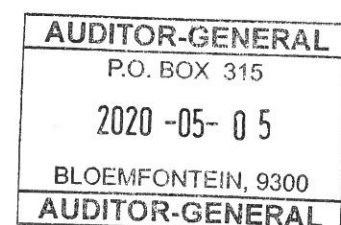




Mantsopa Local Municipality (FS196)  
Financial statements  
for the year ended 30 June 2019



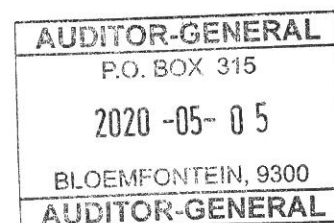
# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## General Information

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<b>Legal form of entity</b>	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	A local authority providing municipal services and maintaining the best interest of the community in the Mantsopa Municipal area.
<b>Executive Committee</b>	
Mayor	Clr ME Tsoene(Chairperson)
Councillors	Clr YJ Jacobs Clr T Halse
<b>Grading of local authority</b>	3
<b>Chief Finance Officer (CFO)</b>	SA Nyapholi
<b>Accounting Officer</b>	TP Masejane
<b>Business address</b>	38 Joubert Street Ladybrand 9745
<b>Postal address</b>	Private Bag X11 Ladybrand 9745
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	Auditor-General of South Africa (AGSA) Registered Auditors
<b>Attorneys</b>	Majavu Attorneys, PO Box 62241, Marshalltown, 2107 Morobane Incorporated 21 Reid Street, Westdene, Bloemfontein Mthembu and Mahomed, 10 Gunn Street, Universitas, Bloemfontein
<b>Telephone number</b>	(051) 924 0654
<b>Fax number</b>	(051) 924 0020
<b>Website</b>	<a href="http://www.mantsopa.fs.gov.za">www.mantsopa.fs.gov.za</a>



# Mantsopa Local Municipality (FS196)

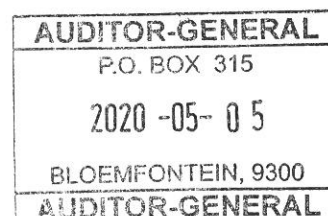
Financial Statements for the year ended 30 June 2019

## Index

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

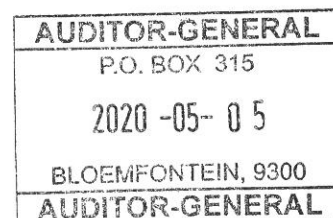
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## Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
iGRAP	Interpretation of the Standards of Generally Recognised Accounting Practice
WIG	Water Infrastructure Grant





# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Officer's Responsibilities and Approval

---

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

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

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

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

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

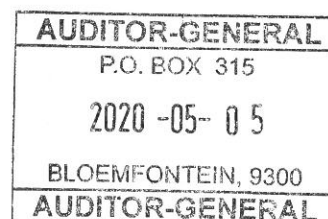
The financial statements are prepared on the basis that the municipality is a going concern and that the Mantsopa Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019.

  
TP Masejane  
Accounting Officer



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Officer's Report

---

The accounting officer submits his report for the year ended 30 June 2019.

### 1. Review of activities

#### Main business and operations

### 2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus of R 858 184 862 and that the municipality's total assets exceed its liabilities by R 858 184 862.

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

### 3. Subsequent events

Events identified after the reporting date has been disclosed note 53.

### 4. Accounting Officer's interest in contracts

The Accounting Officer Had no interest in any contracts.

### 5. Accounting policies

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

### 6. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

### 7. Accounting Officer

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

Name	Nationality
TP Masejane	RSA

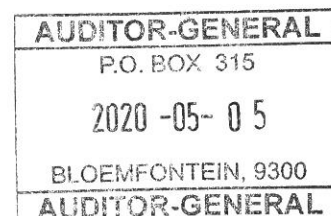
### 8. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

### 9. Retirement benefit obligation

Management performed an actuarial valuation of the Employee Benefits of the employer's liability arising from the post-retirement healthcare subsidy ("PRHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.



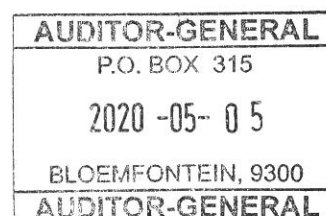
# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand

	Note(s)	2019	2018 Restated*
<b>Assets</b>			
Current Assets			
Inventories	3	10 953	7 026
Other receivables from exchange transactions	4	4 614 422	5 476 720
Other receivables from non-exchange transactions	5	1 135 328	779 033
VAT receivable	6	28 416 684	28 275 232
Trade receivables from exchange transactions	13	78 429 396	55 886 476
Trade receivables from non-exchange transactions	42	18 016 859	12 625 746
Loans receivable	12	6 256	6 198
Cash and cash equivalents	7	321 687	3 530 634
		<b>130 951 585</b>	<b>106 587 065</b>
Non-Current Assets			
Investment property	8	201 562 480	201 562 480
Property, plant and equipment	9	861 884 663	865 787 804
Investments	10	1 115 195	1 161 950
Loans receivable	12	547 752	554 008
		<b>1 065 110 090</b>	<b>1 069 066 242</b>
<b>Total Assets</b>		<b>1 196 061 675</b>	<b>1 175 653 307</b>
<b>Liabilities</b>			
Current Liabilities			
Loans	16	4 940 479	1 509 404
Finance lease obligation	14	612 379	1 049 448
Payables from exchange transactions	18	273 615 917	213 874 058
Payables from non-exchange	19	3 611 636	2 366 865
Consumer deposits	20	2 437 864	1 694 456
Unspent conditional grants and receipts	15	-	346 009
Bank overdraft	7	197 225	-
		<b>285 415 500</b>	<b>220 840 240</b>
Non-Current Liabilities			
Loans	16	1 839 747	4 807 002
Finance lease obligation	14	446 138	612 379
Employee benefit obligation	11	22 828 312	25 539 000
Provisions	17	27 347 115	24 713 436
		<b>52 461 312</b>	<b>55 671 817</b>
<b>Total Liabilities</b>		<b>337 876 812</b>	<b>276 512 057</b>
<b>Net Assets</b>		<b>858 184 863</b>	<b>899 141 250</b>
Accumulated surplus		858 184 862	899 141 250



\* See Note 43

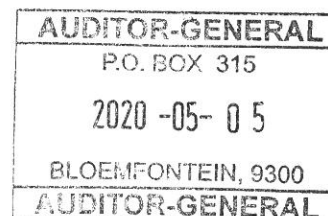
# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand

	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	110 971 754	100 718 328
Interest earned exchange transactions	21	31 131 533	22 678 747
Other income	24	2 461 272	3 355 968
Interest earned	25	203 096	763 992
Dividends earned	25	-	34 839
<b>Total revenue from exchange transactions</b>		<b>144 767 655</b>	<b>127 551 874</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	26	14 610 586	13 936 227
Interest earned non-exchange transactions	26	2 932 443	1 498 556
<b>Transfer revenue</b>			
Government grants & subsidies	27	143 676 252	114 194 194
Public contributions and donations	28	-	2 324 715
Traffic fines	23	366 600	527 300
<b>Total revenue from non-exchange transactions</b>		<b>161 585 881</b>	<b>132 480 992</b>
<b>Total revenue</b>	21	<b>306 353 536</b>	<b>260 032 866</b>
<b>Expenditure</b>			
Employee related costs	29	(91 765 089)	(87 798 139)
Remuneration of councillors	30	(6 688 499)	(6 921 107)
Depreciation and amortisation	9	(54 556 592)	(53 612 922)
Impairment loss/ Reversal of impairments	9	(985 929)	(1 545)
Finance costs	31	(23 466 681)	(19 415 663)
Debt Impairment	32	(80 093 790)	(104 218 781)
Bulk purchases	33	(44 426 391)	(41 592 160)
Contracted services	34	(2 785 181)	(1 065 352)
Indigent support		(1 548 006)	(1 375 609)
Repairs and maintenance	8&9	(4 417 488)	(4 768 848)
General Expenses	35	(40 598 025)	(39 342 547)
<b>Total expenditure</b>		<b>(351 331 671)</b>	<b>(360 112 673)</b>
<b>Operating deficit</b>		<b>(44 978 135)</b>	<b>(100 079 807)</b>
Loss on disposal of assets and liabilities	9	(1 620 830)	(15 932)
Fair value adjustments	36	(46 755)	8 092 000
Actuarial gains/(losses)	11	5 693 000	3 613 684
		<b>4 025 415</b>	<b>11 689 752</b>
<b>Deficit for the year</b>		<b>(40 952 720)</b>	<b>(88 390 055)</b>



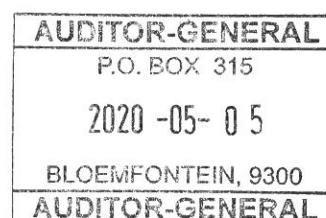
\* See Note 43

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	987 459 723	987 459 723
Adjustments		
Correction of errors	71 582	71 582
<b>Balance at 01 July 2017 as restated*</b>	<b>987 531 305</b>	<b>987 531 305</b>
Changes in net assets		
Corrections	18 986 598	18 986 598
	18 986 598	18 986 598
Surplus previously reported	(107 376 653)	(107 376 653)
Total recognised income and expenses for the year	(88 390 055)	(88 390 055)
Total changes	(88 390 055)	(88 390 055)
<b>Restated* Balance at 01 July 2018</b>	<b>899 137 582</b>	<b>899 137 582</b>
Changes in net assets		
Surplus for the year	(40 952 720)	(40 952 720)
Total changes	(40 952 720)	(40 952 720)
<b>Balance at 30 June 2019</b>	<b>858 184 862</b>	<b>858 184 862</b>



\* See Note 43

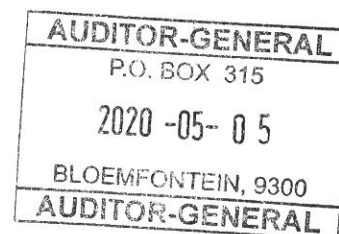
# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand

	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		31 800 773	67 111 269
Grants		143 330 244	108 160 756
Interest income		34 267 072	763 992
Dividends received		-	34 839
		<u>209 398 089</u>	<u>176 070 856</u>
<b>Payments</b>			
Employee costs		(104 805 873)	(82 772 686)
Suppliers		(56 512 505)	(36 979 415)
Finance costs		2 370 683	(21 319 032)
		<u>(158 947 695)</u>	<u>(141 071 133)</u>
<b>Net cash flows from operating activities</b>	37	<b>50 450 394</b>	<b>34 999 723</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(53 259 454)	(34 330 704)
Proceeds from sale of loans receivable		6 198	(21 662)
<b>Net cash flows from investing activities</b>		<b>(53 253 256)</b>	<b>(34 352 366)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans		-	412 501
Finance lease payments		(603 310)	(971 350)
<b>Net cash flows from financing activities</b>		<b>(603 310)</b>	<b>(558 849)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3 406 172)</b>	<b>2 343 427</b>
Cash and cash equivalents at the beginning of the year		3 530 634	1 187 207
<b>Cash and cash equivalents at the end of the year</b>	7	<b>124 462</b>	<b>3 530 634</b>



\* See Note 43

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	96 942 477	3 290 138	100 232 615	110 971 754	10 739 139	54
Interest earned exchange	25 600 000	4 900 000	30 500 000	31 131 533	631 533	
Dividends received (trading)	33 675	-	33 675	-	(33 675)	
Other income - (rollup)	11 803 301	59 492	11 862 793	2 461 272	(9 401 521)	54
Interest received - investment	800 000	(585 000)	215 000	203 096	(11 904)	
<b>Total revenue from exchange transactions</b>	<b>135 179 453</b>	<b>7 664 630</b>	<b>142 844 083</b>	<b>144 767 655</b>	<b>1 923 572</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	15 649 762	1 422 058	17 071 820	14 610 586	(2 461 234)	54
Interest earned non-exchange	2 400 000	500 000	2 900 000	2 932 443	32 443	

##### Transfer revenue

Government grants & subsidies	139 415 000	(73 000)	139 342 000	143 676 252	4 334 252	54
Fines, Penalties and Forfeits	1 000 000	-	1 000 000	366 600	(633 400)	

<b>Total revenue from non-exchange transactions</b>	<b>158 464 762</b>	<b>1 849 058</b>	<b>160 313 820</b>	<b>161 585 881</b>	<b>1 272 061</b>	
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<b>Total revenue</b>	<b>293 644 215</b>	<b>9 513 688</b>	<b>303 157 903</b>	<b>306 353 536</b>	<b>3 195 633</b>	
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#### Expenditure

Personnel	(85 949 311)	(5 141 630)	(91 090 941)	(91 765 089)	(674 148)	
Remuneration of councillors	(6 839 858)	-	(6 839 858)	(6 688 499)	151 359	
Repairs and maintenance	-	-	-	(4 417 488)	(4 417 488)	54
Depreciation and amortisation	(4 676 555)	(650 000)	(5 326 555)	(54 556 592)	(49 230 037)	54
Impairment loss/ Reversal of impairments	-	-	-	(985 929)	(985 929)	
Finance costs	-	-	-	(23 466 681)	(23 466 681)	54
Debt Impairment	(21 669 318)	(2 022 439)	(23 691 757)	(80 093 790)	(56 402 033)	
Bulk purchases	(40 611 035)	(431 030)	(41 042 065)	(44 426 391)	(3 384 326)	54
Contracted Services	(14 292 455)	(1 035 643)	(15 328 098)	(2 785 181)	12 542 917	54
Indigent support	-	-	-	(1 548 006)	(1 548 006)	
General Expenses	(55 749 071)	(180 020)	(55 929 091)	(40 598 025)	15 331 066	54

<b>Total expenditure</b>	<b>(229 787 603)</b>	<b>(9 460 762)</b>	<b>(239 248 365)</b>	<b>(351 331 671)</b>	<b>(112 083 306)</b>	
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<b>Operating surplus/(loss)</b>	<b>63 856 612</b>	<b>52 926</b>	<b>63 909 538</b>	<b>(44 978 135)</b>	<b>(108 887 673)</b>	
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Loss on disposal of assets and liabilities	-	-	-	(1 620 830)	(1 620 830)	
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Fair value adjustments	-	-	-	(46 755)	(46 755)	
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Actuarial gains/losses	-	-	-	5 693 000	5 693 000	54
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	-	-	-	4 025 415	4 025 415	
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<b>Deficit before taxation</b>	<b>63 856 612</b>	<b>52 926</b>	<b>63 909 538</b>	<b>(40 952 720)</b>	<b>(104 862 258)</b>	
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AUDITOR-GENERAL  
P.O. BOX 315  
2020-05-05  
BLOEMFONTEIN, 9300  
AUDITOR-GENERAL

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

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

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	-	-	-	10 953	10 953	
Other receivables from exchange transactions	5 265 000	-	5 265 000	4 614 422	(650 578)	
Other receivables from non-exchange transactions	-	-	-	1 135 328	1 135 328	
VAT receivable	-	-	-	28 416 684	28 416 684	54
Trade receivables from exchange	97 774 066	(42 361)	97 731 705	78 429 396	(19 302 309)	54
Loans receivable	6 318	-	6 318	6 256	(62)	
Trade receivables from non-exchange transactions	22 500 000	-	22 500 000	18 016 859	(4 483 141)	54
Cash and cash equivalents	105 300	-	105 300	321 687	216 387	
	<b>125 650 684</b>	<b>(42 361)</b>	<b>125 608 323</b>	<b>130 951 585</b>	<b>5 343 262</b>	

##### Non-Current Assets

Investment property	65 889 795	-	65 889 795	201 562 480	135 672 685	54
Property, plant and equipment	1 125 412 583	(34 023)	1 125 378 560	861 884 663	(263 493 897)	54
Investments	1 539 962	-	1 539 962	1 115 195	(424 767)	
Loans receivable	210 600	(210 600)	-	547 752	547 752	
	<b>1 193 052 940</b>	<b>(244 623)</b>	<b>1 192 808 317</b>	<b>1 065 110 090</b>	<b>(127 698 227)</b>	
<b>Total Assets</b>	<b>1 318 703 624</b>	<b>(286 984)</b>	<b>1 318 416 640</b>	<b>1 196 061 675</b>	<b>(122 354 965)</b>	

#### Liabilities

##### Current Liabilities

Loans	990 146	-	990 146	4 940 479	3 950 333	
Finance lease obligation	-	-	-	612 379	612 379	
Payables from exchange transactions	75 461 574	(34 023)	75 427 551	273 615 917	198 188 366	54
Payables from non-exchange	-	-	-	3 611 636	3 611 636	54
Consumer deposits	1 778 161	-	1 778 161	2 437 864	659 703	
Bank overdraft	-	-	-	197 225	197 225	
	<b>78 229 881</b>	<b>(34 023)</b>	<b>78 195 858</b>	<b>285 415 500</b>	<b>207 219 642</b>	

##### Non-Current Liabilities

Loans	6 112 628	-	6 112 628	1 839 747	(4 272 881)	
Finance lease obligation	-	-	-	446 138	446 138	
Employee benefit obligation	1 506 671	-	1 506 671	22 828 312	21 321 641	54
Provisions	1 813 698	-	1 813 698	27 347 115	25 533 417	54
	<b>9 432 997</b>	<b>-</b>	<b>9 432 997</b>	<b>52 461 312</b>	<b>43 028 315</b>	

##### Total Liabilities

	<b>87 662 878</b>	<b>(34 023)</b>	<b>87 628 855</b>	<b>337 876 812</b>	<b>250 247 957</b>	
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##### Net Assets

	<b>1 231 040 746</b>	<b>(252 961)</b>	<b>1 230 787 785</b>	<b>858 184 863</b>	<b>(372 602 922)</b>	
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Accumulated surplus	1 231 040 746	(358 261)	1 230 682 485	858 184 863	(372 497 622)	
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Undefined Difference	-	105 300	105 300	-	(105 300)	
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<b>Total Net Assets</b>	<b>1 231 040 746</b>	<b>(358 261)</b>	<b>1 230 682 485</b>	<b>858 184 863</b>	<b>(372 497 622)</b>	
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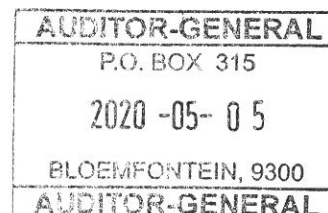
# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	132 526 000	(40 261 000)	<b>92 265 000</b>	67 198 765	<b>(25 066 235)</b>	54
Grants	139 415 000	(73 000)	<b>139 342 000</b>	139 341 000	<b>(1 000)</b>	
Dividends received	34 000	-	<b>34 000</b>	203 096	<b>169 096</b>	
	<b>271 975 000</b>	<b>(40 334 000)</b>	<b>231 641 000</b>	<b>206 742 861</b>	<b>(24 898 139)</b>	
<b>Payments</b>						
Employee costs	(92 959 000)	(4 000 000)	<b>(96 959 000)</b>	(87 244 182)	<b>9 714 818</b>	54
Suppliers	(69 720 000)	(1 142 000)	<b>(70 862 000)</b>	(61 689 828)	<b>9 172 172</b>	54
Finance costs	-	-	-	(2 712 529)	<b>(2 712 529)</b>	54
	<b>(162 679 000)</b>	<b>(5 142 000)</b>	<b>(167 821 000)</b>	<b>(151 646 539)</b>	<b>16 174 461</b>	
<b>Net cash flows from operating activities</b>	<b>109 296 000</b>	<b>(45 476 000)</b>	<b>63 820 000</b>	<b>55 096 322</b>	<b>(8 723 678)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(63 848 000)	34 000	<b>(63 814 000)</b>	(58 432 247)	<b>5 381 753</b>	54
Proceeds from sale of loans receivable	-	-	-	6 198	<b>6 198</b>	
<b>Net cash flows from investing activities</b>	<b>(63 848 000)</b>	<b>34 000</b>	<b>(63 814 000)</b>	<b>(58 426 049)</b>	<b>5 387 951</b>	
<b>Cash flows from financing activities</b>						
Repayment of loans	-	-	-	463 820	<b>463 820</b>	
Finance lease payments	-	-	-	(603 310)	<b>(603 310)</b>	
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(139 490)</b>	<b>(139 490)</b>	
Net increase/(decrease) in cash and cash equivalents	45 448 000	(45 442 000)	<b>6 000</b>	(3 469 217)	<b>(3 475 217)</b>	
Cash and cash equivalents at the beginning of the year	45 547 000	(45 442 000)	<b>105 000</b>	3 529 470	<b>3 424 470</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>90 995 000</b>	<b>(90 884 000)</b>	<b>111 000</b>	<b>60 253</b>	<b>(50 747)</b>	



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1. Presentation of Financial Statements

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

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

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

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

##### Fair value estimation

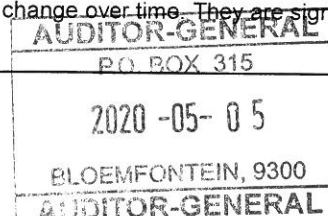
The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

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

##### Impairment testing

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

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



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material.

#### Useful lives of and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

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

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

#### Effective interest rate

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.

#### Allowance for doubtful debts

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

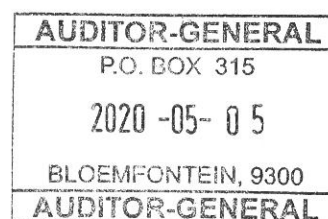
### GRAP 24 : Presentation of budget information

The comparison of budget and actual amounts present separately for each level of legislative oversight:  
the approved and final budget amounts, and;  
the actual amounts on a comparable basis.

### 1.4 Investment property

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

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



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.4 Investment property (continued)

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.

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria. Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

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.

#### 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 entity 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.

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties.

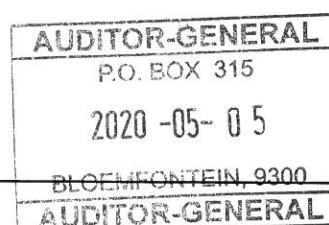
Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.5 Property, plant and equipment

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

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

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



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

Substantive rights and binding agreements are applied to confirm control over land as part of recognition criteria. Physical verification of these properties together with the terms of binding agreements are used to determine control of the land. The municipality does not control the land where the land is occupied by a third party and a binding agreement does not establish substantive rights.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
- Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure assets		
- Electricity	Straight line	7 - 50 years
- Roads	Straight line	8 - 50 years
- Storm water	Straight line	30 - 50 years

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# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.5 Property, plant and equipment (continued)

#### Community assets

- Buildings	Straight line	20 - 50 years
- Recreational facilities	Straight line	7 - 50 years
Other property, plant and equipment		
- Other equipment	Straight line	2 - 10 years
- Fences and gates	Straight line	15 - 25 years
- Paving	Straight line	50 years
Other equipment	Straight line	3 - 10 years
Other leased Assets - Computer equipment and copiers	Straight line	3 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.

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 9).

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

### 1.6 Financial instruments

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

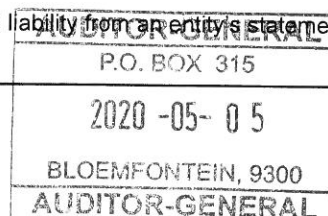
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that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

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

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

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

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



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Financial instruments (continued)

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

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

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

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

Financial assets consist of other receivables from exchange and non-exchange transactions, vat receivable, consumer debtors, loans receivables, cash and cash equivalent and investments.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

Financial liabilities consist of payables from exchange and non-exchange transactions, consumer deposits and bank overdrafts.

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

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

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

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

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

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

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

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

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# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

### Classification

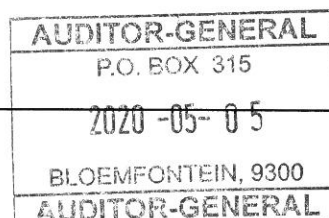
The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Other receivables from exchange transactions  
Other receivables from non-exchange transactions  
Receivables from exchange transactions  
Receivables from non-exchange transactions  
Cash and cash equivalents  
Vat receivable  
Other financial assets  
Long-term receivables

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value  
Financial asset measured at amortised cost





# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.6 Financial instruments (continued)

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

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Vat Payable	Financial liability measured at amortised cost

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

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

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

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

#### Subsequent measurement of financial assets and financial liabilities

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

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

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

#### Fair value measurement considerations

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

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

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Reclassification

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

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

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

The entity 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.

Financial assets measured at cost:

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

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.6 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.

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

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

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

### 1.7 Leases

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

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

#### Finance leases - 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.

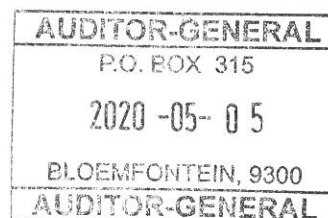
#### Finance leases - lessee

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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### 1.7 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.

### 1.8 Inventories

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

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

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

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

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

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

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

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

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

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

### 1.9 Impairment of cash-generating assets

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

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

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

# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### Value in use

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

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Identification

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

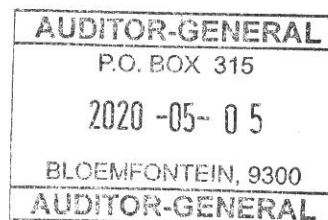
The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:



# Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.10 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### 1.11 Employee benefits

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

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

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

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

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

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

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

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

