	66,63	The budget for repairs and maintenance also included rehabilitation of roads which at the end have been capitalised, hence it appears as though there has been under spending.
Bulk Purchases	28 984 275,00	27 608 329,00	1 377 946,00	4,75	There has been a lot of Electrification projects that were completed in the 2016/17 financial year and these were expensed and handed over to ESKOM as per the memorandum of agreement
Grant related expenditure	6 039 655,45	15 072 440,00	-9 032 784,55	-149,56	
Interest and Penalties	1 489 715,00	2 168 113,00	-688 398,00	-44,57	
General expenses	80 825 448,55	84 284 044,00	-3 458 595,45	-4,25	
Total expenditure	278 704 284,00	278 360 912,65	343 371,35		
Fair value loss/gain		132 270,00			
SURPLUS / (DEFICIT) FOR THE YEAR	68 917 834,00	44 115 585,33	22 934 539,67		

MBIZANA LOCAL MUNICIPALITY

APPENDIX E (2) - UNAUDITED

Budget Analysis of Capital Expenditure

AS AT 30 JUNE 2017

Description	Final Budget		Additions		Variance		% Variance		Explanation of significant variances greater than 10% versus budget
	R		R		R		R		
Executive & Council	-		452 358,00		452 358,00		38,43		
Finance & Admin	3 882 000,00		5 373 974,01		1 491 974,01		-100,00		
Planning & Development	602 000,00				-602 000,00				
Health									
Community & Social Services	744 040,59		65 549,99		-678 490,60		-91,19		
Housing									
Public Safety									
Sport & Recreation									
Environmental Protection									
Waste Management	350 000,00		165 200,00		-184 800,00		-52,80		
Road Transport	46 338 030,00		48 906 483,59		2 568 453,59		5,54		
Water									
Electricity	65 333 468,47		28 653 227,41		-36 680 241,06		-56,14		
Other									
Total	117 249 539,06		83 164 435,00		-34 085 104,06		-29,07		
Other Charges									
Total Capital Expenditure	117 249 539,06		83 164 435,00		-34 085 104,06				

MBIZANA LOCAL MUNICIPALITY

**APPENDIX F - UNAUDITED
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF MFMA, 56 OF 2003
for the year ended 30 June 2017**

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and subsidies delayed/withheld				Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) Yes/No	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June			
Equitable Share	National Treasury	73 295 000,00	56 636 000,00	43 979 000,00	-	43 977 500,00	43 977 500,00	43 977 500,00	43 977 500,00	-	-	-	-	Not applicable	Yes	
MSG Grant	National Treasury	15 696 000,00	12 626 000,00	17 867 000,00	-	11 571 507,18	11 676 252,16	5 236 157,67	17 651 946,95	-	-	-	-	Not applicable	Yes	
FMG	National Treasury	1 810 000,00	-	-	-	177 054,52	139 258,81	1 114 303,83	787 231,30	-	-	-	-	Not applicable	Yes	
LED Capacity Grant	Provincial Grant	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
LED Strategy Grant	Provincial Grant	-	-	350 000,00	-	43 450,00	-	78 350,00	122 110,00	-	-	-	-	Not applicable	Yes	
Sports Arts and Culture Grant	Provincial Grant	-	-	325 000,00	-	710 262,00	373 736,00	-	-	-	-	-	-	Not applicable	Yes	
Extended Public Works Programme (EPWP)	National Treasury	271 000,00	486 000,00	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
Social Development Framework	Allied Nzo District Municipality	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
ICC	Provincial Grant	-	-	-	-	214 773,01	38 390,00	950,00	2 625,60	-	-	-	-	Not applicable	Yes	
Integrated Electrification	Allied Nzo District Municipality	-	-	-	-	15 000 000,00	10 002 541,54	-	-	-	-	-	-	Not applicable	Yes	
LED, Beken Cemetery	National Treasury	15 000 000,00	10 000 000,00	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
DPH, TA-Fruit Prevention Plan	Provincial Grant	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
EX12 Resilience	Municipal Support Grant	-	-	-	-	-	-	29 400,00	18 462,55	-	-	-	-	Not applicable	Yes	
Provincial Electrification Grant	Provincial Grant	-	-	-	-	-	-	-	4 221 020,98	-	-	-	-	Not applicable	Yes	
DEDEAT Alien Plant Vegetation Grant	Provincial Grant	-	-	-	-	-	-	-	-	-	-	-	-	Not applicable	Yes	
Total Grants and Subsidies Received		106 642 000	81 726 000	63 851 000	0	71 917 904	66 378 466	59 438 643	66 781 117	0	0	0	0	Not applicable	Yes	

(*) Did your municipality comply with the grant conditions in terms of Grant Framework? In the latest Division of Revenue Act?

MBIZANA LOCAL MUNICIPALITY
APPENDIX G (1) - UNAUDITED
Budgeted Financial Performance (revenue and expenditure by standard classification)
30-Jun-17

Description	Original Budget		Budget Adjustments (i.o. s28 & s31 Of The MFMA)		Final Adjustments Budget		Shifting of funds (i.o. s31 of the MFMA)		Virement (i.o. Council Approved By-law)		Final Budget		Actual Income		Unauthorised Expenditure		Variance		Actual outcome As % Of Final Budget		Actual Outcome As % Of Original Budget	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
REVENUE BY SOURCES																						
Governance and Administration:																						
Council																						
Mayor																						
Municipal Manager																						
Speaker																						
Budget and Treasury	207 349 443,00	407 848,00	207 757 292,00	-	207 757 292,00	532 086,61	532 086,61															
Corporate Services	207 065,00	-0,06	207 064,94	-	207 064,94																	
Community and Public safety:																						
Community Development	333 102,00	-0,24	333 101,76	-	333 101,76																	
Sport and Recreation	442 683,00	0,15	442 683,15	-	442 683,15																	
Public Safety																						
Economic and Environmental Services:																						
Development and planning	730 293,00	-0,16	730 292,84	-	730 292,84																	
Roads Works and Engineering	49 439 276,00	-0,03	49 439 275,97	-	49 439 275,97																	
Environmental protection																						
Trading Services:																						
Refuse removal and cemetery	3 120 769,00	-0,08	3 120 762,92	-	3 120 762,92																	
Electricity	50 061 061,00	32 831 820,44	82 892 681,44	-	82 892 681,44																	
	311 653 626,00	33 938 412,63	345 622 038,63	-	345 622 038,63																	
EXPENDITURE																						
Governance and Administration:																						
Executive and Council																						
Budget and Treasury	65 130 879,00	2 972 002,95	62 158 876,05	-	62 158 876,05																	
Corporate Services	63 438 053,00	-148 190,96	63 584 243,96	-	63 584 243,96																	
Community and Public safety:	38 222 949,00	-2 307 439,58	40 530 388,58	-	40 530 388,58																	
Community Development	21 569 393,00	-1 750 210,90	19 819 182,10	-	19 819 182,10																	
Sport and Recreation	252 785,00	0,46	252 785,46	-	252 785,46																	
Public Safety	3 544 326,00	1 771 022,30	5 315 348,30	-	5 315 348,30																	
Economic and Environmental Services:																						
Development and planning	15 415 537,00	-221 169,56	15 194 367,44	-	15 194 367,44																	
Roads Works and Engineering	18 370 908,00	20 711,07	18 391 619,07	-	18 391 619,07																	
Environmental Protection	1 137 041,00	95 859,90	1 232 897,80	-	1 232 897,80																	
Trading Services:																						
Refuse removal and cemetery	12 445 985,00	1 920 643,43	14 368 628,43	-	14 368 628,43																	
Electricity	36 072 677,00	1 785 269,88	37 857 946,88	-	37 857 946,88																	
	276 609 633,00	4 140 495,89	278 704 284,07	-	278 704 284,07																	

MBIZANA LOCAL MUNICIPALITY

APPENDIX G (2) - UNAUDITED

**Budgeted Financial Performance (revenue and expenditure by municipal vote)
AS AT 30 JUNE 2017**

Description	1		2		3		4		5		6		7		8		9		10		11	
	Original Budget	R	Budget Adjustments (I.L.O. s28 & s31 Of The MFMA)	R	Final Adjustments Budget	R	Shifting of funds (I.L.O s31 of the MFMA)	R	Virement (I.L.O. Council Approved By-law)	R	Final Budget	R	Actual Income	R	Unauthorised Expenditure	R	Variance	R	Actual outcome As % Of Final Budget	R	Actual Outcome As % Of Original Budget	R
REVENUE BY VOTE																						
Council	207 349 443,00		407 848,50		207 757 291,50					207 757 291,50		210 049 429,39					-2 292 137,89		101%		101%	
Mayor	207 005,00		-0,06		207 004,94					207 004,94		100 248,26					106 755,68		48%		48%	
Municipal Manager	680 127,00		0,41		680 127,41					680 127,41		120 978,10					559 151,31		18%		18%	
Speaker	3 640 914,00		166 957,11		3 807 771,11					3 807 771,11		4 903 913,51					-1 096 142,40		129%		135%	
Budget and Treasury	3 120 763,00		-0,08		3 120 762,92					3 120 762,92		2 226 950,85					893 812,27		71%		71%	
Corporate Services	46 624 312,00		0,20		46 624 312,20					46 624 312,20		46 503 987,69					120 324,51		100%		100%	
Development and planning	50 061 061,00		32 831 620,44		82 892 681,44					82 892 681,44		58 038 886,85					24 853 794,59		70%		116%	
Community development																			0%		0%	
Refuse removal and cemetery																			0%		0%	
Infrastructure and Planning																			0%		0%	
Electricity																			0%		0%	
Total Revenue by vote	311 683 626,00		33 406 326,52		346 622 038,13					346 622 038,13		322 476 479,61					23 146 568,52		93%		103%	
EXPENDITURE by vote																						
Council	28 077 652,00		-2 467 287,00		25 275 365,15					25 275 365,15		24 511 904,54					1 086 460,46		96%		87%	
Mayor	4 389 689,00		2 255 000,00		5 498 688,90					5 498 688,90		6 033 315,03					611 353,07		91%		137%	
Municipal Manager	28 683 235,00		-879 716,00		26 803 518,70					26 803 518,70		27 477 735,51					-1 674 216,51		106%		103%	
Speaker	5 980 323,00		-1 880 000,00		4 580 323,30					4 580 323,30		4 111 714,00					-11 391,00		100%		69%	
Budget and Treasury	63 438 053,00		146 190,96		63 584 243,96					63 584 243,96		68 227 072,27					-4 642 828,31		107%		108%	
Corporate Services	38 222 949,00		2 307 439,58		40 530 388,58					40 530 388,58		36 824 288,69					3 908 118,89		90%		86%	
Development and planning	14 744 684,00		348 830,04		15 093 514,04					15 093 514,04		13 921 417,57					1 172 096,47		92%		94%	
Community development	29 521 331,00		1 116 668,06		30 637 999,06					30 637 999,06		28 339 702,78					1 298 296,28		96%		89%	
Refuse removal and cemetery	12 445 985,00		1 920 643,43		14 366 628,43					14 366 628,43		14 428 711,01					-62 082,58		100%		116%	
Infrastructure and Planning	19 158 408,00		-549 268,83		18 609 119,07					18 609 119,07		10 984 824,80					7 624 294,27		59%		57%	
Electricity	32 938 245,00		785 269,88		33 723 514,88					33 723 514,88		42 700 248,18					-8 976 733,30		127%		130%	
Total Expenditure by vote	275 600 534,00		3 103 750,02		278 704 284,07					278 704 284,07		278 360 915,28					343 368,74		100%		101%	
Surplus/deficit	36 083 091,00		30 302 576,50		66 917 754,06					66 917 754,11		44 115 564,33					22 802 189,78					