



**Moqhaka Local Municipality
Annual Financial Statements
for the year ended 30 June 2019**

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Jurisdiction Number	Municipal demarcation code FS201
Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). Moqhaka Local Municipality is situated within the southern part of the Fezile Dabi District in the Free State province. The seat of local government is Kroonstad.
Nature of business and principal activities	Moqhaka is a local municipality performing functions as set out in the constitution (Act 105 of 1996).
Mayoral committee	
Executive Mayor	Koloi, MA (Resigned: 24 May 2019) Phooko, P (Appointed: 24 May 2019)
Speaker	Chakane, MS
Council Whip	Phooko, P (Resigned: 24 May 2019)
Members of the Mayoral Committee	Green, MM Kokami, KL Magadlela, ZS Manefeldt, ZJC Mokoena, S Moletsane, ER Mpondo, VL Rooskrans, B Tladi, SB
Grading of local authority	The Moqhaka Municipality is a grade 4 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
Accounting Officers	Mqwathi, MS Tshabalala, PH (Acting)
Chief Finance Officer (CFO)	Marumo, T
Registered office	Municipal Offices Hill Street Kroonstad 9499
Business address	Municipal Offices Hill Street Kroonstad 9499
Postal address	PO Box 302 Kroonstad 9500
Bankers	ABSA Bank Limited
Auditor	Auditor General of South Africa
Attorneys	Du Randt & Louw Majavu Incorporated Poswa Incorporated Tsotetsi & Mochunu Incorporated

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General Information

Preparer

The Chief Financial Officer

Members of council

Baba, JM
Boeije, HME
Bolofo, LD
Dalton, CM
Geldenhuis, J
Hattingh, JM
Khasudi, D
Khunyeli, JM
Leboko, OA
Lithupa, MJ
Makae, HG
Makhanda, ML
Mahlatsi, MS
Mahlatsi, JR
Malejoane, AM
Marako, TJ
Mareka, J
Mntuze, ME
Mofokeng, TA
Mokodutlo, NP
Mokotedi, MV
Morabe, TD (Deceased)
Muller, ND
Nhlapo, M
Nzunga, DN
Pietersen, ML
Pittaway, SH
Ramathibe, BS
Ramathibe, ME
Serapela, DJ
Thajane, MI
Van Schalkwyk, L
Viljoen, AH
Yho-Yho, M

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

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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COID	Compensation for Occupational Injuries and Diseases
SCM	Supply Chain Management
DBSA	Development Bank of South Africa
EPWP	Extended Public Works Programme
GRAP	Generally Recognised Accounting Practice
MMC	Member of Mayoral Committee
HDF	Housing Development Fund
IAS	International Accounting Standards
FMG	Financial Management Grant
IPSAS	International Public Sector Accounting Standards
COGTA	Cooperative Governance and Traditional Affairs
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DWS	Department of Water and Sanitation
IDP	Integrated Development Plan
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers (Previously known as IMFO)

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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor-General is engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

Based on the information and explanations given by management, the accounting officers are of the opinion 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.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 32 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 7 to 75, which have been prepared on the going concern basis, were approved by the accounting officers on 19 September 2019 and were signed on its behalf by:

Tshabalala, PH (Acting)
Accounting Officer

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is a local authority providing municipal services and maintaining the best interest of the community in the Moqhaka Municipal Area.

Net deficit of the municipality was R 85 335 316 (2018: deficit R 88 520 871).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The analysis of the going concern is clearly depicted in note 51.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year that could have an impact on the annual financial statements, except for matters as outlined in note 52.

4. Accounting Officers' interest in contracts

The accounting officer was charged during the financial for irregular expenditure relating to one of the appointed service provider.

5. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122 (3) of the Municipal Financial Management Act, (Act No. 56 of 2003).

6. Accounting Officers

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

Name	Nationality
Mqwathi, MS	South African
Tshabalala, PH (Acting)	South African

7. Auditor

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

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Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Amounts in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	8 574 172	6 161 181
Inventories	4	12 279 743	13 389 213
Investments	5	6 693 484	124 770
VAT receivable	18	46 667 393	34 989 544
Receivables from exchange transactions	6	129 346 907	118 798 064
Receivables from non-exchange transactions	7	40 078 433	35 512 480
		243 640 132	208 975 252
Non-Current Assets			
Heritage assets	8	7 761 921	1 527 922
Intangible assets	9	3 083 047	3 426 408
Investments	5	218 288	205 716
Investment property	10	172 185 882	174 176 702
Receivables from exchange transactions	6	4 599 798	4 274 526
Receivables from non-exchange transactions	7	574 207	757 056
Property, plant and equipment	11	2 120 062 948	2 155 360 330
		2 308 486 091	2 339 728 660
Total Assets		2 552 126 223	2 548 703 912
Liabilities			
Current Liabilities			
Consumer deposits	12	13 512 234	11 880 924
Finance lease obligation	13	1 058 942	9 696
Borrowings	14	1 597 911	1 468 716
Payables from exchange transactions	15	422 241 750	349 672 079
Provisions	16	82 000	92 000
Unspent conditional grants and receipts	17	2 990 237	1 591 509
Employee benefit obligation	19	6 602 082	5 883 347
		448 085 156	370 598 271
Non-Current Liabilities			
Employee benefit obligation	19	36 504 000	36 390 000
Finance lease obligation	13	1 228 788	-
Borrowings	14	23 248 423	21 193 720
Provisions	16	63 889 329	56 016 101
		124 870 540	113 599 821
Total Liabilities		572 955 696	484 198 092
Net Assets		1 979 170 527	2 064 505 820
Accumulated surplus		1 979 170 527	2 064 505 820

* See Note 49

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Amounts in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Fair value adjustments	43	132 752	15 885 822
Fees	27	1 270 859	1 174 867
Gains on employee benefit obligation	44	1 273 000	964 000
Interest received	28	26 763 213	23 564 549
Other income	29	17 978 348	13 630 722
Rental of facilities and equipment	26	6 636 146	3 898 804
Service charges	24	416 537 853	391 833 339
Total revenue from exchange transactions		470 592 171	450 952 103
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	64 054 863	58 953 722
Transfer revenue			
Fines	30	3 133 871	4 651 911
Government grants subsidies	22	260 176 099	241 846 000
Public contributions and donations	25	7 738 310	19 104 681
Total revenue from non-exchange transactions		335 103 143	324 556 314
Total revenue	21	805 695 314	775 508 417
Expenditure			
Employee related costs	31	265 544 193	244 795 860
Remuneration of councillors	32	19 672 790	19 257 695
Debt Impairment	33	97 434 140	82 052 395
Depreciation and amortisation	34	113 429 769	109 597 701
Impairment loss on assets	35	429 940	1 358 481
Finance costs	36	14 878 458	25 492 492
Contracted services	37	47 492 912	42 339 504
Repairs and maintenance	38	32 455 096	43 485 006
Grants and subsidies paid	39	46 149	3 423 388
Bulk purchases	40	236 392 226	221 904 403
Loss on disposal of assets	41	7 857 690	8 401 089
General Expenses	42	55 397 267	61 921 274
Total expenditure		891 030 630	864 029 288
Deficit for the year		(85 335 316)	(88 520 871)

* See Note 49

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

Amounts in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2017	2 153 026 691	2 153 026 691
Deficit for the year	(88 520 871)	(88 520 871)
Total changes	(88 520 871)	(88 520 871)
Balance at 01 July 2018 as previously reported	2 024 940 548	2 024 940 548
Prior year adjustments (Refer Note 49)	39 565 295	39 565 295
Balance at 01 July 2018 as restated	2 064 505 843	2 064 505 843
Deficit for the year	(85 335 316)	(85 335 316)
Total changes	(85 335 316)	(85 335 316)
Balance at 30 June 2019	1 979 170 527	1 979 170 527

* See Note 49

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

Amounts in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Customers		401 064 064	399 193 603
Grants		261 574 827	243 327 181
Interest		1 664 814	1 583 081
Other receipts		31 730 288	49 214 284
		<u>696 033 993</u>	<u>693 318 149</u>
Payments			
Employee costs		(213 910 817)	(179 731 231)
Suppliers		(384 924 531)	(411 873 137)
Finance costs		(9 998 667)	(18 668 937)
		<u>(608 834 015)</u>	<u>(610 273 305)</u>
Net cash flows from operating activities	46	<u>87 199 978</u>	<u>83 044 844</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(82 461 816)	(81 562 176)
Purchase of intangible assets	9	-	(175 200)
Additions of investments	5	(6 568 714)	1 041 501
Net cash flows from investing activities		<u>(89 030 530)</u>	<u>(80 695 875)</u>
Cash flows from financing activities			
Repayment of borrowings		1 965 509	(664 578)
Finance lease repayments		(894 866)	(668 946)
Finance lease receipts		3 172 900	-
Net cash flows from financing activities		<u>4 243 543</u>	<u>(1 333 524)</u>
Net increase in cash and cash equivalents		<u>2 412 991</u>	<u>1 015 445</u>
Cash and cash equivalents at the beginning of the year		6 161 181	5 145 736
Cash and cash equivalents at the end of the year	3	<u>8 574 172</u>	<u>6 161 181</u>

* See Note 49

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Annual Financial Statements for the year ended 30 June 2019

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
Amounts in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	501 279 000	3 572 000	504 851 000	416 537 853	(88 313 147)	24
Rental of facilities and equipment	9 003 000	(14 000)	8 989 000	6 636 146	(2 352 854)	26
Other income	10 222 000	732 000	10 954 000	28 393 267	17 439 267	29
Interest received	21 184 000	1 913 000	23 097 000	26 763 213	3 666 213	28
Total revenue from exchange transactions	541 688 000	6 203 000	547 891 000	478 330 479	(69 560 521)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	70 608 000	(6 268 000)	64 340 000	64 054 863	(285 137)	23
Transfer revenue						
Government grants & subsidies	188 893 000	1 009 000	189 902 000	188 476 099	(1 425 901)	22
Fines	5 976 000	-	5 976 000	3 133 871	(2 842 129)	30
Total revenue from non-exchange transactions	265 477 000	(5 259 000)	260 218 000	255 664 833	(4 553 167)	
Total revenue	807 165 000	944 000	808 109 000	733 995 312	(74 113 688)	
Expenditure						
Employee costs	(267 549 000)	8 663 000	(258 886 000)	(265 544 193)	(6 658 193)	31
Remuneration of councillors	(18 192 000)	(186 000)	(18 378 000)	(19 672 790)	(1 294 790)	32
Depreciation and amortisation	(32 881 000)	(27 000)	(32 908 000)	(113 429 769)	(80 521 769)	34
Finance costs	(3 140 000)	-	(3 140 000)	(14 878 458)	(11 738 458)	36
Debt Impairment	(10 133 000)	-	(10 133 000)	(97 434 140)	(87 301 140)	33
Bulk purchases	(251 237 000)	(23 000)	(251 260 000)	(236 392 226)	14 867 774	40
Contracted Services	(105 811 000)	3 832 000	(101 979 000)	(47 492 912)	54 486 088	37
General Expenses	(101 630 000)	(8 985 000)	(110 615 000)	(96 186 141)	14 428 859	42
Total expenditure	(790 573 000)	3 274 000	(787 299 000)	(891 030 629)	(103 731 629)	
Operating deficit	16 592 000	4 218 000	20 810 000	(157 035 317)	(177 845 317)	
Transfers recognised - capital	71 700 000	-	71 700 000	71 700 000	-	22
Contributions recognised - capital & contributed assets	(71 700 000)	-	(71 700 000)	-	71 700 000	
	-	-	-	71 700 000	71 700 000	
Deficit before taxation	16 592 000	4 218 000	20 810 000	(85 335 317)	(106 145 317)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	16 592 000	4 218 000	20 810 000	(85 335 317)	(106 145 317)	
Reconciliation						

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

These annual financial statements comply with all the requirements of the Standards of Generally Recognised Accounting Practice.

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

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

Services and rates debtors

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

The impairment for Services and rates debtors is calculated on a portfolio basis, based on historical loss ratios, adjusted for local economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to Services and rates debtors balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

Fair value estimation

The fair value of investment properties is determined with reference to market conditions as at year end. This valuation was performed by a registered professional valuer.

Provisions

Provisions were raised and management determined an estimate based on the best information available at the time of making the judgement and estimate of the financial effect.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for the property, plant and equipment as well as intangible assets. The municipality re-assess the useful lives and the residual values of the individual asset. This estimate is based on industry norms and future plans of the municipality communicated through its strategic planning processes.

If material, Management will change the depreciation consideration of the condition and actual use charge where useful lives are more / less than previously estimated.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions.

Effective interest rate and deferred payment terms

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

1.3 Investment property

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

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

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

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

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

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Investment property (continued)

Fair value

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

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

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

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

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

Derecognition

The gain or loss arising from derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- When the municipality leases out the property and receives rental income.

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

- Determining any cash generations independent from other assets.
- Purpose of holding the asset, whether generally held to earn rental income or for capital appreciation.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 38).

1.4 Property, plant and equipment

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.

Moqhaka Local Municipality

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Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	7 - 80 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 - 10 years
Motor vehicles	Straight line	2- 20 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 7 years
Infrastructure	Straight line	7 - 80 years
Community	Straight line	7 - 80 years
Quarries	Straight line	15 - 20 years
Landfill sites	Straight line	15 - 80 years
Finance leases - 3G cards	Straight line	2 years
Finance leases - Cellphones	Straight line	2 years
Solid waste	Straight line	15 - 80 years
Waste water network	Straight line	7 - 80 years

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

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

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

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

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1.4 Property, plant and equipment (continued)

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 38).

Impairment

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

Transfer

Transfers from property, plant, and equipment assets are only made when the particular asset no longer meets the definition of a property, plant, and equipment.

Transfers to property, plant, and equipment are only made when the asset meets the definition of a property, plant, and equipment.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

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Accounting Policies

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Heritage assets

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

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

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

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 38).

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.

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Accounting Policies

1.6 Heritage assets (continued)

Impairment

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

Transfers

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

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

Derecognition

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

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

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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1.7 Intangible assets (continued)

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	20 years
Computer software	Straight line	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

Intangible assets are derecognised:

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

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

1.8 Financial instruments

A financial asset is:

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

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position into the following categories:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

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1.8 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

Financial liabilities

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Presentation

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

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

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

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

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

1.9 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% (from 01 April 2018) and 14% (2017) in terms of section 7(1) (a) of the Value Added Tax Act, (Act 89 of 1991) 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 are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.10 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

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

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

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

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

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

1.11 Inventories

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

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

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

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

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

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

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

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

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

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

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1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs: Recognise past service costs as an expense in the reporting period in which the plan is amended.

Actuarial gains or losses: Actuarial gains and losses are recognised in the surplus or deficit in the reporting period in which they occur.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Post retirement obligations

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

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. Independent qualified actuaries carry out valuations of these obligations. The benefits are charge to income as incurred throughout the year.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

Future events that may affect the amount required to settle an obligation is reflected in the amount of the provision where there is sufficient objective evidence that they will occur.

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

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

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

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

Provisions are not recognised for future operating surplus.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

1.14 Revenue from exchange transactions

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

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

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

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Moqhaka Local Municipality

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest and dividends

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

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

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

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

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

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

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

1.15 Revenue from non-exchange transactions

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Assessment Rates

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

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

Moqhaka Local Municipality

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

Fines are measured at the amount of the fine issued, with an adjustment of the estimate amount of fines that may be disputed in a court of law as part of the allowed dispute mechanisms and time frames.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

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

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

1.16 Borrowing costs

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

1.17 Comparative amounts

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

Then the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in note 49.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.19 Fruitless and wasteful expenditure

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

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

1.20 Irregular expenditure

According to section 1 of the MFMA: "irregular expenditure", in relation to a municipality or municipal entity, means -

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170; or
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act and which has not been condoned in terms of that Act; or
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of unauthorised expenditure.

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

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

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

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

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

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.22 Conditional grants and receipts

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

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- 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.

1.23 Related parties

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

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

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

1.24 Contractual Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Contractual commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts which are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality. Expenditure on research is recognised as an expense when it is incurred.

1.25 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.26 Budget information (continued)

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

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

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

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The following standards and amendments to standards have been issued but are not yet effective.

GRAP 20 - Related Party Transactions

This standard establishes principles for related party disclosure.

The impact on the financial results and disclosure is considered to be minimal.

Effective date for this standard is 1 April 2019.

GRAP 32 - Service Concession Arrangements: Grantors

The objective of this Standard is to establish accounting principles for the service concession arrangements.

The financial results and disclosure are not likely to be affected when the Standard is adopted.

Effective date for this standard is 1 April 2019.

GRAP 108 - Statutory Receivables

This standard prescribes the accounting treatment and disclosure for statutory receivables.

The financial results and disclosure are likely to affect the measurement and presentation and disclosure of rates debtors and fines debtors. The effect cannot be quantified at this time but may not be material.

Effective date for this standard is 1 April 2019.

GRAP 109 - Accounting by Principal and Agents

This standard outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The impact on the financial results and disclosure cannot be quantified at this time but may be material.

Effective date for this standard is 1 April 2019.

GRAP 110 - Living and Non-living Resources

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard outlines principles for the recognition, measurement, presentation and disclosure requirements for living resources and disclosure for non-living resources.

The impact on the financial results and disclosure cannot be quantified at this time but may be material.

No effective date has been determined by the Minister of Finance.

IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a significant Residual Interest in an Asset

The objective of this Standard is to interpret accounting principles for the service concession arrangements where a grantor controls a significant residual interest in an asset.

The financial results and disclosure are not likely to be affected when the Interpretation is adopted.

Effective date for this interpretation is 1 April 2019.

IGRAP 18 - Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

The objective of this Standard is to interpret accounting principles for the recognition and derecognition of land.

The effect cannot be quantified at this time but may not be material.

Effective date for this interpretation is 1 April 2019.

IGRAP 19- Interpretation of the Standard of GRAP on Liability to Pay Levies

The objective of this Standard is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy.

The effect cannot be quantified at this time but may not be material.

Effective date for this interpretation is 1 April 2019.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21 394	19 394
Bank balances	8 552 778	6 141 787
	8 574 172	6 161 181

The fair value of the cash and cash equivalents approximate their carrying value.

Cash and cash equivalents pledged as collateral

Guarantee issued to the department of mineral resources	50 000	50 000
This session is linked to ABSA notice deposit account number: 630 1219190.		

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA BANK - Cheque Account - 405-327-4876	9 868 863	4 735 945	4 703 809	8 522 640	6 126 991	5 104 114
Cash on hand	-	-	-	21 394	19 394	21 480
Accrued interest	35 565	14 796	20 142	30 138	14 796	20 142
Total	9 904 428	4 750 741	4 723 951	8 574 172	6 161 181	5 145 736

4. Inventories

Water	273 376	324 257
Consumable stores	12 006 367	13 064 956
	12 279 743	13 389 213

Consumable Inventory held by the municipality decreased by R 1,068,737 in the current year (2018 decrease: R 453,733).

Water Inventory held by the municipality decreased R 50,881 in the current year (2018: R6,968).

During the year inventory that were expensed through the Statement of Financial Performance amounted to R 8,220,951 (2018: R 6,097,502).

No Inventories have been pledged as collateral for liabilities of the municipallity.

5. Investments

Designated at fair value

ABSA deposits	6 693 484	124 770
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At fair value

Senwes	129 451	124 131
The fair value is based on quoted price from active markets for identical assets and is therefore a level 1.		
Senwesbel	88 837	81 585
The fair value is based on quoted price from active markets for identical assets and is therefore a level 1.		
	218 288	205 716
Total other financial assets	6 911 772	330 486

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
5. Investments (continued)		
Non-current assets		
Designated at fair value	218 288	205 716
Current assets		
Short term deposits	6 693 484	124 770
Financial assets at fair value		
Fair value hierarchy of financial assets at fair value		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 3 applies inputs which are not based on observable market data.		
6. Receivables from exchange transactions		
Gross balances		
Electricity	51 220 941	44 129 238
Water	365 749 600	301 572 552
Waste Water	100 294 585	83 747 588
Waste	70 675 932	57 978 306
Other Service (Rentals, Fire and advertising services.)	61 413 743	49 717 299
	649 354 801	537 144 983
Less: Allowance for impairment		
Electricity	(17 989 948)	(15 131 773)
Water	(320 366 602)	(255 972 947)
Waste Water	(76 665 932)	(60 813 166)
Waste	(55 124 489)	(42 567 103)
Other services*	(49 860 923)	(43 861 930)
	(520 007 894)	(418 346 919)
Net balance		
Electricity	33 230 993	28 997 465
Water	45 382 998	45 599 605
Waste Water	23 628 653	22 934 422
Waste	15 551 443	15 411 203
Other services	11 552 820	5 855 369
	129 346 907	118 798 064
Electricity		
Current (0 -30 days)	8 741 801	8 651 473
31 - 60 days	1 965 390	2 163 857
61 - 90 days	1 042 725	1 150 334
> 90 days	21 481 077	17 031 801
	33 230 993	28 997 465

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
6. Receivables from exchange transactions (continued)		
Water		
Current (0 -30 days)	1 390 730	1 379 152
31 - 60 days	1 027 388	909 175
61 - 90 days	867 169	775 690
> 90 days	42 097 711	42 535 588
	45 382 998	45 599 605
Sewerage		
Current (0 -30 days)	893 025	892 924
31 - 60 days	612 921	600 457
61 - 90 days	564 433	549 466
> 90 days	21 558 274	20 891 575
	23 628 653	22 934 422
Refuse		
Current (0 -30 days)	579 762	612 967
31 - 60 days	394 461	394 914
61 - 90 days	362 231	351 175
> 90 days	14 214 989	14 052 147
	15 551 443	15 411 203
Other service		
Current (0 -30 days)	697 355	151 524
31 - 60 days	825 158	104 359
61 - 90 days	254 948	103 251
> 90 days	9 775 359	5 496 235
	11 552 820	5 855 369

Moghaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
6. Receivables from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	15 989 339	12 451 221
31 - 60 days	14 836 063	8 981 148
61 - 90 days	11 177 488	8 000 977
> 90 days	554 813 027	455 172 753
	<u>596 815 917</u>	<u>484 606 099</u>
Less: Allowance for impairment	(513 416 584)	(413 650 371)
	83 399 333	70 955 728
Industrial/ commercial		
Current (0 -30 days)	10 249 605	9 787 728
31 - 60 days	1 045 667	1 435 323
61 - 90 days	657 342	973 333
> 90 days	15 844 799	15 601 029
	<u>27 797 413</u>	<u>27 797 413</u>
Less: Allowance for impairment	(6 591 310)	(4 696 548)
	21 206 103	23 100 865
National and provincial government		
Current (0 -30 days)	3 601 072	4 764 179
31 - 60 days	2 501 070	3 030 178
61 - 90 days	1 568 927	1 929 828
> 90 days	17 070 402	15 017 286
	<u>-</u>	<u>-</u>
Less: Allowance for impairment	-	-
	24 741 471	24 741 471
Total		
Current (0 -30 days)	29 840 016	27 003 128
31 - 60 days	18 382 800	13 446 649
61 - 90 days	13 403 757	10 904 138
> 90 days	587 728 228	485 791 068
	<u>649 354 801</u>	<u>537 144 983</u>
Less: Allowance for impairment	(520 007 894)	(418 346 919)
	129 346 907	118 798 064
Less: Allowance for impairment	(520 007 894)	(418 346 919)
Receivables from exchange transactions (Arrangements)		
> 365 days	4 599 798	4 274 526
Reconciliation of allowance for impairment		
Balance at beginning of the year	(418 346 919)	(334 421 823)
Contributions to allowance	(102 401 302)	(83 925 096)
Debt impairment written off against allowance	740 327	-
	(520 007 894)	(418 346 919)

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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6. Receivables from exchange transactions (continued)

Receivables from exchange transactions (Arrangements)

Arrangements included in the above receivables from exchange transactions, is a number of consumers with whom arrangements have been made to pay the debt over a period longer than one year.

No receivables from exchange transaction have been pledged as collateral for liabilities of the municipality.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
7. Receivables from non-exchange transactions		
Fines	1 313 614	1 878 111
Sundry receivables	10 392 271	8 908 715
Consumer debtors - Rates	28 946 755	25 482 710
	40 652 640	36 269 536
Non-current assets	(574 207)	(757 056)
Current assets	40 078 433	35 512 480
	40 652 640	36 269 536
Assessment rates		
Gross balance	51 210 907	44 135 269
Less: Allowance for impairment	(22 264 152)	(18 652 559)
	28 946 755	25 482 710
Total		
Current (0-30 days)	3 383 176	3 062 666
31 - 60 days	1 511 956	1 362 004
61 - 90 days	1 197 914	1 068 148
> 90 days	45 117 861	38 642 451
Less: Impairment	(22 264 152)	(18 652 559)
	28 946 755	25 482 710
Residential		
Current (0-30 days)	1 983 177	1 740 401
31 - 60 days	862 166	840 490
61 - 90 days	724 155	658 413
> 90 days	32 830 212	27 623 594
Less: Impairment	(15 861 652)	(7 937 815)
	20 538 058	22 925 083
Industrial / commercial		
Current (0-30 days)	1 405 496	1 269 206
31 - 60 days	650 314	510 608
61 - 90 days	472 256	398 829
> 90 days	12 164 548	10 916 722
Less: Impairment	(6 402 500)	(10 714 744)
	8 290 114	2 380 621
National and provincial government		
Current (0-30 days)	4 532	53 059
31 - 60 days	4 532	10 906
61 - 90 days	4 532	10 906
> 90 days	104 987	102 135
	-	-
	118 583	177 006
Reconciliation of allowance for impairment - Assessment Rates		
Balance at beginning of the year	(18 652 559)	(15 875 630)
Contributions to allowance	(3 611 593)	(2 776 929)
	(22 264 152)	(18 652 559)

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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7. Receivables from non-exchange transactions (continued)

Fines

Gross balance	2 455 071	4 417 083
Less: Allowance for impairment	(1 715 664)	(3 296 028)
	739 407	1 121 055

Reconciliation of allowance for impairment - Fines

Balance at beginning of the year	(3 296 028)	(6 853 353)
Contributions to allowance	(2 049 894)	(3 296 028)
Reversal of impairment	3 630 258	6 853 353
	(1 715 664)	(3 296 028)

The calculation in respect of the impairment fines receivable (receivable from non exchange transactions) is based on an assessment of the past payment history of fines per category. The total average collectability of fines were 20% (2018: 25%).

The calculation for initial recognition and measurement of fines reduced and or cancelled is based on an assessment of past reduced and or cancelled history of fines per category. The total average estimated reductions used were 48% (2018: 54%).

Receivables from non-exchange transactions (Arrangements)

> 365 days	574 207	757 056
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Moghaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand

8. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	7 761 921	-	7 761 921	1 527 922	-	1 527 922

Reconciliation of heritage assets 2019

	Opening balance	Donations	Total
Heritage assets	1 527 922	6 233 999	7 761 921

Reconciliation of heritage assets 2018

	Opening balance	Total
Heritage assets	1 527 922	1 527 922

Heritage assets

The municipality's Heritage Assets comprise of significant historical assets within the Moghaka Municipality.

These are made up of the:

1. Anglo-Boer War Memorial Burial Site,
2. Sports Monument,
3. Mayoral Chains.
4. ZR Mahabane House

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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8. Heritage assets (continued)

Reconciliation of Heritage Assets

	2019	2018
Municipal jewellery	1 277 800	1 277 800
Areas of land of historic or specific significance	250 122	250 122
Culturally significant buildings	6 233 999	-
	7 761 921	1 527 922

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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9. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 404 641	(2 321 594)	3 083 047	5 404 641	(1 978 233)	3 426 408

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 426 408	(343 361)	3 083 047

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	3 569 014	175 200	(317 806)	3 426 408

Other information

There were no intangible assets that were assessed as having an indefinite useful live.

There are no intangible assets whose titles are restricted or pledged as security for municipality's liabilities.

There are no contractual commitments for the acquisition of intangible assets.

10. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	172 185 882	-	172 185 882	174 176 702	-	174 176 702

Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	174 176 702	(2 111 000)	120 180	172 185 882

Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	159 711 893	(1 443 400)	15 908 209	174 176 702

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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Amounts in Rand	2019	2018
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10. Investment property (continued)

Pledged as security

There are currently no restrictions on Investment Property as they have not being pledged as securities for liabilities.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations for the acquisition of Investment Property.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The fair value of the investment property was provided by Pierre Rynners, registered as a Professional Associated Valuer under subsection (2) of section 22 of (Act 47) of 2000 Property Valuers Profession Bill.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	6 636 146	3 898 804
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Moghaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand

11. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	55 992 166	-	55 992 166	55 992 166	-	55 992 166
Buildings	76 702 470	(28 364 043)	48 338 427	76 702 470	(26 612 183)	50 090 287
Plant and machinery	8 311 968	(5 236 248)	3 075 720	7 410 465	(4 591 660)	2 818 805
Furniture and office equipment	9 757 005	(6 674 168)	3 082 837	9 554 703	(6 118 765)	3 435 938
Motor vehicles	56 014 311	(34 325 995)	21 688 316	50 052 697	(31 263 699)	18 788 998
IT equipment	10 972 065	(6 785 710)	4 186 355	10 634 501	(5 829 571)	4 804 930
Landfill Sites	15 102 247	(13 375 528)	1 726 719	15 102 247	(13 264 930)	1 837 317
Infrastructure	4 025 413 013	(2 189 070 266)	1 836 342 747	3 961 207 789	(2 098 492 487)	1 862 715 302
Community	191 651 021	(97 600 117)	94 050 904	191 651 022	(91 486 880)	100 164 142
Capital work in progress	49 283 222	-	49 283 222	54 667 163	-	54 667 163
Finance leased assets	3 223 497	(927 962)	2 295 535	1 942 770	(1 897 488)	45 282
Total	4 502 422 985	(2 382 360 037)	2 120 062 948	4 434 917 993	(2 279 557 663)	2 155 360 330

Moghaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Donations	Depreciation	Impairment loss	Total
Land	55 992 166	-	-	-	-	-	-	55 992 166
Buildings	50 090 287	-	-	-	-	(1 751 860)	-	48 338 427
Plant and machinery	2 818 805	917 468	(15 868)	-	14 197	(656 666)	(2 216)	3 075 720
Furniture and office equipment	3 435 938	103 794	-	-	98 500	(545 639)	(9 756)	3 082 837
Motor vehicles	18 788 998	2 817 860	(138 760)	2 156 078	1 391 609	(3 237 194)	(90 275)	21 688 316
IT equipment	4 804 930	353 590	(3 681)	-	-	(966 958)	(1 526)	4 186 355
Landfill Sites	1 837 317	-	-	-	-	(110 598)	-	1 726 719
Infrastructure	1 862 715 302	8 026 294	(5 588 848)	70 297 773	-	(99 365 244)	257 470	1 836 342 747
Community	100 164 142	-	-	-	-	(5 529 601)	(583 637)	94 050 904
Capital work in progress	54 667 163	67 069 910	-	(72 453 851)	-	-	-	49 283 222
Finance leased assets	45 282	3 172 900	-	-	-	(922 647)	-	2 295 535
	2 155 360 330	82 461 816	(5 747 157)	-	1 504 306	(113 086 407)	(429 940)	2 120 062 948

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Donations	Depreciation	Impairment loss	Total
Land	55 992 166	-	-	-	-	-	-	55 992 166
Buildings	51 857 767	-	-	-	-	(1 593 391)	(174 089)	50 090 287
Plant and machinery	3 031 905	663 807	(92 786)	-	-	(784 121)	-	2 818 805
Furniture and office equipment	3 737 126	392 580	(54 540)	-	-	(635 026)	(4 202)	3 435 938
Motor vehicles	24 524 736	867 994	(2 021 951)	-	-	(4 151 354)	(430 427)	18 788 998
IT equipment	5 157 349	1 107 019	(179 704)	-	-	(1 279 734)	-	4 804 930
Landfill Sites	1 953 961	-	-	-	-	(116 644)	-	1 837 317
Infrastructure	1 883 537 144	14 589 341	(4 340 908)	45 748 757	18 352 479	(94 914 041)	(257 470)	1 862 715 302
Community	90 857 615	10 508	(267 819)	14 956 346	252 202	(5 152 414)	(492 296)	100 164 142
Capital work in progress	51 441 339	63 930 927	-	(60 705 103)	-	-	-	54 667 163
Finance leased assets	698 452	-	-	-	-	(653 170)	-	45 282
	2 172 789 560	81 562 176	(6 957 708)	-	18 604 681	(109 279 895)	(1 358 484)	2 155 360 330

Moqhaka Local Municipality

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Amounts in Rand	2019	2018
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11. Property, plant and equipment (continued)

Pledged as security

There are currently no restrictions on property, plant and equipment as they have not being pledged as securities for liabilities.

Capital expenditure

The municipality currently has the following capital commitments with regards to capital expenditure on infrastructure assets

Approved and contracted for	27 371 218	18 033 673
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The following amounts relates to leased assets held by the entity included in property, plant and equipment

Office Equipment	2 287 730	9 696
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Reconciliation of Work-in-Progress

	2019	2018
Infrastructure	43 864 747	50 150 573
Community	1 759 089	63 438
Landfill sites	3 093 423	1 839 567
Buildings	565 963	457 507
Motor Vehicles	-	2 156 078
	49 283 222	54 667 163

Other information

The Rammulotsi Landfill site project has been delayed due to the environmental assessments study being performed.

Movable register contains assets with a carrying value of R0. These are assets which have been disposed in the 2017/18 and the 2018/19 financial year. They are kept in the register for comparison purposes.

Construction of 66kV Overhead Ring project in WIP has been delayed due to lack of budget.

Fencing of Steynsrus and Matlwangtlwang offices project has been delayed due to contractor inability to complete the project during the stipulated timeframe.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Capital work in progress refers to infrastructure projects and community asset projects which are still in the process of being completed.

12. Consumer deposits

Electricity	3 090 666	2 922 110
Water	6 528 449	6 230 329
Sundries	3 893 119	2 728 485
	13 512 234	11 880 924

Consumer deposits are raised when a service account is opened and is refunded to the consumer after the account is closed.

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
13. Finance lease obligation		
Minimum lease payments due		
- within one year	1 049 974	10 620
- in second to fifth year inclusive	1 224 970	-
	2 274 944	10 620
less: future finance charges	12 786	(924)
Present value of minimum lease payments	2 287 730	9 696
Present value of minimum lease payments due		
- within one year	1 058 942	9 696
- in second to fifth year inclusive	1 228 788	-
	2 287 730	9 696
Non-current liabilities	1 228 788	-
Current liabilities	1 058 942	9 696
	2 287 730	9 696

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

The Lease payments does not escalate per annum in line with the Service Level Agreement that the municipality signed, and no arrangements have been entered into for any contingent rent.

14. Borrowings

At amortised cost

Annuity loans - Development Bank of South Africa

24 846 334 22 662 436

The loan is unsecured and payable quarterly at fixed rate of 9%.

The redemption date of the loan is 31 July 2027.

Non-current liabilities

At amortised cost

23 248 423 21 193 720

Current liabilities

At amortised cost

1 597 911 1 468 716

Moqhaka Local Municipality

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Amounts in Rand	2019	2018
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15. Payables from exchange transactions

Trade payables	408 827 502	339 841 243
Payments received in advance	12 439 396	9 324 871
Deposits received	15 492	15 492
Retention creditors	959 360	490 473
	422 241 750	349 672 079

Trade payables 2019

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Bulk electricity	33 663 157	20 969 078	19 636 088	258 838 665	333 106 988
Auditor General	376 374	40 785	82 353	4 855 274	5 354 786
Third parties	9 318 841	-	-	-	9 318 841
Various trade creditors	27 404 945	8 897 636	5 638 034	19 106 274	61 046 889
	70 763 317	29 907 499	25 356 475	282 800 213	408 827 504

Trade payables 2018

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Bulk electricity	41 424 726	11 470 909	41 424 726	173 422 721	267 743 082
Auditor General	77 567	294 839	34 986	1 646 021	2 053 413
Third parties	5 409 747	-	-	-	5 409 747
Various trade creditors	6 521 053	5 965 200	3 134 795	49 013 953	64 635 001
	53 433 093	17 730 948	44 594 507	224 082 695	339 841 243

Suppliers have not been paid within the prescribed 30 day period due to cashflow constraints.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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16. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Long service awards	15 993 003	3 212 000	-	-	19 205 003
Funeral death benefit	92 000	-	(10 000)	-	82 000
Rehabilitation cost of landfill sites	14 048 209	1 807 013	-	477 050	16 332 272
Rehabilitation cost of quarries	4 579 689	305 470	-	146 985	5 032 144
Leave pay	21 395 200	1 924 710	-	-	23 319 910
	56 108 101	7 249 193	(10 000)	624 035	63 971 329

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Long service awards	14 018 003	1 975 000	-	-	-	15 993 003
Funeral death benefit	97 000	-	-	(5 000)	-	92 000
Rehabilitation cost of landfill sites	12 981 984	659 076	-	-	407 149	14 048 209
Rehabilitation cost of quarries	4 377 464	69 495	-	-	132 730	4 579 689
Leave pay	18 490 304	4 463 758	(1 558 862)	-	-	21 395 200
	49 964 755	7 167 329	(1 558 862)	(5 000)	539 879	56 108 101

Non-current liabilities	63 889 329	56 016 101
Current liabilities	82 000	92 000
	63 971 329	56 108 101

Leave pay

Annual leave accrues to employees on a monthly basis in accordance with the conditions of employment. Employees are entitled to 16 non-vested leave days and 8 vested leave days per annum, accumulated to a maximum of 48 leave days. The provision is an estimate of the amount due to staff as at the financial year-end, based on the value of leave and the estimated leave days to be forfeited.

It is not the municipality's policy to encash leave in the normal course of business, except upon resignation, termination or retirement.

Rehabilitation of landfill sites and quarries

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus.

Funeral Death Benefit

The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to these municipal employees, and payouts are only made to employees who are deceased while in the service of the Municipality. The scheme participants make a monthly contribution of R2.5 and upon death the beneficiary/family receives the R1,000 payout.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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16. Provisions (continued)

Long service award (LSA)

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2019.

Summary of liability for landfill site costs

Kroonstad Landfill Site	8 386 328	7 557 686
Steynsrus Landfill Site	2 673 830	2 289 270
Viljoenskroon Landfill Site	5 272 115	4 201 254
Kroonstad gravel quarry	3 964 681	3 605 145
Steynsrus gravel quarry	1 067 462	974 543
	21 364 416	18 627 898

Amounts recognised in the statement of Financial Performance are as follows:

Current service cost	(800 000)	(711 000)
Interest cost	(1 341 000)	(1 157 000)
Actuarial gain / (losses)	(1 730 000)	(720 000)
Benefit payments	659 000	613 000
	(3 212 000)	(1 975 000)

Amounts recognised in the statement of Financial Position are as follows:

Defined benefit obligation	(15 993 000)	(14 018 000)
Plan assets	-	-
Movement in provision	(3 212 000)	(1 975 000)
	(19 205 000)	(15 993 000)

Key assumptions used:

Assumptions used at the reporting date:

Discount rates used	7.51%	8.75%
Salary inflation	5.04%	6.36%
Net discount rate	2.35%	2.25%

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best estimate assumption for a salary inflation.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

LGSETA Grant	877 998	479 270
CoGTA Grant	2 112 239	1 112 239
	2 990 237	1 591 509

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
17. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	1 591 509	110 328
Additions during the year	261 574 827	243 327 181
Income recognition during the year	(260 176 099)	(241 846 000)
	2 990 237	1 591 509
Non-current liabilities	-	-
Current liabilities	2 990 237	1 591 509
	2 990 237	1 591 509

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 22 for reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

18. VAT receivable

Current assets	46 667 393	34 989 544
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The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

19. Employee benefit obligations

Defined benefit plan

13th Cheque

The 13th Cheque accrues to employees on a monthly basis. The benefit is an estimate of the amount due to staff as at the financial year-end.

Post retirement medical aid plan

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme;
- Hosmed Medical Scheme
- Samwumed Medical Scheme; and
- Key Health Medical Scheme.

Moqhaka Local Municipality

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Amounts in Rand	2019	2018
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19. Employee benefit obligations (continued)

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(36 390 000)	(35 037 000)
Current service costs	-	(161 000)
Current interest costs	(3 258 000)	(3 135 000)
Actuarial gains / (loss)	(679 000)	(1 770 000)
Benefit payments	3 823 000	3 713 000
	(36 504 000)	(36 390 000)

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

Continuation members (e.g: Widows, orphans, pensioners)	52	60
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13th Cheque

Employee benefit obligation	6 602 082	5 883 347
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Net expense recognised in the statement of financial performance

Current service cost	-	(161 000)
Interest cost	(3 258 000)	(3 135 000)
Actuarial (gains) losses	(679 000)	(1 770 000)
Benefit payments	3 823 000	3 713 000
	(114 000)	(1 353 000)

Key assumptions used

Assumptions used at the reporting date:

Actual return on plan assets	8,92 %	9,36 %
Discount rates used	6,99 %	7,44 %
Expected rate of return on assets	1,80 %	1,79 %

The basis used to determine the overall expected rate of return on assets is as follow:

In line with GRAP 25 and current market practice, government bond yields are used as the South African corporate bond market is not considered to be sufficiently developed. Furthermore, it is One Pangaea Financial's view that South Africa does not have a deep and liquid market in corporate bonds, and therefore government bonds are used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 9.30 years, the expected duration of the liability based on the current membership data, as at 30 June 2019.

The expected benefit payments over the next annual reporting period is reflected in the table below.

Balance at 30 June 2019	(36 504 000)
Projected expenditure excluding actuarial (gains) / losses	0
Current interest cost	(3 116 000)
Expected benefit payments	3 140 000
Expected as at 30 June 2020	(36 480 000)

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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19. Employee benefit obligations (continued)

Retirement Benefit Information

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund
- Maokeng Provident Fund; and
- SAMWU National Provident Fund.

Defined benefit plans

The following are defined benefit plans:

- Government Employees Pension Fund;
- SALA Pension Fund; and
- Free State Municipal Pension Fund.

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in GRAP 25, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund is R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million).

The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R 1 531 million.

Moqhaka Local Municipality

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Amounts in Rand	2019	2018
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20. Financial instruments disclosure

The accounting policies for financial instruments have been applied to the line items below:

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Receivables from exchange transactions	-	133 946 705	-	133 946 705
Receivables from non-exchange transactions	-	40 652 640	-	40 652 640
Cash and cash equivalents	-	-	8 574 172	8 574 172
Short term deposit	-	-	6 693 484	6 693 484
Investments	218 288	-	-	218 288
	218 288	174 599 345	15 267 656	190 085 289

Financial liabilities

	At amortised cost	At cost	Total
Consumer deposits	13 512 234	-	13 512 234
Finance lease obligation	2 287 730	-	2 287 730
Provisions	63 971 329	-	63 971 329
Borrowings	-	24 846 334	24 846 334
Trade and other payables from exchange transactions	422 241 752	-	422 241 752
Unspent conditional grants and receipts	-	2 990 237	2 990 237
	502 013 045	27 836 571	529 849 616

2018

Financial assets

	At fair value	At amortised cost	At cost	Total
Receivables from exchange transactions	-	123 072 590	-	123 072 590
Receivables from non-exchange transactions	-	36 269 536	-	36 269 536
Cash and cash equivalents	-	-	6 161 181	6 161 181
Short term deposit	-	-	124 770	124 770
Investments	205 716	-	-	205 716
	205 716	159 342 126	6 285 951	165 833 793

Financial liabilities

	At amortised cost	At cost	Total
Consumer deposits	11 880 924	-	11 880 924
Finance lease obligation	9 696	-	9 696
Provisions	56 108 101	-	56 108 101
Payables from exchange transactions	349 672 079	-	349 672 079
Unspent conditional grants and receipts	-	1 591 509	1 591 509
Borrowings	-	22 662 436	22 662 436
	417 670 800	24 253 945	441 924 745

Moqhaka Local Municipality

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21. Revenue

Service charges	416 537 853	391 833 339
Rental of facilities and equipment	6 636 146	3 898 804
Fair value adjustments	132 752	15 885 822
Gains on employee benefit obligation	1 273 000	964 000
Fees earned	1 270 859	1 174 867
Other income - (rollup)	17 978 348	13 630 722
Interest received - investment	26 763 213	23 564 549
Property rates	64 054 863	58 953 722
Government grants & subsidies	260 176 099	241 846 000
Public contributions and donations	7 738 310	19 104 681
Fines, Penalties and Forfeits	3 133 871	4 651 911
	805 695 314	775 508 417

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

Service charges	416 537 853	391 833 339
Fair value adjustments	132 752	15 885 822
Gains on employee benefit obligation	1 273 000	964 000
Rental of facilities and equipment	6 636 146	3 898 804
Fees earned	1 270 859	1 174 867
Other income - (rollup)	17 978 348	13 630 722
Interest received - investment	26 763 213	23 564 549
	470 592 171	450 952 103

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

Taxation revenue

Property rates	64 054 863	58 953 722
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Transfer revenue

Government grants & subsidies	260 176 099	241 846 000
Public contributions and donations	7 738 310	19 104 681
Fines, Penalties and Forfeits	3 133 871	4 651 911
	335 103 143	324 556 314

Moqhaka Local Municipality

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Amounts in Rand	2019	2018
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22. Government grants and subsidies

Operating grants

Equitable share	185 144 000	164 092 000
LG SETA grant	117 099	-
Financial Management grant (FMG)	2 215 000	2 145 000
Expanded Public Works Program grant (EPWP)	1 000 000	1 000 000
COGTA grant	-	1 000 000
	188 476 099	168 237 000

Capital grants

Water Services Infrastructure grant (WSIG)	28 290 000	17 769 000
Integrated National Electrification grant (INEP)	-	5 000 000
Municipal Infrastructure grant (MIG)	43 410 000	50 840 000
	71 700 000	73 609 000
	260 176 099	241 846 000

Equitable share

Balance unspent at beginning of year	-	-
Current-year receipts	185 144 000	164 092 000
Conditions met - transferred to revenue	(185 144 000)	(164 092 000)
Unspent grant	-	-

This grant is primarily used to subsidise the provision of basic services to indigent households. All registered indigent households receive a monthly subsidy based on the basic service charges for water, electricity, sewerage, refuse, which is funded from the grant. Indigent households also receive 6kl free water and 50kwh free electricity per month.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	-
Current-year receipts	43 410 000	50 840 000
Conditions met - transferred to revenue	(43 410 000)	(50 840 000)
Unspent grant	-	-

The grant is used to supplement the municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.

LG SETA grant

Balance unspent at beginning of year	479 270	110 328
Current-year receipts	515 826	368 942
Conditions met - transferred to revenue	(117 098)	-
Unspent grant	877 998	479 270

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

The grant is used for training municipality staff to enhance their skills in their respective positions.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

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Amounts in Rand	2019	2018
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22. Government grants and subsidies (continued)

Extended Public Works Program Grant

Balance unspent at beginning of year	-	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
Unspent grant	-	-

This grant is used in respect of job creation projects and programmes.

Finance Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 145 000	2 145 000
Conditions met - transferred to revenue	(2 145 000)	(2 145 000)
Unspent grant	-	-

This grant is to be used to train and appoint intern staff members in the finance department of the municipality.

Integrated national Electrification Program

Balance unspent at beginning of year	-	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(5 000 000)
	-	-

Water Services Infrastructure Grant

Current-year receipts	28 290 000	17 769 000
Conditions met - transferred to revenue	(28 290 000)	(17 769 000)
	-	-

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

CoGTA Grant

Balance unspent at beginning of year	1 112 239	-
Current-year receipts	1 000 000	2 112 239
Conditions met - transferred to revenue	-	(1 000 000)
	2 112 239	1 112 239

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

Moghaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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23. Property rates

Rates received

Residential	24 677 822	22 555 507
Commercial	22 029 024	20 519 381
State	17 348 017	15 878 834
	64 054 863	58 953 722

Valuations

Commercial	6 185 612 404	6 209 237 405
Multi-purpose	161 719 000	144 869 001
Municipal	470 318 700	474 455 700
Non-ratable	237 158 805	237 686 805
Residential	4 656 238 566	4 625 311 565
State	1 158 122 008	1 169 347 008
	12 869 169 483	12 860 907 484

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

An average rate of R0.012 (2018:R0.007) is applied to property valuations to determine assessment rates.

Rates are levied on a monthly basis. Interest at prime plus 1% per annum (2018: prime + 1%) is levied on rates outstanding two months after due date. (Excluding national government property rates which is levied on an annual basis).

Income foregone

The Income foregone included in the different property rates relates to the first R 50 000.00 of all residential properties that are exempted from paying property rates including, discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

24. Service charges

Sale of electricity	257 815 510	242 351 119
Sale of water	89 767 539	85 469 111
Solid waste	28 624 232	27 184 404
Sewerage and sanitation charges	40 330 572	36 828 705
	416 537 853	391 833 339

Income foregone

The Income foregone included in the difference service charges relates to discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
25. Public contributions and donations		
Department of Sports	-	252 202
Free State Provincial Treasury	-	500 000
Department of Roads and Transport	-	18 352 479
Department of Public Works	6 233 999	-
Gerox	98 500	-
Electricity Project	14 197	-
Free State Department of Police, Roads and Transport	1 391 614	-
	7 738 310	19 104 681

2018-2019

The Department of Public Works donated the ZR Mahabane House to the municipality, the value of the house is R6,233, 999. Gerox donated five Xerox copiers to the value of R98,500.

A donation fibreglass extended ladders R14,19.

The Free State Department of Police, Roads and Transport transferred 4 refuse compactors to total value of R1,391,614 to the municipality.

2017-2018

Gym equipment to the value of R252,202 was donated by the Department of Sports.

The Free State Provincial Treasury paid R500,000 on behalf of the municipality's audit fees to the Auditor General (SA).

The Department of Roads and Transport transferred the completed Reitz and Cross streets road rehabilitation project valued at R18,352,479 to the municipality.

26. Rental income

Facilities and equipment

Rental of facilities	6 636 146	3 898 804
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27. Fees

Administrative and management fees	1 270 859	1 174 867
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28. Interest and dividends received

Interest revenue

Bank	1 664 814	1 583 081
Receivables from exchange transactions	25 098 399	21 981 468
	26 763 213	23 564 549

All amounts above included in Investment revenue arises from exchange transactions.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
29. Other income		
Discount received	8 999	8 759
Building plans and inspection fees	87 813	20 443
Burial income	1 331 965	1 101 994
Clearance certificates	214 943	167 432
Commission premiums	-	34 861
Connection fees	3 907 153	2 976 251
Erven sales	5 904 224	2 937 871
Escort fees	6 165	8 289
Fire brigade and rescue services	567 135	541 961
Hostel fees	41 255	41 255
Insurance claims	2 995 397	430 968
Administration income	551 992	565 857
Dividends received	13 991	12 312
Special services	1 434	2 312
Sundry income	1 150 732	1 088 707
Unclaimed deposits	852 324	920 116
Proceeds from auction	-	2 273 240
Water valuation adjustments	-	6 967
Railway siding	342 826	491 127
	17 978 348	13 630 722
30. Fines		
Fines consists of:		
Fines: Traffic	2 351 830	3 329 625
Fines: Law Enforcement	436 410	454 319
Fines: Meter tempering	345 631	867 967
	3 133 871	4 651 911

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
31. Employee related costs		
Basic	152 268 451	146 710 619
13th Cheques	12 851 183	10 567 995
Medical aid - company contributions	16 032 404	14 732 771
UIF	1 496 996	1 446 739
Industrial council levy	91 487	85 384
Leave pay provision charge	1 154 986	4 463 758
Group Life Insurance General	56 751	1 547 509
Defined contribution plans	27 722 916	25 352 064
Overtime payments	21 294 032	19 098 283
Long-service awards	658 904	-
Car allowance	14 698 954	12 994 654
Housing benefits and allowances	1 306 332	1 185 153
Other allowances	13 102 991	4 283 171
Telephone allowance	490 331	453 046
Standby allowance	2 317 475	1 874 714
	265 544 193	244 795 860

The salaries, allowances and benefits of staff disclosed are within the upper limits of the SALGA bargaining council determinations.

Remuneration of Municipal Manager

Basic Salary	910 914	836 293
Car Allowance	467 586	519 194
Social Contributions	119 488	64 709
Cellphone Allowance	36 000	36 000
	1 533 988	1 456 196

Remuneration of Chief Financial Officer

Basic Salary	744 733	683 629
Car Allowance	327 331	315 141
Social Contributions	153 532	161 059
Cellphone Allowance	20 400	20 400
	1 245 996	1 180 229

Executive Director: Technical Services

Basic Salary	744 733	683 629
Car Allowance	215 223	207 773
Housing Allowance	120 512	116 642
Social Contributions	144 694	152 530
Cellphone Allowance	12 000	12 000
	1 237 162	1 172 574

2019

Mr. M Mthwalo received acting allowance as the Municipal Manager for the month of June 2019 to the amount of R18, 479.

Mr. T Leie received acting allowance as the Acting LED Director for the period January 2019 - March 2019 and for the month of June 2019 to the amount of R52,454.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
31. Employee related costs (continued)		
Executive Director: Corporate Services		
Basic Salary	744 733	683 629
Car Allowance	324 654	309 573
Social Contributions	159 919	166 136
Acting Allowance	18 479	-
Cellphone Allowance	14 000	12 000
	1 261 785	1 171 338
Executive Director: Community Services		
Basic Salary	744 733	683 629
Car Allowance	271 775	265 206
Social Contributions	45 748	54 421
Housing Allowance	165 327	159 557
Cellphone Allowance	12 000	12 000
	1 239 583	1 174 813

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
32. Remuneration of councillors		
Executive Mayor	813 169	845 601
Speaker	724 975	694 861
Council Whip	685 827	675 349
Councillors	17 448 819	17 041 884
	19 672 790	19 257 695

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.
The Executive Mayor has one full-time bodyguard and a driver.

The Speaker has one full-time driver.
The Speaker has the use of a Council owned vehicle for official duties.

Executive Mayor - Cllr M Koloi (Terminated 24 May 2019)

Basic Salary	485 549	530 889
Car Allowance	198 992	201 684
Social Contributions	91 228	78 228
Cellphone Allowance	37 400	34 800
	813 169	845 601

Speaker - Cllr MS Chakane

Basic Salary	428 141	422 938
Car Allowance	174 533	161 347
Social Contributions	81 501	75 776
Cellphone Allowance	40 800	34 800
	724 975	694 861

Members of Mayoral Committee (MMC)

MMC - PUBLIC SAFETY: Cllr VL Mpondo

Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045

MMC - CORPORATE SERVICES: Cllr SB Tladi

Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045

MMC - IDP AND PLANNING: Cllr ZS Magadlela

Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
32. Remuneration of councillors (continued)		
MMC - COMMUNITY SERVICES: Cllr MM Green		
Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045
MMC - HUMAN SETTLEMENT: Cllr S Mokoena		
Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045
MMC - POLICY DEVELOPMENT: Cllr R Manefelt		
Basic Salary	402 246	397 153
Car Allowance	163 634	151 263
Social Contributions	80 523	78 595
Cellphone Allowance	44 400	35 400
	690 803	662 411
MMC - TECHNICAL SERVICES: Cllr KL Kokami		
Basic Salary	402 246	397 153
Car Allowance	163 634	151 263
Social Contributions	80 523	78 595
Cellphone Allowance	44 400	35 400
	690 803	662 411
MMC - COUNCIL WHIP: Cllr PJ Phooko (Terminated 24 May 2019)		
Basic Salary	400 446	398 902
Car Allowance	163 634	151 263
Social Contributions	77 347	89 784
Cellphone Allowance	44 400	35 400
	685 827	675 349
Executive Mayor: Cllr PJ Phooko (Appointed 24 May 2019)		
The Executive Mayor received salary as Mayor from 01 July 2019.	-	-
MMC - FINANCE, AUDIT AND RISK MANAGEMENT: Cllr ER Moletsane		
Basic Salary	399 140	404 508
Car Allowance	163 634	151 263
Social Contributions	77 151	73 332
Cellphone Allowance	44 400	35 400
	684 325	664 503

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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32. Remuneration of councillors (continued)

MMC - LOCAL ECONOMIC DEVELOPMENT & INVESTMENT: Cllr B Rooskrans

Basic Salary	406 495	397 153
Car Allowance	163 634	151 263
Social Contributions	78 254	72 229
Cellphone Allowance	44 400	35 400
	692 783	656 045

PART TIME COUNCILLORS

Cllrs' AH Viljoen, JM

Hattingh, TA Mofokeng, MI Thajane, CM Dalton, MJ Lithupa, DN Nzunga, J
 Geldenhuis, Mokodutlo NP, Van Schalkwyk L, Baba JM, Boeije HME, Bolofo LD,
 Khasudi D, Khunyeli JM, Leboko OA, Makae HG, Mahlatsi MS, Mahlatsi JR,
 Malejoane AM, Marako TJ, Mareka J, Mntuze ME, Ramathibe ME, Makhanda ML,
 Mokotedi MV,
 Morabe TD (Deceased), Nhlapo M, Pietersen ML, Muller ND , Pittaway SH,
 Ramathibe BS, Serapela DJ,
 Yho-Yho M.

Basic Salary	5 056 108	5 293 603
Car Allowance	2 191 661	2 027 873
Social Contributions	1 359 967	1 346 472
Cellphone Allowance	1 408 309	1 130 600
	10 016 045	9 798 548

MPAC CHAIRPERSON: Cllr ML Pietersen

Basic Salary	390 991	397 153
Car Allowance	162 334	151 263
Social Contributions	79 459	78 595
Cellphone Allowance	44 400	35 400
	677 184	662 411

33. Debt impairment

Debt impairment	95 384 246	78 460 752
Fines - impairment	2 049 894	3 591 643
	97 434 140	82 052 395

34. Depreciation and amortisation

Property, plant and equipment	113 086 408	109 279 895
Intangible assets	343 361	317 806
	113 429 769	109 597 701

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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35. Impairment loss on assets

Impairments

Property, plant and equipment	429 940	1 358 481
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2018/2019

During the year, two municipal buildings, Rammulotsi community hall and Kroonpark Manager House were burned.

The fire at Rammulotsi was due to a service delivery protest and had to be impaired due to conditional damage. The fire to the Kroonstad Manager House was accidental due to wild fire.

Other impaired assets were due to condition assessment.

2017/2018

During the year, two municipal buildings, Matlwangtlwang community hall and Matlwangtlwang admin office were burned during a service delivery protest and had to be impaired due to conditional damage.

36. Finance costs

Landfill sites and quarries	624 034	539 879
Late payment of creditors	7 471 528	17 617 167
Annuity loans and finance leases	2 183 897	2 012 949
Employee benefits	4 598 999	5 322 497
	14 878 458	25 492 492

37. Contracted services

Specialist Services	30 265 796	26 366 947
Other Contractors	17 227 116	15 972 557

Specialist Services

Security Services	26 754 860	21 508 888
Legal Services	1 746 921	3 118 208
Maintenance Services	1 764 015	1 739 851
	30 265 796	26 366 947

Other Contractors

Professional Services	5 987 029	1 975 235
Electricity Vending Services	5 175 256	5 014 827
Water Chemicals	3 659 931	6 146 943
Other Contracted Services	1 116 117	1 663 855
Special Projects and Youth Development	1 083 533	1 005 819
Valuation Services	205 250	165 878
	17 227 116	15 972 557

38. Repairs and maintenance

Repairs and maintenance consists of:

Buildings	2 017 188	2 767 616
Electrical Network	9 357 525	10 767 184
Water and Sewer Network	11 062 920	14 635 745
Fleet	5 492 213	8 934 393
Roads	2 756 874	4 999 030
Other repairs and maintenance	1 768 376	1 381 038
	32 455 096	43 485 006

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
39. Grants and subsidies paid		
Other subsidies		
FMG Grant Expenditure	46 149	2 423 388
EPWP Grant	-	1 000 000
	46 149	3 423 388
40. Bulk purchases		
Electricity - Eskom	235 816 326	221 903 689
Water	575 900	714
	236 392 226	221 904 403
41. Loss on disposal of assets		
Property, plant and equipment	5 746 690	6 957 689
Investment property	2 111 000	1 443 400
	7 857 690	8 401 089
42. General expenses		
Advertising	537 291	1 258 130
Auditors remuneration	6 124 048	6 097 502
Bank charges	2 521 672	2 196 979
Cleaning	159 884	148 861
Consumables stores	8 220 951	6 073 673
Entertainment	103 710	217 069
Lease rentals on operating lease	3 338 562	5 398 249
Insurance	1 960 605	3 281 294
Committee expenses	173 717	123 697
Travel and subsistence	2 453 029	2 381 393
Funeral expenses	13 651	2 446
Medical expenses	256 490	549 889
Fuel and oil	6 475 384	12 713 469
Placement fees	-	117 130
Postage and courier	1 794 758	1 676 911
Printing and stationery	12 248	18 025
Protective clothing	1 694 866	1 297 522
Provision for rehabilitation adjustment	2 112 484	728 571
Subscriptions and membership fees	2 603 554	2 443 001
Telephone and fax	1 364 667	1 594 530
Water valuation adjustments	50 881	-
Commission paid	6 030 710	5 317 733
Workmen's compensation	1 035 932	1 133 465
Licences - other	2 286 620	2 759 354
Licences - vehicles	547 917	435 081
Skills development levy	2 304 173	2 077 965
Other expenses	1 219 463	1 879 335
	55 397 267	61 921 274
43. Fair value adjustments		
Investment property (Fair value model)	120 180	15 947 209
Investment in shares	12 572	(61 387)
	132 752	15 885 822

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
44. Actuarial Gains/(Losses) on Employees benefits		
Actuarial Gains	1 273 000	964 000
The above balance is made up as follows:		
Long Service Awards - Actuarial gains/(losses)	(1 871 000)	(818 000)
Post retirement medical benefit - Actuarial gains/(losses)	3 144 000	1 782 000
	1 273 000	964 000
45. Auditors' remuneration		
Fees	6 124 048	6 097 502
46. Cash generated from operations		
Surplus / (deficit)	(85 335 316)	(88 520 871)
Adjustments for:		
Depreciation and amortisation	113 429 769	109 597 701
Loss on disposal of assets	7 857 690	8 401 108
Public contributions and donations	(7 738 310)	(18 604 681)
Fair value adjustments	(132 752)	(15 885 822)
Discounts received	(8 999)	(8 759)
Finance costs	4 879 790	6 823 555
Impairment loss on assets	429 940	1 358 481
Debt impairment	97 434 140	82 052 395
Gains on employee benefit obligation	(1 273 000)	(964 000)
Provision raised	4 588 825	(3 892 626)
Prior period adjustments	-	15 114 407
Interest on Note 6. Receivables from exchange transactions	(25 098 399)	(21 981 468)
Changes in working capital:		
Inventories	1 109 470	446 766
Receivables from exchange transactions	(81 159 962)	(50 690 449)
Other receivables from non-exchange transactions	(6 432 998)	(10 096 523)
Payables from exchange transactions	72 579 166	85 286 328
Unspent conditional grants and receipts	1 398 728	1 481 181
Consumer debtors	1 631 310	(903 009)
Employee benefit obligation	718 735	12 000
VAT	(11 677 849)	(15 980 870)
	87 199 978	83 044 844
47. Contingencies		
Contingent liabilities - pending claims		
The municipality is being sued for some of the following pending claims against the council. All the claims are being contested based on legal advice.		
The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.		
Contingent liabilities		
Claims by individuals due to damage of property in various incidents	8 700 904	10 861 568
Claims from suppliers - contractual disputes	7 787 021	12 640 437
	16 487 925	23 502 005

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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48. Related parties

The municipality did not enter into any related party transactions during the year under review, which were not at arm's length.

Key management information

Class	Number
Executive Mayor	1
Councillors	44
Municipal Manager	1
Section 57 managers	4

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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49. Prior-year adjustments

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

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Property, plant and equipment	11	2 148 941 073	6 419 257	-	2 155 360 330
Payables from exchange transactions	15	(354 604 471)	4 932 391	-	(349 672 079)
VAT payable	18	(6 025 462)	6 025 461	-	-
Provisions	16	(5 975 347)	-	5 883 347	(92 000)
Employee benefit obligation	19	-	-	(5 883 347)	(5 883 347)
Vat receivable	18	-	34 989 544	-	34 989 544
Receivables from exchange transactions	6	5 031 582	-	(757 056)	4 274 526
Receivables from non-exchange transactions	7	-	-	757 056	757 056
		1 787 367 375	52 366 653	-	1 839 734 030

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Dividends received	29	(12 312)	-	12 312	-
Discount received	29	(8 759)	-	8 759	-
Depreciation and amortisation	34	111 726 135	(2 128 434)	-	109 597 701
General expenditure	42	64 475 192	(2 553 918)	-	61 921 274
Finance cost	36	25 171 355	321 136	-	25 492 492
Repairs and maintenance	38	44 393 441	(908 435)	-	43 485 006
Other income	29	(13 609 651)	-	(21 071)	(13 630 722)
Debt impairment	33	90 320 593	(8 268 198)	-	82 052 395
Contracted services	37	41 603 016	736 488	-	42 339 504
		364 059 010	(12 801 361)	-	351 257 650

Errors

A number of prior period errors were corrected during the year ending 30 June 2019. The details of the retrospective prior period errors adjusted are reflected below.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Amounts in Rand	2019	2018
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49. Prior-year adjustments (continued)

The following prior period errors adjustments occurred:

Accumulated surplus and Property, plant and equipment - Entrance Facilities were not previously capitalised. A correction was done accordingly resulting in the increase in Property, plant and equipment to the amount of R305,334 and the decrease of accumulated surplus to the amount of (R305,334).

Accumulated surplus, Property, plant and equipment, Depreciation and amortisation - Entrance Facilities were not previously capitalised. A correction was done accordingly resulting in the decrease in Property, plant and equipment to the amount of (R178,014), the increase of depreciation and amortisation to the amount of R61,605 and the increase of accumulated surplus to the amount of R116,949.

Accumulated surplus, Payables from exchange transactions - Retentions from previous years not claimed. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 394,060 and the increase of accumulated surplus to the amount of (R 394,060).

Accumulated surplus, Payables from exchange transactions - Retentions from previous years not claimed. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 666,312 and the increase of accumulated surplus to the amount of (R 666,312).

Accumulated surplus, Payables from exchange transactions - Cheques for the old year was cancelled. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 1,738,972 and the increase of accumulated surplus to the amount of (R 1,738,972).

Repairs and maintenance, Payables from exchange transactions - A creditor was overstated in the prior year. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 908,435 and the decrease of Repairs and maintenance to the amount of (R 908,435).

Accumulated surplus, Payables from exchange transactions - A Creditor was overstated in the prior year. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 886,363 and the decrease of Accumulated surplus to the amount of (R 886,363).

Finance cost, VAT payable - After the SARS audit was concluded additional penalties were added. A correction was done accordingly resulting in the increase of VAT payable to the amount of (R 321,136) and the increase of Finance cost to the amount of R 321,136.

Accumulated surplus, Payables from exchange transactions - Creditors in the old year was understated. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R1,200,888) and the increase of accumulated surplus to the amount of R 1,200,888.

Accumulated surplus, Payables from exchange transactions - 3rd Party Creditors were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 278,294) and the decrease of accumulated surplus to the amount of R 278,294.

Accumulated surplus, Property, plant and equipment, Depreciation and amortisation - Meters were not previously correctly accounted for. A correction was done accordingly resulting in the increase in Property, plant and equipment to the amount of R 6,266,130, the decrease of depreciation and amortisation to the amount of (R 2,178,164) and the decrease of accumulated surplus to the amount of (R 4,076,631).

Accumulated surplus, Property, plant and equipment - CCTV's were not previously correctly accounted for. A correction was done accordingly resulting in the increase in Property, plant and equipment to the amount of R 25,806, the decrease of depreciation and amortisation to the amount of (R 11,335) and the decrease of accumulated surplus to the amount of (R 14,471).

Vat receivable, Debt impairment, Accumulated surplus, VAT payable - Vat on prior year impairment provisions were incorrectly recorded in the income statement. A correction was done accordingly resulting in the increase in Vat receivable to the amount of R 41,336,142, the decrease of Debt impairment to the amount of (R 8, 68,198) and the decrease of Accumulated surplus to the amount of (R 33,067,944).

Contracted services, General expenditure, Payables from exchange transactions - Creditors in the old year was

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49. Prior-year adjustments (continued)

understated. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 642,840) increase of Contracted services to the amount of R 736,488 and the decrease of General Expenditure to the amount of (R 93,648).

General expenditure, Payables from exchange transactions - Creditors in the old year was overstated with the membership fees . A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 2,460,270 R 642,840) and the decrease of General Expenditure to the amount of (R 2,460,840).

Reclassifications

The following reclassifications adjustment occurred:

Dividends received, Discount received, Other income - Management reclassified immaterial income to other income. The correction resulted in the decrease of Dividends received to the amount of R 12,312, the decrease of Discount received to the amount of R 8,759 and the increase in Other income to the amount of (R 21,071).

Provisions, Employee benefit obligation - The annual bonus accrual was classified as Provisions. A correction was done that resulted in the decrease of Provisions to the amount of R 5,883,347 and the increase in Employee benefit obligation to the amount of (R 5,883,347).

Receivables from exchange transactions, Receivables from non-exchange transactions - Arrangements relating to rates were incorrectly disclosed as Receivables from exchange transaction. A correction was done that resulted in the increase of Receivables from non-exchange transactions to the amount of R 757,056 and the decrease in Receivables from exchange transaction to the amount of (R 757, 056).

50. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 14, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The municipality's risk to liquidity is a result of funds not being available to cover future commitments.

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50. Risk management (continued)

Credit risk

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

Credit risk relating to trade receivables is managed in accordance with the municipalities credit control and debt collection policy. The municipality credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad earned doubtful debt. Additional information relating to the analysis of consumer debtors is given in Note 6 to the annual financial statements.

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

Financial instrument	2019	2018
ABSA Bank	8 574 172	6 161 181
ABSA BANK Short-term deposit	6 693 484	124 770
Receivables from exchange transactions	133 946 705	123 072 590
Receivables from non-exchange transactions	40 652 640	36 269 536

51. Going concern

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

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 1 979 170 527 and that the municipality's total assets exceed its liabilities by R 1 979 170 527.

The municipality incurred a deficit for the current financial year of R85 335 316 and R 88 520 971 in the previous financial year.

The current liabilities amounting to R 448m exceeds current assets of R 243m by R 204m.

The receivables from exchange transactions increase from R 537m to R 649m, which resulted in a 19% increase as at 30 June 2019. The impairment provision also increased from R 418m to R 520m (24% increase) as at 30 June 2019.

The payables from exchange transactions increased from R 350m (Which also includes Eskom account of R 268m), to R 421m (Which also includes Eskom account of R 333m) which results in a 16% increase. The creditors payment period also increase from 246 days to 348 days as at 30 June 2019. The payables from exchange transactions outstanding for a period longer than 30 days amounted to R 342m (84%).

Operational commitments amounted to R 14m as at 30 June 2019 (2018: R 6m).

The cash equivalents amounted to R 9m as 30 June 2019 (2018: R 6m).

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

Despite the uncertainties which cast doubt on the municipality's ability to continue as a going concern, the municipality will continue to have the power to levy rates in the following financial period. The municipality is also likely to receive continued government funding, as has been disclosed in the Division of Revenue Act of 2019, as there are no current indications that government funding will be withheld from the municipality for any reason.

52. Events after the reporting date

There were no subsequent events after the reporting date that had an impact on the financial results as disclosed for the year ended 30 June 2019.

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53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	1 338 223	134 560
Current year subscription / fee	2 460 270	2 428 969
Amount received / (paid) - current year	(3 798 493)	(1 225 306)
	-	1 338 223

Material losses through criminal conduct

There were no material losses incurred due to criminal conduct identified during the year by the municipality.

Audit fees

Opening balance	2 370 969	2 039 523
Current year fee	5 770 318	6 097 502
Interest charged	409 083	248 249
Amount paid - current year	(824 616)	(3 974 782)
Amount paid - previous years	(2 370 969)	(2 039 523)
	5 354 785	2 370 969

PAYE and UIF

Opening balance	2 573 279	2 259 933
Current payroll deductions	37 207 490	30 740 515
Amount paid - current year	(36 509 507)	(30 427 169)
	3 271 262	2 573 279

Pension and Medical Aid Deductions

Opening balance	5 484 705	4 980 864
Current payroll deductions and council contribution	70 087 789	62 452 536
Amount paid - current year	(69 719 479)	(61 948 695)
	5 853 015	5 484 705

Skills Development Levy

Opening balance	169 277	156 437
Current payroll deductions and council contribution	2 304 076	2 018 979
Amount paid - current year	(2 278 789)	(2 006 139)
	194 564	169 277

Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Technical losses 4% (4% : 2018).

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

Non-Technical losses 13% (14,56% : 2018).

Included in the losses due to faulty meters, tampering or theft; is a total projected loss of R4 076 284 which relates to 1 499 (575 of which relates to Indigent consumers and 924 that relates to households) prepaid electricity meters which did not purchase electricity for the 2018/19 financial year. The cause of the non-purchase could not be reliably determined at year-end (30 June 2019) as to whether the non-purchase relates to faulty meters or tampered meters.

The municipality could not raise any revenue in this regard that relates to these meters based on the fact that there is no approved Policy in place dealing with this issue. However, the municipality has embarked on a radical programme of meter replacements which have seen a total of 910 of these household consumers starting to purchase electricity in the early months of the 2019/20 financial year subsequent to these meters being replaced.

The municipality has as its priority put the meter replacements for electricity on its action list so as to ensure that those who consumes such services pays accordingly for it, which will ultimately see a total reduction in the reticulation losses (non-revenue) on electricity being realised accordingly as revenue by the municipality.

Estimated line losses	13 407 496	12 977 225
Losses due to faulty meters, tampering or theft	43 563 619	47 222 782
	56 971 115	60 200 007

Estimated water losses suffered by the municipality for the year under review is as follows:

Water losses 32% (30% : 2018).

Estimated water losses	18 447 816	19 717 718
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Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at:

Viljoen AH	-	108
Pietersen ML	-	1 649
Geldenhuis J	-	809
Mareka J	17 079	10 096
Khunyeli JM	8 888	11 849
Khasoli MM	4 044	4 228
Morabe TD	-	36 366
Leboko AO	-	22 195
Phooko PJ	103 339	97 537
Ramathibe MS	-	3 830
Mahlatsi SS	787	1 458
Rooskraans B	14 011	-
Magadela ZS	1 140	-
Makae HG	1 016	4 394
Mpondo VL	8 473	5 942
Mofokeng TA	22 681	16 501
Mokoena S	8 320	4 708
Mntuze ME	20 490	26 942
Marako TJ	-	1 719
Baba JM	-	996
Nzunga ND	25 587	-
	235 855	251 327

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54. Irregular expenditure

Opening balance as restated	-	-
Opening balance	478 020 095	431 407 584
Irregular Expenditure - current year	53 911 314	46 612 511
Less: Written off / approved by Council	(29 793 693)	-
Closing balance	502 137 716	478 020 095

55. Fruitless and wasteful expenditure

Opening balance as restated	-	-
Opening balance	42 887 639	25 518 475
Fruitless and wasteful expenditure - current year	7 880 225	17 369 164
Fruitless and wasteful expenditure - previous year	4 034 434	-
Less: Written off / approved by Council	(14 410 272)	-
Closing balance	40 392 026	42 887 639

56. Unauthorised expenditure

Opening balance	530 664 380	384 244 500
Unauthorised expenditure - current year	112 487 751	146 419 880
Less: Written off / approved by Council	(384 244 502)	-
Closing balance	258 907 629	530 664 380

57. 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 accounting officers and includes a note to the annual financial statements.

During the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy.

The reason for these deviations were documented and reported to the accounting officer who considered them and approved the deviation from the normal Supply Chain Management Regulations.

Description	Number of Deviations	Deviations 2019
Emergency	26	1 915 190
Sole Supplier	88	4 673 782
Urgent	44	1 431 223
	158	8 020 195

Description	Number of Deviations	Deviations 2018
Emergency	17	1 457 912
Sole Supplier	83	1 145 529
Urgent	136	8 088 939
	236	10 692 380

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58. Commitments		
Capital commitments		
Approved and contracted for:		
• Infrastructure	27 371 218	18 033 673
Approved and not contracted for:		
• Infrastructure	22 534 082	35 162 435
Total capital commitments		
Approved and contracted for	27 371 218	18 033 673
Approved and not contracted for	22 534 082	35 162 435
	49 905 300	53 196 108
Other commitments		
Already contracted for but not provided for		
• General expenditure	14 308 453	5 779 835
Total operational commitments		
Approved and contracted for	14 308 453	5 779 835
Total commitments		
Total commitments		
Authorised capital expenditure	49 905 300	53 196 108
Authorised operational expenditure	14 308 453	5 779 835
	64 213 753	58 975 943

Infrastructure commitments approved and contracted for will be funded by grants from government. Other operational commitments approved and contracted for will be financed from the municipality's own funding.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 049 974	10 620
- in second to fifth year inclusive	1 224 970	-
	2 274 944	10 620

Operating lease - Government Garage

Operating lease payments represent rentals payable by the municipality for certain of its motor vehicles. Leases for motor vehicles are negotiated for an average of three years and rentals are fixed for the full term of the leases.

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59. Non-Compliance with the MFMA

During the current financial year the following non-compliance issues were identified

Supply chain management regulations 12(1)(c) & (d) 17(1)(a) - (c)

Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from accredited prospective providers.

Deviations from competitive bidding were approved on the basis of it being an emergency or sole supplier.

Municipal Finance Management Act section 116(2)(b), (c)

The performances of all contractors were not monitored on a monthly basis.

Municipal Finance Management Act section 65 (e)

Creditors were not paid in 30 days as required by the Act

Municipal Finance Management Act section 52(d),

The budget implementation and state of financial affairs submission was not in accordance with the prescribed timeframe.

60. Budget differences

Material differences between budget and actual amounts

Refer to page 11 in the annual financial statements for an analysis of budget versus the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.