



MBHASHE LOCAL MUNICIPALITY (EC 121)
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

General Information

Nature of business and principal activities

The Municipality is responsible for the following activities:-
- collection of rates in respect of property taxes;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction; and
- traffic control, issue of learners licences and renewal of drivers licences, law enforcement activities.

The following is the list of Councillors as at 30 June 2018

TROIKA

Mayor

Cllr S.Janda

Speaker

Cllr B. Majavu

Members of the Mayoral Committee

Cllr C Genyane

Cllr M. Mbomvu

Cllr MM Mcotsho

Cllr XO Willie

Cllr NM Mlandu

Cllr N Mkhedamo

Cllr N Nkomonye

Cllr N Ngomthi

Cllr L Mantshiyose

Chief WHIP

Cllr S. Sibingibingi

Councillors

Cllr P Rulumeni

Cllr VN Kwedinana

Cllr LL Sangqu

Cllr NO Sogayise

Cllr P Mamba

Cllr N Nqwena

Cllr S Mwahla

Cllr B Jamnda

Cllr LM Soshankane

Cllr NE Mbane

Cllr M Peter

Cllr P Bhungu

Cllr T Tshika

Cllr S Mantshingilane

Cllr W Namba

Cllr L Mahobe

Cllr SD Sicengu

Cllr ST Sitwayi

Cllr S Mrobo

Cllr S Ndinisa

Cllr V Matiwane

Cllr N Magatya

Cllr NB Sirunu

Cllr NN Mboxela

Cllr NA Tyali

Cllr S Dlova

Cllr PP Kondile

Cllr N Ncethani

Cllr N Nyalambisa

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

General Information

	Cllr XP Baleni Cllr N Ganda Cllr SC Livi Cllr B Siswana Cllr M Tetyana Cllr KD Msindwana Cllr M Takani Cllr L Matiti Cllr WM Solontsi Cllr M Bhele Cllr N Mahlathi Cllr N Tyelingane Cllr M Tshaka Cllr Goniwe Mafanya Cllr NT Tafeni Cllr S Ndikinda Cllr MJ Jafta Cllr P Makeleni Cllr NN Ndlodaka
Grading of local authority	3
Municipal Manager	Mr M. Nako
Chief Finance Officer	Mr X. Sikobi
Section 79 Chairpersons	Cllr SD Kalityi (MPAC Chair) Cllr MK Makapela (Ethics and Members Interest Chair) Cllr X Tyhodana (Women`s Caucus Chair)
Registered office	454 Steatfield Road Dutywa 5000
Postal address	P.O. Box 25 Dutywa 5000
Bankers	First National Bank (62231175953)
Auditors	Auditor General South Africa
Attorneys	Nginda Attorneys Tonise Attorneys Vitshima Attorneys M Gigaba Incorporated NT Vuba Incorporated Siyathemba Sokutu Attorneys Smith Tabata Attorneys

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

General Information

Traditional Leaders

Chief N.M Masiko
Chief N.W Salakuphathwa
Chieftain A. N. Sigcawu
Chief F. F. Ndim
Chief S. Nyendani
Chief N. Ngubechanti
Chief N. W. Zenani
Chief L. Mtwesi
Chief A. Dudumayo
Chieftain N. Sofika
Chief P. Fudumele
Chief S. Ntlokondala

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

General Information

Relevant Legislation

Basic Conditions of Employment Act 75 of 1997
Broad Based Black Economic Empowerment Act 53 of 2003
Constitution of the Republic of South Africa Act, 1996
Deeds Registries Act 47 of 1937
Disaster Management Act 57 of 2002
Division of Revenue Act 10 of 2014
Electoral Act 73 of 1998
Electoral Commission Act 51 of 1996
Intergovernmental Relations Framework Act 13 of 2005
Interim Protection of Informal Lands Rights Act 31 of 1996
Labour Relations Act 66 of 1995
Local Government : Municipal Demarcation Act 27 of 1998
Local Government : Municipal Electoral Act 27 of 2000
Local Government : Municipal Finance Management Act 56 of 2003
Local Government : Municipal Property Rates Act 6 of 2004
Local Government : Municipal Structures Act 117 of 1998 (as amended)
Local Government : Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003)
Local Government : Municipal Fiscal Powers and Functions Act No 12 of 2007
Prescription Act 18 of 1943
Prescription Act 68 of 1969
Prevention and Combating of Corrupt Activities Act
Prevention of Illegal eviction from an Unlawful Occupation of Land Act 19 of 1998
Promotion of Access to Information Act 2 of 2000
Promotion of Administrative Justice Act 3 of 2000
Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000
Protected disclosures Act 26 of 2000
Public Audit Act 25 of 2004
Re-Determination of the Boundaries of Cross-Boundary Municipality Act 6 of 2005
Reconstruction and Development Program Fund Act 7 of 1994
Regional Services Councils Act 109 of 1985
Regulation of Gatherings Act 205 of 1993
Removal of Restrictions Act 84 of 1967
Remuneration of Public Office Bearers Act 20 of 1998
Skills Development Act 97 of 1998
Skills Development Levies Act 9 of 1999
South African National Roads Agency Limited and National Roads Act 7 of 1998
Tobacco Products Control Act 83 of 1993
Traditional Leadership and Governance Framework Act 41 of 2003
Transfer of Staff to Municipalities Act 17 of 1998
Unemployment Insurance Act 63 of 2001
United Municipal Executive (Pension) Act 12 of 1958
Value Added Tax 1991

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Index

The reports and statements set out below comprise the annual financial statements presented to the Municipal Council:

Index	Page
Accounting Officer's Responsibilities and Approval	6
Statement of Financial Position	8
Statement of Changes in Net Assets	10
Statement of Financial Performance	9
Cash Flow Statement	11
Statement of Comparison of Budget and Actual Amounts	12 - 13
Accounting Policies	14 - 29
Notes to the Annual Financial Statements	30 - 65

Abbreviations

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
PPE	Property, Plant and Equipment
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Service
VAT	Value Added Tax

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Section 62 of MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the Annual Financial Statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The Annual Financial Statements have been prepared in accordance with 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 judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the 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 behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

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

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

The Annual Financial Statements set out on page 5 to , which have been prepared on the going concern basis, were approved by the Council on 30 August 2018 and were signed on its behalf by:



Mr M. Nako
Municipal Manager

Dutywa

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officer submits his report for the 12 Months period ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality is responsible for the following activities:

- collection of rates in respect of property rates;
- refuse and solid waste removal;
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction;
- traffic control, law enforcement activities, issue of learners licences and renewal of drivers licences and operates principally in South Africa.

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had accumulated surplus of 560 889 967 and that the municipality's total assets exceed its liabilities by 560 889 967.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to enforce strict cash flow management to oversee the operations for the municipality. The municipality faced short term liquidity challenges that were due to undercollection in revenue projections, this resulted in inability to settle short term commitments within 30 days.

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The Accounting Officer does not have any interest in the contract that the municipality has with various suppliers for procuring goods and/or services.

5. Borrowing potential

The current ratio is below 1. This is a temporary setback as it was caused in the main by the internal borrowing from own reserves in order to speed up service delivery on electrification project. These amounts are to be returned as they will be refunded when grant funding is received. Liabilities have also been decreased due to settlement of finance lease obligations.

Our assets versus liabilities show that we have huge potential for borrowing which the municipality is currently not exploring. This option will only be taken to fund borrowings for income-generating assets with the objective of generating a commercial return.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Receivables from exchange transactions	8	362 182	583 566
Receivables from non-exchange transactions	9	52 496	16 254
VAT receivable	10	3 818 791	9 326 286
Consumer debtors	11	4 297 869	2 486 573
Cash and cash equivalents	12	6 223 493	13 635 476
		14 754 831	26 048 155
Non-Current Assets			
Investment property	2	33 511 900	47 080 100
Property, plant and equipment	3	553 520 397	557 276 291
Intangible assets	4	1 730 318	2 268 903
Heritage assets	5	9	9
		588 762 624	606 625 303
Total Assets		603 517 455	632 673 458
Liabilities			
Current Liabilities			
Finance lease obligation	13	-	11 225 009
Payables from exchange transactions	16	29 886 658	31 561 735
Employee benefit obligation	7	496 797	544 181
		30 383 455	43 330 925
Non-Current Liabilities			
Employee benefit obligation	7	3 828 917	2 885 664
Provisions	15	8 415 116	7 907 851
		12 244 033	10 793 515
Total Liabilities		42 627 488	54 124 440
Net Assets		560 889 967	578 549 018
Accumulated surplus		560 889 967	578 549 018

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Service charges	18	673 224	474 527
Rental of facilities and equipment	19	3 312 764	1 894 531
Interest received (trading)	17	2 621 875	82 957
Recoveries		-	1 495 663
Other income	21	2 473 876	2 287 345
Interest earned	22	2 486 447	5 111 777
Assessment rates	23	9 693 917	4 032 478
Received Donation in kind		-	68 934 355
Licence and permits		1 293 360	1 415 198
Grants and subsidies	24	299 118 709	296 985 860
Fines and penalties		2 497 708	3 098 393
Total revenue		324 171 880	385 813 084
Expenditure			
Employee related costs	25	(121 884 355)	(120 917 690)
Remuneration of Councillors	26	(25 088 557)	(23 319 930)
Depreciation and amortisation	27	(57 441 881)	(68 997 678)
Finance costs	28	(1 920 007)	(9 121 966)
Debt Impairment	29	(3 387 397)	(458 257)
Administrative and other expenditure	30	(114 280 535)	(152 973 686)
Total expenditure		(324 002 732)	(375 789 207)
Operating surplus		169 148	10 023 877
Profit/(Loss) on disposal of assets		-	(21 128 869)
Surplus (deficit) for the year		169 148	(11 104 992)

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	589 654 010	589 654 010
Changes in net assets	-	-
Balance at 01 July 2016 as restated*	589 654 010	589 654 010
Changes in net assets		
Surplus/(Deficit) for the year	(11 104 992)	(11 104 992)
Total changes	(11 104 992)	(11 104 992)
Balance at 01 July, 2017	560 720 819	560 720 819
Changes in net assets		
Surplus/(Deficit) for the year	169 148	169 148
Total changes	169 148	169 148
Balance at 30 June 2018	560 889 967	560 889 967

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Sale of goods and services		8 481 043	8 854 140
Grants		299 118 709	295 985 860
Interest income		2 486 447	5 194 734
Other receipts		11 059 679	13 035 222
		<u>321 145 878</u>	<u>323 069 956</u>
Payments			
Employee costs		(147 272 328)	(143 536 629)
Suppliers		(115 188 245)	(140 020 466)
Finance costs		(1 920 007)	(9 121 966)
		<u>(264 380 580)</u>	<u>(292 679 061)</u>
Net cash flows from operating activities	32	<u>56 765 298</u>	<u>30 390 895</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(52 952 272)	(55 146 128)
Proceeds from sale of property, plant and equipment	3	-	1 430 911
Purchase of other intangible assets	4	-	(1 776 810)
Net cash flows from investing activities		<u>(52 952 272)</u>	<u>(55 492 027)</u>
Cash flows from financing activities			
Finance lease payments		(11 225 009)	(28 040 676)
Net increase/(decrease) in cash and cash equivalents		<u>(7 411 983)</u>	<u>(53 141 808)</u>
Cash and cash equivalents at the beginning of the year		13 635 476	66 777 287
Cash and cash equivalents at the end of the year	12	<u>6 223 493</u>	<u>13 635 479</u>

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

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 Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 417 000	-	1 417 000	673 224	(743 776)	45.1
Rendering of services	153 264	(153 264)	-	-	-	
Rental of facilities and plant equipment	51 757 592	(42 575 000)	9 182 592	3 312 764	(5 869 828)	45.2
Interest received (trading)	-	-	-	2 621 875	2 621 875	45.3
Administration and management fees received	2 440 388	(2 440 388)	-	-	-	
Other income	500 000	2 393 652	2 893 652	2 473 876	(419 776)	45.4
Interest received - investment	10 478 662	(1 800 000)	8 678 662	2 486 447	(6 192 215)	45.5
Total revenue from exchange transactions	66 746 906	(44 575 000)	22 171 906	11 568 186	(10 603 720)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4 246 202	1 000 000	5 246 202	9 693 917	4 447 715	45.6
Donation Revenue	25 000 000	(25 000 000)	-	-	-	
Licenses and permits	(3 000 000)	6 000 000	3 000 000	1 293 360	(1 706 640)	45.7
Transfer revenue						
Government grants & subsidies	301 138 000	(1 700 000)	299 438 000	299 118 709	(319 291)	45.8
Fines, Penalties and Forfeits	8 000 000	(3 000 000)	5 000 000	2 497 708	(2 502 292)	45.9
Total revenue from non-exchange transactions	335 384 202	(22 700 000)	312 684 202	312 603 694	(80 508)	
Total revenue	402 131 108	(67 275 000)	334 856 108	324 171 880	(10 684 228)	
Expenditure						
Personnel	(124 043 174)	(3 308 810)	(127 351 984)	(121 884 355)	5 467 629	45.10
Remuneration of councillors	(19 970 653)	(511 190)	(20 481 843)	(25 088 557)	(4 606 714)	45.11
Depreciation and amortisation	(71 000 000)	272 108	(70 727 892)	(57 441 881)	13 286 011	45.12
Finance costs	-	-	-	(1 920 007)	(1 920 007)	45.13
Debt impairment	(1 010 344)	-	(1 010 344)	(3 387 397)	(2 377 053)	45.14
General Expenses	(226 733 014)	89 254 425	(137 478 589)	(114 280 535)	23 198 054	45.15
Total expenditure	(442 757 185)	85 706 533	(357 050 652)	(324 002 732)	33 047 920	
Surplus	(40 626 077)	18 431 533	(22 194 544)	169 148	22 363 692	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(40 626 077)	18 431 533	(22 194 544)	169 148	22 363 692	

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

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						
Construction contracts and receivables	5 533 010	(3 445 138)	2 087 872	-	(2 087 872)	45.16
Receivables from exchange transactions	-	-	-	362 182	362 182	45.17
Receivables from non-exchange transactions	-	-	-	52 496	52 496	45.17
VAT receivable	-	-	-	3 818 791	3 818 791	45.17
Consumer debtors	57 094	(12 291)	44 803	4 297 869	4 253 066	45.17
Cash and cash equivalents	-	-	-	6 223 493	6 223 493	45.17
	5 590 104	(3 457 429)	2 132 675	14 754 831	12 622 156	
Non-Current Assets						
Investment property	-	-	-	33 511 900	33 511 900	45.17
Property, plant and equipment	70 929 536	(12 423 910)	58 505 626	553 520 397	495 014 771	45.17
Intangible assets	997 500	-	997 500	1 730 318	732 818	45.17
Heritage assets	-	-	-	9	9	
	71 927 036	(12 423 910)	59 503 126	588 762 624	529 259 498	
Total Assets	77 517 140	(15 881 339)	61 635 801	603 517 455	541 881 654	
Liabilities						
Current Liabilities						
Payables from exchange transactions	-	-	-	29 886 660	29 886 660	45.17
Employee benefit obligation	-	-	-	496 797	496 797	45.17
	-	-	-	30 383 457	30 383 457	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	3 828 917	3 828 917	45.17
Provisions	-	-	-	8 415 116	8 415 116	45.17
	-	-	-	12 244 033	12 244 033	
Total Liabilities	-	-	-	42 627 490	42 627 490	
Net Assets	77 517 140	(15 881 339)	61 635 801	560 889 965	499 254 164	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Capitalisation reserve	15 000 000	-	15 000 000	-	(15 000 000)	
Government grant reserve	71 010 344	-	71 010 344	-	(71 010 344)	
Accumulated surplus	(8 493 204)	(15 881 339)	(24 374 543)	560 889 965	585 264 508	
Total Net Assets	77 517 140	(15 881 339)	61 635 801	560 889 965	499 254 164	

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

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), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Section 62 of MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

1.2 Reporting entity

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated 37. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

1.4 Value add tax

The municipality accounts for VAT on the payment basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7 (1)(a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

The vat rate changed on the 01 April 2018 from 14% to 15% as determined by National Treasury.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Investment property

Initial recognition

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

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

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

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

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on the straight line basis over its expected useful life to its estimated residual value. The depreciable amount is determined after taking into account an asset's residual value. If at any point the residual value exceeds the carrying amount of an investment property, no depreciation is calculated on that investment property. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal 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.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 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.

Subsequent measurement and derecognition - cost model

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	Indefinite useful life
Buildings	Straight line	30 years
Other assets	Straight line	5 - 10 years
Infrastructure	Straight line	10 - 60 years
Community assets	Straight line	30 years

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

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

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

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

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.

Derecognition of PPE

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.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Property, plant and equipment (continued)

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.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and 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 reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with indefinite useful life 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. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

Initial recognition

The cost of an item of an asset 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 the municipality.

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

Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated asset average lives

Item	Useful life
Computer software	3 to 5 years

Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

1.8 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.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.8 Investments in controlled entities (continued)

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

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

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

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

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

1.9 Heritage assets

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

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.

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R9 for record keeping.

1.10 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 local sphere of government are considered to be related parties.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other senior managers reporting directly to the Municipal Manager and supply chain officials.

Key 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 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.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.11 Events after reporting period

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

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

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

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

1.12 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:

- financial instruments at amortised cost
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.12 Financial instruments (continued)

Impairment of financial assets

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Municipality as lessee

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

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.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.13 Leases (continued)

Municipality as a lessor

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.14 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).

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:

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

- (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 non-cash-generating assets from cash-generating assets are as follow:

- The assets ability to generate significant cash flows; and
- The degree to which it is utilised to generate commercial returns.

The carrying amounts of the municipality's non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset's fair value less costs to sell and its value in use.

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

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

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exist, the entity shall estimate the recoverable service amount of that asset.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.16 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.17 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.18 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

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 judgment.

Indications that an outflow of resources may be probable are:

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

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

- the amount determined using 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.

Contingencies

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

1.19 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.19 Revenue from exchange transactions (continued)

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

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

1.20 Revenue from non-exchange transactions

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions 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 if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both 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. As a result, revenue from spot fines and summonses is recognised when payment is received.

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 definition and recognition criteria of an asset have been met.

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential 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 the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

1.21 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.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.23 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.24 Irregular expenditure

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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

1.25 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.26 Commitments

Commitments relate to capital projects for which funds have been committed at year end. Commitments are not recognised as a liability in the statement of financial position or as expenditure in the statement of financial performance but are included in the disclosure note.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018 2017

2. Investment property

	2018		2017			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	33 511 900	-	33 511 900	47 080 100	-	47 080 100

Reconciliation of investment property - 2018

Investment property	Opening balance	47 080 100	Error correction	(13 568 200)	Total	33 511 900
---------------------	-----------------	------------	------------------	--------------	-------	------------

Reconciliation of investment property - 2017

Investment property	Opening balance	47 080 100	Total	47 080 100
---------------------	-----------------	------------	-------	------------

Rental income and operating expenditure relating to investment property was identified as not being material. As such these amounts have not been separately disclosed.

Included in the properties registered under the name of the municipality are RDP houses amounting to R10 213 200 not yet transferred to the beneficiaries.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018 2017

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	50 091 287	(24 959 541)	25 131 746	49 354 787	(23 192 599)	26 162 188
Other Assets	100 860 584	(46 794 978)	54 065 606	97 468 914	(32 938 643)	64 530 271
Infrastructure and community assets	807 383 830	(418 484 135)	388 899 695	750 735 107	(377 493 805)	373 241 302
Landfill site	6 336 479	(5 621 702)	714 777	6 336 479	(5 526 987)	809 492
WIP	84 708 573	-	84 708 573	92 533 038	-	92 533 038
Total	1 049 380 753	(495 860 356)	553 520 397	996 428 325	(439 152 034)	557 276 291

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Depreciation	Total
Land and Buildings	26 162 188	736 500	-	(1 766 942)	25 131 746
Other Assets	64 530 271	3 391 513	-	(13 856 178)	54 065 606
Infrastructure and community assets	373 241 302	-	56 648 724	(40 990 331)	388 899 695
Landfill site	809 492	-	-	(94 715)	714 777
WIP	92 533 038	48 824 259	(56 648 724)	-	84 708 573
	557 276 291	52 952 272	-	(56 708 166)	553 520 397

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	25 390 268	2 417 248	-	-	(1 645 328)	26 162 188
Other assets	75 759 269	3 596 868	(1 329 891)	-	(13 495 975)	64 530 271
Infrastructure and community assets	334 456 753	68 934 355	(21 229 889)	44 068 137	(52 988 054)	373 241 302
Landfill site	1 494 589	-	-	-	(685 097)	809 492
WIP	87 469 160	49 132 015	-	(44 068 137)	-	92 533 038
	524 570 039	124 080 486	(22 559 780)	-	(68 814 454)	557 276 291

Included in the carrying amount of plant and machinery assets acquired under a finance lease in 2014/15 and 2015/16 financial period through a finance lease from Kwane. Refer to note 37 for details pertaining to the lease, but lease were fully paid settled and closed in the financial period of 2017/18.

The useful life of certain items of property, plant and equipment was revised during 2016/17 financial year. The effect from the revision has decreased the depreciation charge in the 2016/17 as well as the subsequent years as presented below.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018 2017

4. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 793 127	(1 062 809)	1 730 318	2 793 127	(524 224)	2 268 903

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2 268 903	(538 585)	1 730 318

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	675 316	1 776 810	(183 223)	2 268 903

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Heritage Assets which fair values cannot be reliably measured.	9	-	9	9	-	9

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Reconciliation of heritage assets 2017

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Historical monuments	9	9

Heritage assets which fair values cannot be reliably measured

Graves, Caves and Memorial Sites

The Municipality's heritage assets consists of graves,grave sites,traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to nature of the assets. The assets have been allocated a nominal value of 9 for record keeping.

Following is the list of heritage assets:

. Graves (Gcaleka's Grave,King Hintsa's Grave and King Sarhili's Grave)

Memorial sites (Nqadu Great Place,Fort Bowker and Fort Malan Memorial) . Caves (Sinqumeni Caves,Ngqamakhwe Rock Art and Ludiza

Cave) . Mhlakaza's House

Nongqawuse's House

6. Operating lease liability

Operating leases - as lessee (expense)

Minimum lease payments due

-Within one year

4 233 587 5 349 651

-In second to fifth year

3 007 631 7 581 550

At the Statement of Financial Position date, where the municipality is a lessee under operating leases, it will have an operating lease liability.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment, and vehicles. No contingent rental is payable.

The municipality is party to three lease commitment, which is a lease of a photocopiers, and two leases of vehilces.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

7. Employee benefit obligations

Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience.

An actuarial valuation was performed using generally accepted actuarial principles

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosures shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25,.

Defined benefit obligation

Opening balance	3 429 845	2 728 854
Benefits paid	(239 686)	(304 495)
Net expense recognised in the statement of financial performance	1 135 555	1 005 486
	4 325 714	3 429 845

Amount recognised in surplus and deficit

Past service cost	1 764 730	1 350 609
Interest cost	286 977	225 968
Actuarial (gains) losses	(916 152)	(571 091)
	1 135 555	1 005 486

Amount recognised in statement of financial position

Current Employee Benefit obligation	496 797	544 181
Non-Current Employee Benefit Obligation	3 828 916	2 885 664
	4 325 713	3 429 845

Reconciliation of net statement of financial position amount

Opening balance	3 429 845	2 728 854
Expected return	1 135 555	1 005 486
Actuarial gains (losses)	(239 686)	(304 495)
	4 325 714	3 429 845

Key assumptions

Discount rates used	8.92 %	8.67 %
Salary escalation rate	5.44 %	6.47 %

The above discount rates have been based on market indicators at each year end. For 2018 the rate is based on market yields on government bonds as at the end of June 2018 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1.0% applied in 2018 [2017: 1.0%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
7. Employee benefit obligations (continued)		
Sensitivities		
1% increase in discount rate	-	-
Decreases in defined benefit obligation	4 072 979	3 215 591
Percentage	5.8 %	6.3 %
1% decrease in discount rate	-	-
Increases in defined benefit obligation	4 610 522	3 671 601
Percentage	6.6 %	7.1 %
1% increase in salary inflation	-	-
Increases in defined benefit obligation	4 614 695	3 674 474
Percentage	6.7 %	7.1 %

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
8. Receivables from exchange transactions		
Prepayments	210 759	420 759
Staff Debtors	151 423	162 807
	362 182	583 566

Staff debtors are made of rental income for municipal buildings rented by officials of the municipality which are not yet received from these tenants as at 30 June 2018. Included in the prepayments is an amount paid to Target Line for guns not yet received by 30 June 2018.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

9. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	52 496	16 254
---	--------	--------

Receivables from non-exchange transactions

Balance as at 30 June 2018

	Opening balance	Movement	Amount written off	Closing balance
SARS debtor	16 253	36 243	-	52 496

This amount relates to unallocated payments due to the municipality as reflected in the SARS Statement of Account.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
10. VAT receivable		
VAT refund due from SARS	3 818 791	9 326 286
11. Consumer debtors		
Gross balances		
Rates	23 759 467	18 950 990
Refuse	1 691 386	1 434 734
Housing rental	133 564	-
	25 584 417	20 385 724
Less: Allowance for impairment		
Consumer debtors impairment	(21 286 548)	(17 899 151)
Net balance		
Rates	23 759 467	18 950 990
Refuse	1 691 386	1 434 734
Housing rental	133 564	-
Provision for debt impairment	(21 286 548)	(17 899 151)
	4 297 869	2 486 573
Included in above is receivables from exchange transactions		
Refuse	1 691 386	1 434 734
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	23 759 467	18 950 990
Gross balance	25 450 853	20 385 724
Rates		
Current (0 -30 days)	1 266 700	493 155
31 - 60 days	616 913	216 550
61 - 90 days	630 103	206 234
91 - 120 days	21 245 751	18 035 051
	23 759 467	18 950 990
Refuse		
Current (0 -30 days)	32 263	78 282
31 - 60 days	29 938	36 374
61 - 90 days	31 721	32 877
91 - 120 days	1 597 464	1 287 201
	1 691 386	1 434 734
Housing rental		
Current (0 -30 days)	133 564	-
Impairment		
Consumer debtors impairment	(21 286 548)	(17 899 151)

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
11. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	1 029 413	282 985
31 - 60 days	493 989	124 939
61 - 90 days	290 736	137 654
91 - 120 days	14 839 187	13 111 014
	<u>16 653 325</u>	<u>13 656 592</u>
Less: Allowance for impairment	(15 685 280)	(13 578 382)
	<u>968 045</u>	<u>78 210</u>
Industrial/ commercial		
Current (0 -30 days)	121 668	110 444
31 - 60 days	60 318	42 606
61 - 90 days	2 183	35 869
91 - 120 days	3 697 981	4 200 540
	<u>3 882 150</u>	<u>4 389 459</u>
Less: Allowance for impairment	(3 687 048)	(4 320 770)
	<u>195 102</u>	<u>68 689</u>
National and provincial government		
Current (0 -30 days)	99 045	178 008
31 - 60 days	47 865	85 380
61 - 90 days	289 517	65 587
91 - 120 days	1 652 565	2 010 698
	<u>2 088 992</u>	<u>2 339 673</u>
Total		
Current (0 -30 days)	1 298 963	571 437
31 - 60 days	646 851	252 925
61 - 90 days	661 824	239 110
91 - 120 days	22 843 215	19 322 252
	<u>25 450 853</u>	<u>20 385 724</u>
Less: Allowance for impairment	(21 152 984)	(17 899 151)
	<u>4 297 869</u>	<u>2 486 573</u>
Less: Provision for debt impairment		
General and specific impairment	(21 286 548)	(17 899 151)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(17 899 151)	(19 288 715)
Contributions to allowance	(3 387 397)	1 389 564
	<u>(21 286 548)</u>	<u>(17 899 151)</u>
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 500	18 941
Cash at bank	692 751	1 299 065
Short-term deposits	5 529 242	12 317 470
	<u>6 223 493</u>	<u>13 635 476</u>

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

12. Cash and cash equivalents (continued)

The municipality had the following bank and investment accounts:

Account number / description (Continued)	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank Limited- Call Account - Account number 62562355373	36 158	60 624	437 138	36 158	60 624	437 138
First National Bank Limited - Call Account - Account number 62562352410	6 580	376 913	357 143	6 580	376 913	357 143
First National Bank Limited - Call Account - Account number 62562829188	25 935	24 685	23 425	25 935	24 685	23 425
First National Bank Limited - Call Account - Account number 62562827364	15 137	62 034	433 699	15 137	62 033	433 699
First National Bank Limited - Call Account - Account number 62562354002	73 639	70 020	359 774	73 640	70 021	359 774
First National Bank Limited - Cheque account - Account number 62231175953	540 440	1 595 054	8 700 494	692 751	1 299 065	3 460 266
Standard Bank Limited - Current Account - Account Number 280775954	-	-	1 749 621	-	-	1 749 622
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9057233364	-	715 653	683 539	-	718 359	686 123
ABSA Bank Limited - 32 Day Notice Deposit - Account Number 9056533115	-	45 792	43 934	-	45 949	44 084
First National Bank Limited - Call Account - Account Number 62015966099	4 760	5 356	5 873	4 760	5 356	5 874
ABSA Bank Limited - Call Account - Account Number 9205591041	-	1 812 359	1 733 796	-	1 818 988	1 740 137
First National Bank Limited - Call Account - Account Number 62231177769	61 248	3 177 614	369 565	61 249	3 177 614	369 565
First National Bank Limited - Money Market Account - Account Number 62231195323	653	96 707	92 424	654	96 708	92 524
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9100317908	-	188 855	180 875	-	189 546	181 536
First National Bank - Call Account - Account Number 62232870487	100 012	778 151	746 572	99 455	777 594	746 573
ABSA Bank Limited - 32 Day Notice Deposit - Account number 9110889747	-	288 520	284 263	-	288 887	284 626
First National Bank - 7 Day Interest Plus - Account Number 74321424942	5 205 120	4 525 598	55 457 177	5 205 120	4 604 196	55 803 825
Cash on hand	-	-	-	1 500	18 941	1 353

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

					2018	2017
12. Cash and cash equivalents (continued)						
Total	6 069 682	13 823 935	71 659 312	6 222 939	13 635 479	66 777 287
13. Finance lease obligation						
Finance lease						
Minimum lease payments due						
- within one year					-	16 440 324
less: future finance charges					-	16 440 324
Present value of minimum lease payments					-	15 186 922
Present value of minimum lease payments due						
- within one year					-	15 186 922

During the year 2014/15 Mbashe Local Municipality entered into a finance lease to purchase items of plant and equipment for the implementation of infrastructure related projects. The finance lease is for the period of 3 years with instalments payable monthly and bears an implicit interest rate of 32.25%(started 2014/15) 24%(started 2015/16) per annum. The periods of both leases have ended during the current financial period. The above figure is based on an amortised amount as per the amortisation schedule which included VAT, in 2016/17 Audit AG-SA requested that the liability disclosed in the AFS should be reduced by an amount of R3 961 913 which constitute VAT already claimed from SARS.

Adjustment reconciliation:

Per Note 13

AGSA adjustment 2016/17 Audit

- 15 186 922

- (3 961 913)

- 11 225 009

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Movement during the year

Balance at the beginning of the year

- 1 000 000

Income recognition during the year

- (1 000 000)

- -

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

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

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

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

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
-----------------	------	------

15. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	7 907 851	507 265	8 415 116

Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	7 322 987	-	584 864	7 907 851
Other provisions	345 948	(345 948)	-	-
	7 668 935	(345 948)	584 864	7 907 851

Environmental rehabilitation provision

Willowvale site

The License for the closure of the Willowvale site was extended in October 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the site is expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site's lifespan expectancy from the end of the financial year is zero.

Dutywa site

The License for the closure of Dutywa site was extended on the October 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the sites are expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 5% was used.

The landfill site is lifespan expectancy from the end of the financial year is expected to be 5 months.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

15. Provisions (continued)

Elliotdale site

The Elliotdale site's license is valid until 17 December 2020, but is reviewed every 5 years.

An environmental specialist has been appointed to assist the Municipality with the management of this site. A recent review of the facilities indicated that the site needs to be upgraded to meet current environmental and legislative requirements. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed to enable the landfill site to continue operating as envisaged. Interactions with the Licensing Authority are currently in progress.

Based on the past usage the environmental specialist estimates that the landfill capacity is adequate up to 2037 provided:

- regular site upgrades are effected,
- the operations are properly managed and
- the license is renewed every 5 years

The provision for land rehabilitation is based on the current cost of the following activities being undertaken to close the site in 2037:

- Closing 1 cell, including capping
- Rehabilitation of the Leachate Pond
- Removal of any structures
- Storm water control
- Greening of site
- Ground water monitoring

The landfill site's lifespan expectancy from the end of the financial year is expected to be 20 years. Where appropriate a discount rate of 5% was used.

Other Provisions

This amount comprises a provision in favour of SARS for PAYE and resultant penalties and interest relating to a lumpsum payment made to a former Municipal Manager for which no PAYE was withheld. The Municipality has requested a tax directive from SARS. The likelihood and timing of the settlement is not as yet certain.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
--	------	------

16. Payables from exchange transactions

Trade payables	13 413 124	19 161 710
Debtors with credit balances	3 358 280	736 669
Accrued leave pay	7 355 588	6 918 968
Accrued bonus	1 900 510	2 043 633
Contract retentions	-	1 662 612
Other creditors	-	1 038 143
Payroll Control Accounts	3 859 156	-
	29 886 658	31 561 735

17. Revenue

Service charges	673 224	474 527
Rental of facilities and equipment	3 312 764	1 894 531
Interest received (trading)	2 621 875	82 957
Recoveries	-	1 495 663
Other income	2 473 876	2 287 345
Interest received - investment	2 486 447	5 111 777
Property rates	9 693 917	4 032 478
Donation from SANRAL	-	68 934 355
Licences and permits	1 293 360	1 415 198
Government grants & subsidies	299 118 709	296 985 860
Fines and Penalties	2 497 708	3 098 393
	324 171 880	385 813 084

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

Service charges	673 224	474 527
Rental of facilities and equipment	3 312 764	1 894 531
Interest received (trading)	2 621 875	82 957
Recoveries	-	1 495 663
Other income (Refer to note 18)	2 473 876	2 287 345
Interest earned - investments	2 486 447	5 111 777
	11 568 186	11 346 800

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

Taxation revenue		
Property rates	9 693 917	4 032 478
Donation from SANRAL	-	68 934 355
Licence and permits	1 293 360	1 415 198
Transfer revenue		
Government grants & subsidies	299 118 709	296 985 860
Fines and penalties	2 497 708	3 098 393
	312 603 694	374 466 284

18. Service charges

Refuse removal	673 224	474 527

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
19. Rental of facilities and equipment		
Premises		
Premises	2 909 784	1 488 755
Rental of Halls	129 066	221 356
Rentals of Billboards	273 914	184 420
	3 312 764	1 894 531
20. Recoveries		
Debt impairment recovered	-	1 495 663
21. Other income		
Administrative Fees	1 989 145	337 767
Building Plans	145 431	108 558
Burial and cemetery	3 975	3 027
Public Toilets	-	149 280
Pound fees	-	591 295
Sundry income	335 325	1 097 418
	2 473 876	2 287 345
22. Interest received - external investments		
Interest revenue		
Interest on bank accounts and investment balances	2 486 447	5 111 777
23. Property rates		
Rates charged		
Assessment rates	9 693 917	4 032 478
Valuations		
Residential	19 140 130 300	19 140 130 300
Commercial	16 068 465 800	16 068 465 800
State	15 924 730 000	15 924 730 000
Municipal	26 433 124 500	26 433 124 500
	'7 566 450 600	'7 566 450 600

The Applicable general rates for current financial period and its comparative year is as follows:

- A general rate of 0.00636 (2017: 0.006) is applied to residential property valuations to determine assessment rates.
- A general rate of R 0.00848 (2017: R 0.008) is applied to business property valuations to determine assessment rates.
- A general rate of R 0.00954 (2017: R 0.009) is applied to government property valuations to determine assessment rate
- A general rate of R 0.00742 (2017: R 0.007) is applied to Vacant Sites valuations to determine assessment rates

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
--	------	------

24. Government grants and subsidies

Operating grants and Capital

Equitable share	218 025 000	210 060 000
Integrated Electrification Programme	14 000 000	17 000 000
Finance Management Grant	1 700 000	1 625 000
Other government grants	1 380 779	61 860
Municipal Infrastructure Grant	58 027 000	65 745 000
Service SETA Grant	1 399 930	-
Library subsidies	350 000	350 000
Extended Public Works Programme	4 236 000	1 144 000
IEC Grant	-	1 000 000
	299 118 709	296 985 860

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	79 362 930	85 514 000
Unconditional grants received	219 755 779	210 471 860
	299 118 709	295 985 860

Equitable Share

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

Finance Management Grant

Current-year receipts	1 700 000	1 625 000
Conditions met - transferred to revenue	(1 700 000)	(1 625 000)
	-	-

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	-
Current-year receipts	58 027 000	65 745 000
Conditions met - transferred to revenue	(58 027 000)	(65 745 000)
	-	-

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

IEC Grant

Balance unspent at beginning of year	-	1 000 000
Current-year receipts	-	(1 000 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

This Grant was received from Provincial Cooperative Governance and Traditional Affairs (COGTA) towards provision of access to voting stations in preparation of local government elections for 2016.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
--	------	------

24. Government grants and subsidies (continued)

EPWP

Current-year receipts	4 236 000	1 144 000
Conditions met - transferred to revenue	(4 236 000)	(1 144 000)
	-	-

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

Integrated Electrification Programme

Current-year receipts	14 000 000	17 000 000
Conditions met - transferred to revenue	(14 000 000)	(17 000 000)
	-	-

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

25. Employee related costs

Bargaining council contributions	30 703	22 038
Basic	61 090 780	56 305 253
Bonus (13th cheque)	5 422 940	4 071 327
Casual wage employment	20 260 103	28 270 670
Cellphone Allowance	5 294 404	2 986 737
Housing benefits and allowances	2 896 194	2 418 380
Leave related costs	1 092 628	2 379 243
Long-service awards	99 738	821 962
Medical aid - company contributions	4 842 081	3 429 422
Overtime payments	2 479 839	5 867 625
Post-employment benefits	14 703 624	11 186 768
Skills Development Levy	1 058 472	998 527
Stand by Allowances	101 336	183 958
Travel, motor car, accommodation, subsistence and other allowances	1 769 812	1 203 529
Unemployment Insurance Fund	741 701	772 251
	121 884 355	120 917 690

Remuneration of Municipal Manager

Annual remuneration	927 151	1 058 579
Backpay	37 974	55 080
Bonus	24 000	-
Contributions to UIF, medical and pension funds	108 611	84 786
Travel, motor car, accommodation, subsistence and other allowance	71 330	175 977
Cellphone allowance	15 705	-
Acting allowance	43 338	-
Leave payout	251 940	-
	1 480 049	1 374 422

Mr SV Poswa was appointed as Municipal Manager from March 2015 till August 2017. Mr M. Nako was appointed as Municipal Manager from December 2017 after he has acted up from August 2017 to December 2017.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand 2018 2017

25. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual remuneration	823 203	719 483
Backpay	30 621	46 181
Bonus	56 000	108 000
Travel, motor car, accommodation, subsistence and other allowance	241 607	289 718
Contributions to UIF, medical and pension funds	80 445	3 569
	1 231 876	1 166 951

Mr X Sikobi was appointed as Chief Financial Officer from 01 July 2015

Remuneration of Senior Manager - Community Services

Annual remuneration	605 207	833 566
Backpay	30 399	45 548
Bonus	24 000	24 000
Travel, motor car, accommodation, subsistence and other allowance	77 837	168 006
Contributions to UIF, medical and pension funds	57 054	3 569
Leave pay	186 892	-
Cellphone allowance	34 167	-
Acting allowance	77 573	-
	1 093 129	1 074 689

The Community Services Manager, Mr M Mtongana, was appointed as the Community Services Manager on 01 March 2013 till February 2018, Mr Bongo assumed the position of Acting Director from 01 March 2018 till 30 June 2018.

Remuneration of Senior Manager Corporate Services

Annual remuneration	858 044	765 791
Backpay	30 621	45 881
Bonus	108 000	72 000
Travel, motor car, accommodation, subsistence and other allowances	208 257	217 063
Contributions to UIF, medical and pension funds	76 554	47 966
	1 281 476	1 148 701

Mr M P Nini was appointed as a Senior Manager from June 2015.

Remuneration of Senior Manager Infrastructure Services

Annual remuneration	913 662	824 772
Backpay	30 339	45 458
Bonus	80 000	-
Travel, motor car, accommodation, subsistence and other allowance	116 755	116 755
Contributions to UIF, medical and pension funds	78 322	125 639
	1 219 078	1 112 624

Miss N Y Mqoqi was appointed as a Senior Manager from 1 April 2014.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018 2017

25. Employee related costs (continued)

Remuneration of Senior Manager Operations

Annual remuneration	398 800	910 167
Backpay	30 621	45 881
Bonus	24 000	24 000
Acting allowance	175 972	-
Travel, motor car, accomodation,subsistence and other allowances	31 407	108 657
Contributions to UIF,Medical and Pension Funds	34 368	81 569
Cellphone allowance	8 974	-
Leave pay	87 443	-
	791 585	1 170 274

Mr M Nako was appointed as Senior Manager from 15 December 2015 till November 2017. Mr S Baliso assumed the position of Acting Senior Operations Manager from 17 November 2017 till 30 June 2018.

Remuneration of Senior Manager Planning and Development

Annual remuneration	947 159	857 566
Backpay	30 399	45 548
Travel, motor car, accommodation, subsistence and other allowance	116 755	168 006
Contributions to UIF, medical and pension funds	84 003	3 569
Cellphone allowance	17 084	-
	1 195 400	1 074 689

Mr C B Mqingwana was appointed as a Senior Manager of Planning and Development from 04 March 2014

26. Remuneration of Councillors

Council remuneration and allowances	25 088 557	23 319 930
Analysis of council remuneration		
Mayor	864 640	637 131
Speaker	708 249	510 161
Traditional leaders	886 895	353 130
Executive committee members	3 237 613	3 934 798
Councillors remuneration	12 716 650	11 903 865
Councillors allowances	2 852 283	2 225 452
Ward committee remuneration	3 822 227	3 755 393
	25 088 557	23 319 930

27. Depreciation and amortisation

Property, plant and equipment	57 441 881	68 997 678
-------------------------------	------------	------------

28. Finance costs

Interest paid on trade and other payables	159 340	181 629
Finance cost on lease liability	1 253 402	8 355 473
Rehabilitation of landfill sites	507 265	584 864
	1 920 007	9 121 966

29. Debt impairment

Bad debts written off	3 387 397	458 257
-----------------------	-----------	---------

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
30. Administrative and other expenditure		
Advertising	1 227 692	546 087
Audit committee fees	184 812	372 647
Auditors remuneration	3 798 907	3 473 106
Bank charges	331 072	406 527
Books & Publications	-	581 742
Catering	2 581 243	1 881 661
Cleaning	607 620	189 038
Community development and training	268 919	1 389 512
Conferences and seminars	26 794	553 280
Consumables	438 465	878 900
Donations	-	389 829
Electricity	-	602 350
Equipment and plant hire	1 332 662	1 929 339
Expanded Public Works Programme	7 700	565 446
Fuel and oil	5 442 758	4 775 613
IT Expenses	1 704 322	961 985
Indigent subsidies	2 815 437	5 379 836
Insurance	1 018 709	153 235
Lease rentals on operating lease	5 772 023	2 364 643
Consulting and professional fees	1 584 356	2 141 675
Motor vehicle expenses	116 902	684 552
Other expenses	922 161	10 476 327
Postage and courier	19 500	16 687
Printing and stationery	1 013 313	984 315
Professional fees	8 213 825	7 069 607
Project maintenance costs	7 703 766	13 906 696
Promotions and Branding	514 200	293 572
Protective clothing	2 856 562	392 803
Refuse	5 278 896	4 625 713
Repairs and maintenance	35 768 606	53 705 147
Safety Plan	385 406	592 612
Security (Guarding of municipal property)	8 442 962	8 150 421
Software expenses	-	855 298
Special programme	641 240	3 110 608
Subscriptions and membership fees	476 303	1 191 422
Telephone and fax	475 385	1 618 637
Tourism development	1 364 815	1 209 766
Training	4 017 400	2 865 706
Travel - local	4 955 574	7 239 701
Water	1 970 228	4 447 645
	114 280 535	152 973 686
31. Auditors' remuneration		
Fees	3 798 907	3 473 106

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
32. Cash generated from operations		
Surplus (deficit)	169 148	(11 104 992)
Adjustments for:		
Depreciation and amortisation	57 441 881	68 997 678
Gain on sale of assets and liabilities	-	21 128 869
Donations - Non cash item	-	(68 934 355)
Debt impairment	3 387 397	458 257
Movements in retirement benefit assets and liabilities	895 869	700 991
Movements in provisions	507 265	238 916
Changes in working capital:		
Receivables from exchange transactions	221 384	364 034
Consumer debtors	(9 653 837)	365 108
Other receivables from non-exchange transactions	(36 242)	302 199
Payables from exchange transactions	(1 675 062)	13 967 340
VAT	5 507 495	4 906 850
Unspent conditional grants and receipts	-	(1 000 000)
	56 765 298	30 390 895

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

33. Financial instruments disclosure

Categories of financial instruments

2018

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	362 182	362 182
Receivables from non-exchange transactions	52 496	52 496
Consumer debtors	4 297 869	4 297 869
Cash and cash equivalents	6 223 493	6 223 493
Vat receivable	3 818 791	3 818 791
	14 754 831	14 754 831

Financial liabilities

	At amortised cost	Total
Accrued bonus	1 900 510	1 900 510
Staff leave accrual	7 355 588	7 355 588
Trade payables	13 413 124	13 413 124
Provisions	8 415 116	8 415 116
Employee benefits obligations	4 325 714	4 325 714
Payroll control accounts	3 859 156	3 859 156
Debtors with credit balances	3 358 280	3 358 280
	42 627 488	42 627 488

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018 2017

33. Financial instruments disclosure (continued)

2017

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	583 566	583 566
Receivables from non-exchange transactions	16 254	16 254
Consumer debtors	2 486 573	2 486 573
Cash and cash equivalents	13 635 479	13 635 479
VAT Receivable	9 326 286	9 326 286
	26 048 158	26 048 158

Financial liabilities

	At amortised cost	Total
Other creditors	1 038 143	1 038 143
Accrued bonus	2 043 633	2 043 633
Staff leave accrual	6 918 968	6 918 968
Trade payables	13 413 124	13 413 124
Provisions	7 907 851	7 907 851
Employee benefits obligations	3 429 845	3 429 845
Sundry creditors	269 823	269 823
Contract retentions	1 662 612	1 662 612
Finance lease obligation	11 225 009	11 225 009
Debtors with credit balances	736 669	736 669
	48 645 677	48 645 677

34. Commitments

Authorised capital expenditure

Approved and contracted for

• Land and buildings	38 061 936	3 515 333
• Infrastructure	35 332 439	37 317 667
• Community Halls	48 909 632	36 631 510
	122 304 007	77 464 510

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

35. Contingencies

Contingent liabilities

The municipality is currently party to the following contingent liabilities:

	Nature fo Contingent Liability	2018	2017
N. Rulashe vs Mbhashe LM	Damages from fire	50 000	-
Mawethu Sakwe vs Mbhashe Local Municipality		-	5 880
Notyesi Inc. vs Mbhashe LM (Nature - Taxation)		-	35 230
Changing tides 1153 vs Mbhashe LM	Breach of contract	1 300 000	-
Incremate vs Mbhashe LM	Breach of contract	11 500 000	60 000 000
L. Mrasi vs Mbhashe LM	Damages claim arising from alleged unlawful detention.	1 200 000	-
Zebros vs Mbhashe LM	Damages from fire	81 464	-
B. Mphikwa vs Mbhashe LM	Damages	50 000 000	-
KFC Dutywa vs MLM	Renovations	684 000	-
Celina Siwundla vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	350 000	284 750
Mziwonke Manxiwa vs Mbhashe Local Municipality	Damages claim arising from alleged unlawful demolition of a house.	762 525	762 525
V.Madotyeni vs Mbhashe LM		988 000	-
M. Magalela vs Mbhashe LM		500 000	-
Moses Mbambo vs Mbhashe LM and others	Damages claim arising from alleged assault.	500 000	500 000
N. Qudalele vs Mbhashe LM		700 000	-
N. Ngxelo vs Mbhashe LM		550 000	-
S.Sondli vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	488 488	488 488
V.Nosilela vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	905 492	905 492
S.Manxiwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	1 659 043	1 659 043
Z.Majebe vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	864 861	864 861
S.Mlakuhlwa vs Mbhashe LM	Damages claim arising from alleged unlawful demolition of a house.	114 524	114 524

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

35. Contingencies (continued)

	2018	2017
S.Gobeni vs Mbhashe LM	762 525	762 525
	Damages claim arising from alleged unlawful demolition of a house.	
Itu Facility Trading vs Mbhashe LM	200 000	200 000
L.Mbete vs Mbhashe Local Municipality	800 000	800 000
L.Mkhondweni vs Mbhashe LM	150 000	150 000
M.M Mkwedi vs Mbhashe LM	300 000	300 000
T.Square Eng. vs Mbhashe LM	123 819	123 819
Centre Point Developers vs Mbhashe LM	18 000 000	18 000 000
Shack demolition Dutywa CBD	150 000	150 000
Lease Agreements Mbhashe(handled by Tonise)	-	250 000
Businesses licensing (handled by Tonise)	-	30 000
L.Singqumba vs Mbhashe Local Municipality	500 000	500 000
Balintulo vs Mbhashe Local Municipality	3 000 000	-
	97 184 741	86 887 137

The following are litigations against the Municipality for which no estimate is available:

Mawethu Sakwe vs Mbhashe Local Municipality

Mangathi Community vs Mbhashe Local Municipality

Mputhi Community vs Mbhashe Local Municipality

Mbhashe Local Municipality vs Nokhanyo Magatya & 3 others

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

A detailed register of litigation matters is maintained and available for inspection at the Municipality's registered office.

Contingent assets

The following are cases where the Municipality is a claimant:

The municipality is currently party to the following litigations:

	Nature of the Contingent Asset	2018	2017
Fraudulent payment (Telkom) reported to SAPS	Fraudulent payment	18 484	18 484
Land Invaders - Elliotdale	Claim for land invasion	150 000	150 000
Mbhashe LM vs Juspo		60 000	60 000
Mbhashe LM vs Maqhula	Eviction	-	8 000
Mbhashe LM vs Landisile Mithi & Others	Interdict	-	119 303
Mbhashe LM vs B.S Titus Holdings & BP Garage	Interdict	90 000	90 000
		318 484	445 787

The following are Litigations the Municipality is the claimant, for which no estimate is available:

Mbhashe Local Municipality vs Zizi Agricultural Co-op and another

Mbhashe Local Municipality vs Mthetheleli Bhele & others

Mbhashe Local Municipality vs Somhlahlo

Mbhashe Local Municipality vs Phakama Gatyana

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

Mbhashe Local Municipality vs Thembelani Marafane

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

35. Contingencies (continued)

Mbhashe Local Municipality vs Ntlokwinendaba & Mbambo

The comprehensive Litigation register is kept in the municipal offices.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

	2018	2017
--	------	------

36. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

Related party balances

Assessment Rates - Owing by related parties

C.Genyane (subsequently paid after year end)	47	63
M Sibingibingi (subsequently paid after year end)	671	523
L Matiti (subsequently paid after year end)	42 427	37 894
Jafta MJ (K.K Supermarket)	122 026	-

Amounts received from related parties for sale of land

M Peter	58 800	58 800
C Mqingwana	62 100	62 100
M Mbomvu	15 000	15 000
M Mcotsho	20 000	20 000
N N Ndlodaka	69 000	69 000
M Noyila	15 000	15 000
M Nako	48 800	48 800

In the prior years the municipality sold land to the community. Included in deposit received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers. Transfer will only take place when the full price of the property has been paid.

Related party transactions

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

Please refer to Note 28 for a detail of remuneration of Councillors.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind all Councillors to ensure that all accounts are paid to date.

Below is the breakdown of balance owed by Jafta MJ (K.K Supermarket):

Jafta MJ (K.K Supermarket)	Balance	Impairment provision
0 - 30 Days	3 024	-
31 - 60 days	1 602	1 186
61 - 90 days	1 638	1 212
91 - 120 days	115 761	115 761
	122 025	118 159

Key management information

Position	Name	Description
Municipal Manager	Mr M Nako	Employed in terms of Section 56 of MSA
Chief Financial Officer	Mr CX Sikobi	Employed in terms of Section 57 of MSA
Senior Manager Infrastructure Services	Ms NY Mqoqi	Employed in terms of Section 57 of MSA
Senior Manager Corporate Services	Mr MP Nini	Employed in terms of Section 57 of MSA
Senior Manager Planning and Development	Mr CB Mqingwana	Employed in terms of Section 57 of MSA

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

36. Related parties (continued)

Remuneration of key management

2018

Position	Basic salary	Backpay	Contributions to UIF, Medical and Pension Fund	Travel, motor car, accommodation, subsistence and other allowance	Bonus	Cellphone allowance	Acting allowance	Leave payout	Total
Municipal Manager	927 151	37 974	108 611	71 330	24 000	15 705	43 338	251 940	1 480 049
Chief Financial Officer	823 203	30 621	80 445	241 607	56 000	-	-	-	1 231 876
Senior Manager Community Services	605 207	30 399	57 054	77 837	24 000	34 167	77 573	186 892	1 093 129
Senior Manager Corporate Services	858 044	30 621	76 554	208 257	108 000	-	-	-	1 281 476
Senior Manager Infrastructure Services	913 662	30 339	78 322	116 755	80 000	-	-	-	1 219 078
Senior Manager Operations	398 800	30 621	34 368	31 407	24 000	8 974	175 972	87 443	791 585
Senior Manager Planning and Development	947 159	30 399	84 003	116 755	-	17 084	-	-	1 195 400
	5 473 226	220 974	519 357	863 948	316 000	75 930	296 883	526 275	8 292 593

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

37. Prior period errors

1. During the audit of 2017/18 it was noted that there were invoices received and paid in 2017/18 which were relating to year 2016/17, as a result the amount of Payables as at the beginning of the year was adjustment through Accumulated surplus.

2. In addition to the above stated matter, during the audit of investment properties it was noted that properties amounting to the value of R3 355 000 are not belonging to the municipality, and therefore had to be removed from the municipalities Fixed Assets Register. And RDP houses to the value of R10 213 200 are not yet transferred to the beneficiaries.

3. During the assessment done when correcting misstatements raised by the Auditor during the audit of year 2017/18 it was noted that there is a project of R7 500 000 relating to upgrade of municipal electricity infrastructure on Turnkey Basis, Bid number : MBH/INFRA/0008/2016-17 which was erroneously omitted, this error has been corrected in the comparative disclosure of commitments.

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

Statement of financial position

Effect of correction on Trade payables	2 093 147	-
Effect of correction on Investment property	13 568 200	-
Opening Accumulated Surplus	15 661 347	-

Statement of Changes in Net Assets

Opening Accumulated Surplus	-	578 549 018
Correction of error on Trade Payables	-	(2 093 147)
Correction of error on Investment property	-	(13 568 200)
Correction of Errors affecting disclosure only		
Infrastructure Commitments reported in 2017 AFS	-	31 132 819
Infrastructure Commitments reported in 2017/18 Comparatives	-	37 317 667
Difference	-	6 184 848
Reconciliation of the movement	-	6 184 848
Original contract amount for upgrade of municipal electricity infrastructure project	-	7 500 000
Payment made in 2016/17	-	(1 315 152)

38. Risk management

Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

38. Risk management (continued)

Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparts.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

Cash and cash equivalents (including investments) are held with the following counter parties:	2018	2017
ABSA Bank	-	3 061 728
First National Bank (Primary Bank)	6 069 682	10 554 811

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

39. Unauthorised expenditure

Opening balance	102 627 811	88 364 321
Unauthorised expenditure current year	-	14 263 490
	102 627 811	102 627 811

Unauthorised expenditure relates to expenditure incurred which is in excess of the budgeted amount on the individual votes.

40. Fruitless and wasteful expenditure

Opening balance	6 582 841	6 382 728
Fruitless and wasteful expenditure - current year	190 530	181 629
Telkom Fraud Case reported to SAPS	-	18 484
	6 773 371	6 582 841

Details / incidents of fruitless and wasteful expenditure relating to this period only

Interest on overdue accounts and penalties	190 530	181 629
Telkom Fraud Case reported to SAPS	-	18 484
	190 530	200 113

A report on fruitless and wasteful expenditure incurred will be submitted to the Council for consideration in the 2017/2018 and then referred to Municipal Public Accounts Committee.

No fruitless and wasteful expenditure was written off or recovered during the year.

41. Irregular expenditure

Opening balance	536 378 645	418 108 055
Add: Irregular Expenditure - current year movement	136 507 742	31 196 366
Add: Irregular identified by AGSA during the Annual Audit	-	103 101 843
Less: Irregular expenditure - written off by council	(133 856 729)	(16 027 619)
	539 029 658	536 378 645

During the 2015/2016 financial year the municipality conducted a special review of all transactions from the 2011/2012 financial year to 2015/2016 financial year in order to compile a comprehensive list of irregular expenditure.

Details of irregular expenditure – current year

Bid evaluation discrepancies identified	-
Limitation of scope - No supporting documentation	548 132
o bid specification/adjudication minutes	449 570
No Municipal rates clearance certificate/lease agreement	31 787 743
BAC composition - Non-compliance with SCM regulation 29(2)	99 912 297
New Irregular expenditure - waste collectors	3 810 000
	136 507 742

Analysis of Irregular Expenditure Balance - current year

Recurring from prior years	132 697 742
New irregular expenditure - waste transporters	3 810 000
	136 507 742

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA Fees

Opening balance	1 260 740	416 850
Current year subscription / fee	1 092 432	1 090 599
Amount paid - current year	(2 353 172)	(246 709)
	-	1 260 740

Contract awarded to close family members of person in the service of the state

1. During the year 2016/2017 awards were made to ICT Choice for the (i) Supply and delivery of Computers, (ii) Installation of Fibre and additional points, (iii) Renewal of 150 Cibecs licenses, the owner/director of ICT Choice Mr. S. Maqula is a spouse of Mrs N. Maqula who works at the Department of Human Settlements. The total value of all awards amount to R1 571 055.33

2. During the year 2017/18 awards were made to companies Marentia 0281 Trading CC and Ngxakaxa Trading Enterprise for various orders which include catering and supply and delivery, the owner/director of these two companies Hlungulu Z. who works as an intern at Mbhashe Local Municipality's Communications Unit. The total value of the awards for Marentia 0281 Trading CC was R36 225.00 and total value of awards to Ngxakaxa Trading Enterprise amount to R198 011.2

3. During the year 2017/18 awards were made to Bili Investments who is owned by Novumile Bili who is a mother to Nontyantyambo Mbola who works as a Executive secretary in the Municipal Managers Office, The total awards were amounting to R234 486.20 for the whole, and are all catering related.

Audit fees

Current year subscription / fee	3 081 478	3 473 106
Amount paid - current year	(3 081 478)	(3 473 106)
	-	-

PAYE and UIF

Current year subscription / fee	19 480 726	17 283 031
Amount paid - current year	(19 480 726)	(17 283 031)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	14 086 472	10 541 341
Amount paid - current year	(14 086 472)	(10 541 341)
	-	-

VAT

VAT receivable	3 818 791	9 326 286
----------------	-----------	-----------

VAT output payables and VAT input receivables are shown in note .

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

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 43

Incident

Emergency	370 310	1 430 063
Sole Supplier	761 536	1 521 915
Other exceptional cases	9 183 519	17 723 409
	10 315 365	20 675 387

43. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the Council and includes a note to the annual financial statements.

44. Received Donation in Kind

During the year 2016/17 Sanral constructed roads in the Rural areas of the Mbashe Local Municipality on behalf of Mbashe Local Municipality, the value of the constructed roads amounts to R68 934 354.79, This value has been treated as revenue received in kind and the Non current assets have been accounted for.

45. Budget differences

Material differences between budget and actual amounts

45.1 Service charges are reflecting a 52% reduction in projected billing, this is a result of government properties that were anticipated to be included in the billing run due to Supplementary Valuation Roll 4. These actual government properties included in SV4 were rural schools which are not billed for refuse removal.

45.2 Included in the presentation is the budget for rental of municipal facilities and utilisation of construction plant & machinery. The Municipality increased its collection with regards to rentals due to an enhanced lease register and implementation of efficient controls resulting in 75% increase in revenue collection. The actual performance of plant proceeds was offset against the construction expenditure in line with GRAP standards resulting in a budget variance of 0%. The overall performance resulted in a negative variance of 64%.

45.3 This positive variance of 100% is due to the fact that at budget preparation stage, the municipality did not budget for interest on overdue accounts as it was not charging interest at that stage.

45.4 The negative variance amounts to undercollection by 15% due to under collection in non-billable revenue sources. The poor performance can be attributed to tough economic conditions that resulted in customers not affording to pay for municipal services.

45.5 The negative variance of 71% was due to the fact that the municipality encountered liquidity challenges which prevented the implementation of the cash investment targets as the municipality kept low investment reserves with the banks during the year.

45.6 The positive variance of 85% was due to the implementation of Supplementary Valuation 4 that included the rural schools in the billing system.

45.7 The negative variance of 57% is due to poor revenue collection that can be attributed to tough economic conditions that resulted in customers not affording to pay for municipal services.

45.8 The variance is below the significant percentage of 10%.

45.9 The negative variance of 50% is due to poor revenue collection that can be attributed to tough economic conditions that resulted in customers not affording to pay for municipal services..

45.10 The variance is below the significant percentage of 10%.

MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

2018

2017

45. Budget differences (continued)

45.11 The increase of 22% was due to the increase in subsistence and travel allowances paid to the public office bearers, ward committee remuneration these was budgeted under the staff personnel budget.

45.12 This variance relates to the reassessment of remaining useful lives mainly caused by the capitalisation of the R68 Million Infrastructure Grant donated by Provincial Treasury in the previous year.

45.13 The actual expenditure relates to interest paid on finance lease of which the budget is included as part of capital budget for all repayments that included the interest portion.

45.14 Included in the actual balance is the impairment debt provision raised on potential uncollectable debt. This was not budgeted for at the beginning of the financial year as it is based on the collection trends for that respective year.

45.15 The variance of 17% in general expenditure was due to strict monitoring of cash flow projections against revenue collection, this enabled avoidance of committing the budget where there was no prospect of available cash resources. This resulted in underspending against the approved budget

45.16 There was no Retention in the current financial year, all the historical retention balance was released in the current financial period.

45.17 This variance relates to balance historical values (i.e opening balances). When budgeting the municipality only budgets for additions because of the resources available to it. This ensures that the municipality's budget is realistic.