

Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.11 Employee benefits (continued)

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

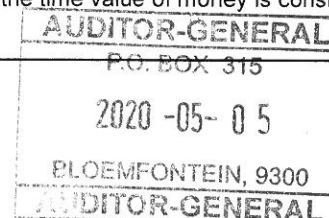
Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.



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Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

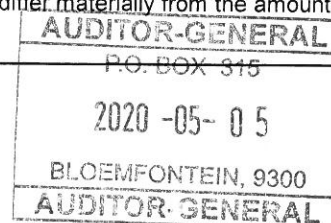
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.



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Financial Statements for the year ended 30 June 2019

Accounting Policies

1.11 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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.

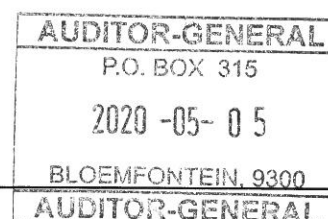
The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality 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. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

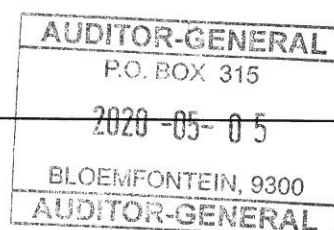
The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.



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Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

A constructive obligation to restructure arises only when an entity:

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

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

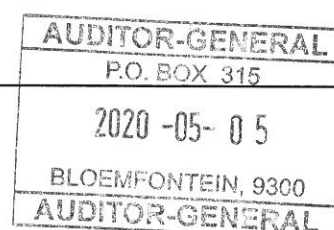
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

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 .

Interest, royalties and dividends

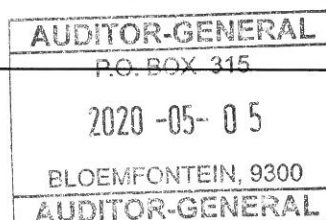
Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

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

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

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



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Revenue from exchange transactions (continued)

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

1.14 Revenue from non-exchange transactions

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.

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.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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.

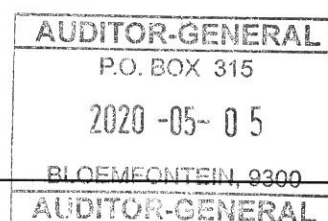
Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

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.

Transfers

Apart from Services in kind, which are not recognised, 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 recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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.

Assessment rates

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.

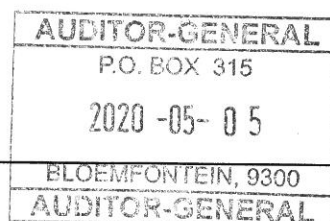
1.15 Borrowing costs

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

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

1.16 Comparative figures

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



Mantsopa Local Municipality (FS196)

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Accounting Policies

1.17 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.

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

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 the Municipal Finance Management Act, and which has not been condoned in terms of that act.
- (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.
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, that is not in accordance with, a requirement of the supply chain management policy of the municipality, and which has not been condoned in terms of such policy, but excludes expenditure which falls within the definition of "unauthorised expenditure"

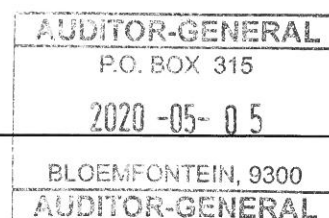
Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required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



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Accounting Policies

1.20 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Value added tax

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2) of the Value-Added-Tax Act, 1991 (Act No. 89 of 1991).

1.22 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.

1.23 Commitments

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

Capital 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 has 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 that are non-cancelable or only cancelable at significant cost, contracts should relate to something other than the business of the municipality.

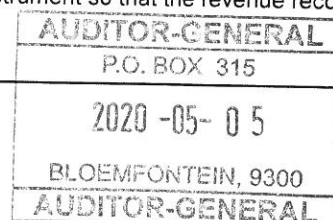
1.24 Investments

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

Investment in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with investment income over receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

1.24 Investments (continued)

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the surplus/(deficit) for the period.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are subsequently measured at fair value.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the statement of financial performance in the same period in which the hedged firm commitment or forecasted transaction affects the surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the statement of financial performance as they arise.

1.25 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.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

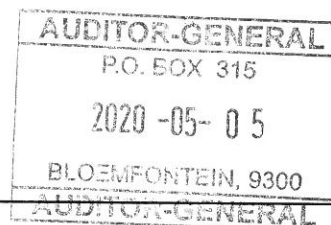
Government grants are recognised as revenue when:

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

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds are stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imburement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Accounting Policies

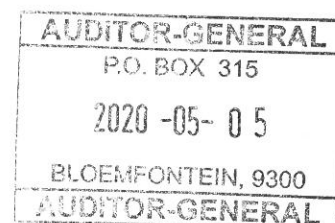
1.25 Conditional grants and receipts (continued)

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 municipality;
- the amount of revenue can be measured reliably, and;
- to the extent that there has been compliance with any restrictions associated with the grant.



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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the is not material.
<ul style="list-style-type: none">GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the is not material.

2.2 Standards and Interpretations early adopted

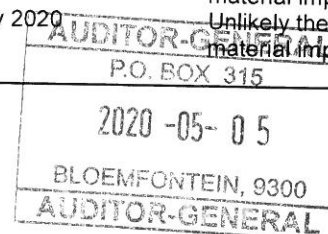
The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 109: Accounting by Principals and Agents	01 April 2019	The adoption of this has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 18: Segment reporting	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 20: Related party disclosure	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 32: Service concession arrangements grantor	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 108: Statutory receivables	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 1: Applying the probability est on initial recognition	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 17: Service concession arrangements	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 18: Recognition and derecognition of land	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 19: Liabilities to pay levies	01 April 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 20: Accounting for adjustments to revenue	01 April 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 34: Separate Financial Statements	01 July 2020	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 35: Consolidated Financial Statements	01 July 2020	Unlikely there will be a material impact



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

Notes to the Financial Statements

2. New standards and interpretations (continued)

• GRAP 36: Investments in Associates and Joint Ventures	01 July 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 July 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in Other Entities	01 July 2020	Unlikely there will be a material impact
• GRAP 110: Living and Non-living Resources	01 July 2020	Unlikely there will be a material impact

3. Inventories

Water	10 953	7 026
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Inventory expensed in the current year have been disclosed in Bulk purchases 33

No inventory was written-off during the year. No inventory was pledged as collateral.

4. Other receivables from exchange transactions

Prepayments	1 516 512	871 707
Eskom receivable	17 086	17 086
Centlec receivables	2 275 670	4 508 494
Housing allowance receivable	631 640	631 640
Housing allowance impaired	(631 640)	(631 640)
Travel card	805 154	79 433
	4 614 422	5 476 720

Ageing of balance not impaired

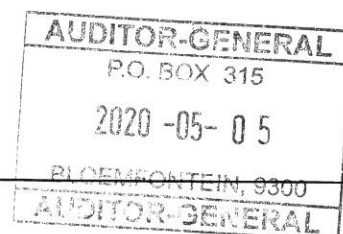
Current (0 -30 days)	3 725 628	5 459 634
Past due	-	-
31 - 60 days (1 month past due)	-	-
61 - 90 days (2 months past due)	-	-
91 - 120 days (3 months past due)	-	-
121 - 150 days	-	-
> 150 days	888 793	17 086
	4 614 421	5 476 720

Analysis of balance not impaired

Analysis of balance not impaired

Centlec receivable	2 275 670	4 508 494
Eskom receivable	17 086	17 086
Insurance receivable	-	-
Prepayments	1 516 512	871 707
Travel card	805 154	79 433
Housing Allowance Debtor	-	-
	4 614 422	5 476 720

No other receivables from exchange transactions were pledged as collateral.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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5. Other receivables from non-exchange transactions

Fines	2 317 086	1 977 136
Fines Impairment	(1 940 589)	(1 902 079)
Deposits	342 684	287 684
Sundry receivables	416 147	416 292
	1 135 328	779 033

Ageing of balance not impaired

Current

(0 -30 days)

10 566 590 484

Past due

31 - 60 days (1 month past due)

- -

61 - 90 days (2 months past due)

9 768 -

91 - 120 days (3 months past due)

2 570 -

121 - 150 days

2 793 -

> 150 days

1 676 -

1 107 954 188 549

1 135 327 779 033

Analysis of balance not impaired

Fines	376 496	75 057
Deposits	342 684	287 684
Sundry receivables	416 147	416 292
undry debtors	-	-
	-	-
	1 135 327	779 033

No other receivables from non-exchange transactions were pledged as collateral.

6. VAT receivable

VAT	28 416 684	28 275 232
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7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 564	1 564
Bank balances	-	2 278 199
Short-term deposits	319 531	1 250 871
Other cash and cash equivalents	592	-
Bank overdraft	(197 225)	-
	124 462	3 530 634
Current assets	321 687	3 530 634
Current liabilities	(197 225)	-
	124 462	3 530 634

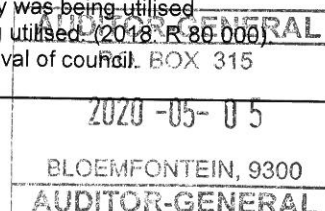
Mantsopa Municipality has the following facilities with ABSA bank:

A guarantee of R 10 000 which has not been utilised

A fleet card facility of R 400 000, at year end R 51 454 (2018: R 180 000) of this facility was being utilised

A credit card used for travel facility of R 100 000, at year end this facility was not being utilised (2018: R 80 000)

A overdraft facility of R 4 000 000 (2018: R 0), which may only be utilised on the approval of council.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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7. Cash and cash equivalents (continued)

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 cheque 2020000050	(196 885)	2 277 035	(119 958)	(197 225)	2 277 035	(119 958)
FNB cheque 62402356530	96	8 990	1 045 358	96	8 990	1 045 358
ABSA investment 9264892325	7 602	50 218	4 550	52 493	50 218	4 550
ABSA investment 9230571400	32 231	30 319	28 490	31 897	30 319	28 490
ABSA investment 9278783703	30 236	398 085	2 197	29 960	398 085	2 197
ABSA investment 9264892561	15 613	585 101	55 797	15 613	585 101	55 797
ABSA investment 9277963448	12 327	54 939	52 317	57 190	54 939	52 317
Standard Bank investment 24895860001	111	111	111	111	111	111
Nedbank investment 094831059996	130 654	123 108	115 428	130 654	123 108	115 428
ABSA call account	592	-	-	592	-	-
Total	32 577	3 527 906	1 184 290	121 381	3 527 906	1 184 290

8. Investment property

	2019			2018		
	Cost / Valuation	Accumulated Impairment	Carrying value	Cost / Valuation	Accumulated Impairment	Carrying value
Investment property	201 562 480	-	201 562 480	201 562 480	-	201 562 480

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	201 562 480	201 562 480

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	193 622 029	7 940 451	201 562 480

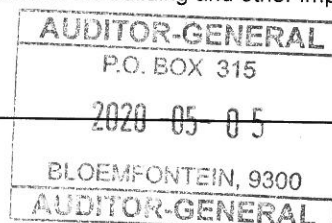
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The valuations of the above properties were obtained from the valuation roll implemented on 1 July 2018. The valuation roll was compiled by Manna Holdings (Pty)Ltd, a company that specialises in a number of valuation fields. The methodology from Manna Holdings makes reference to the following valuation techniques that were used during the valuation of Mantsopa Properties.

The Income Capitalisation Method: This method determines the net normalised annual income of the property, assuming the property is fully let at market related rentals, and market escalations, with an allowance made for vacancies.

Cost Approach Method: In this approach, a valuer would obtain a preliminary indication of the value of the property by estimating the value of the land and adding thereto the estimated production costs of the building and other improvements less depreciation.



Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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8. Investment property (continued)

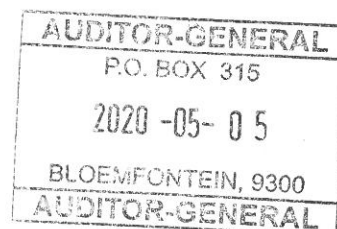
The Direct Comparable Sales Method: The concept behind the comparison approach is one of substitution: a reasonable buyer will pay no more than the value of a comparable good and a reasonable seller will sell for no less than the value of a comparable good.

Included in the Investment property above, is land which Mantsopa Local Municipality holds the legal title to the value of R 44 525 000 (2018: R 44 525 000). These included amongst others, shops and churches held by the public, and clinics and schools which form part of other governmental bodies.

No investment property was pledged as collateral.

Expenditure incurred to maintain investment property:

Investment property	32 375	61 358
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Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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9. Property, plant and equipment

	2019		2018	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
Land	37 184 892	-	37 184 892	37 184 892
Leased assets	3 244 978	(2 761 418)	483 560	3 244 978
Infrastructure	1 185 345 518	(490 574 659)	694 770 859	1 149 513 189
Community	154 055 357	(42 661 851)	111 393 506	146 735 331
Other property, plant and equipment	27 656 857	(18 471 292)	9 185 565	27 724 085
Water and electricity meters	8 866 281	-	8 866 281	241 917
Total	1 416 353 883	(554 469 220)	861 884 663	1 364 644 392
				(498 856 588)
				865 787 804

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions constructed	Additions purchased	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	37 184 892	-	-	-	-	-	-	37 184 892
Leased assets	1 566 451	-	-	-	-	(1 082 891)	-	483 560
Infrastructure	709 085 369	47 529 124	263 798	(24 128)	(13 299 797)	(47 849 404)	(934 103)	694 770 859
Community	106 644 305	9 607 568	-	(1 446 008)	-	(3 412 359)	-	111 393 506
Other property, plant and equipment	11 064 870	-	535 152	(150 693)	-	(2 211 938)	(51 826)	9 185 565
Water and electricity meters	241 917	-	8 624 364	-	-	-	-	8 866 281
	865 787 804	57 136 692	9 423 314	(1 620 829)	(13 299 797)	(54 556 592)	(985 929)	861 884 663

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Financial Statements for the year ended 30 June 2019

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions constructed	Additions purchased	Disposals	Depreciation	Impairment loss	Total
Land	37 184 892	-	-	-	-	-	37 184 892
Leased assets	2 336 042	-	241 495	-	(1 011 086)	-	1 566 451
Infrastructure	722 253 075	33 675 837	334 668	(15 931)	(47 160 735)	(1 545)	709 085 369
Community	105 439 000	4 498 291	-	(23 576)	(3 269 410)	-	106 644 305
Other property, plant and equipment	9 461 735	3 732 316	-	-	(2 129 181)	-	11 064 870
Water and electricity meters	-	-	241 917	-	-	-	241 917
	876 674 744	41 906 444	818 080	(39 507)	(53 570 412)	(1 545)	865 787 804

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included as Meters	Total
Opening balance	16 073 578	2 929 453	241 917	19 244 948
Additions/capital expenditure	47 529 124	9 607 568	8 624 364	65 761 056
Transferred to completed items	(28 647 972)	(3 558 447)	-	(32 206 419)
	34 954 730	8 978 574	8 866 281	52 799 585

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Included as Meters	Total
Opening balance	21 874 130	6 247 290	-	28 121 420
Additions/capital expenditure	33 679 882	4 498 291	241 917	38 420 090
Transferred to completed items	(39 480 434)	(7 816 129)	-	(47 296 563)
	16 073 578	2 929 452	241 917	19 244 947

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Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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9. Property, plant and equipment (continued)

Expenditure incurred to repairs and maintainance property, plant and equipment

Land and buildings	140 112	306 008
Infrastructure	1 513 137	4 899 193
Furniture and office equipment	5 507	-
Transport assets	1 194 728	1 470 392
Water network - survey and repair per WSIG grant	1 531 629	-
	4 385 113	6 675 593

Expenditure incurred for internal costs towards repairs and maintainance under wages for property, plant and equipment

Electricity	1 540 741	1 556 182
Roads and Storm Water	2 109 360	1 289 212
Sewer Network	2 610 478	2 311 766
Water Network	2 029 670	1 766 320
	8 290 249	6 923 480

Projects taking significantly longer to complete

Erection of 730m of Concrete Palisade Fence and Graveyard with contract amount R632 568 and carrying value of R453 540 - The project was started late due to financial constraints experienced by the contractor but is now on track.

Tweespruit: Construction of three (03) 40 Square Meter with contract amount R 618 456. Not started due to labour constraints.

Construction of Multi-Purpose Sport Facility with contract amount R9 994 784 and carrying value of R8 404 962 - due to a late appointment.

The aforementioned projects represent the slow-moving projects which are included in work-in-progress balance. These projects are slow-moving due to the fact that the contractors asked for extension and these projects were therefore placed on hold.

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.

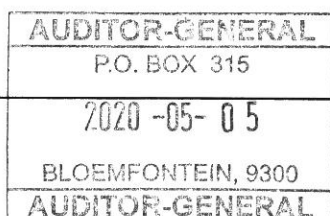
No Property, plant and equipment was pledged as collateral.

10. Investments

Designated at fair value

Listed shares	111 541	211 272
Old Mutual shares 5 249 (2018: 5 249) shares at R 21.25 (2018: R 40.25) per share		
Unlisted shares	1 003 654	950 678
OVK Holdings shares 34 566 (2018:34 566) shares at R 13.60 (2018: R12.90) per share		
OVK Operations shares 33 209 (2018:33 209) shares at R 15.65 (2018: R15.20) per share		

1 115 195	1 161 950
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Mantsopa Local Municipality (FS196)

Financial Statements for the year ended 30 June 2019

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10. Investments (continued)

Non-current assets

Designated at fair value

1 115 195

1 161 950

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Old Mutual shares

211 272

211 272

These shares are valued as per valuation on the quoted price in the active market at 30 June 2019.

OVK shares

950 678

950 678

These shares are valued as per valuation obtained from the OVK Transfer Secretaries as at 30 June 2019.

1 161 950

1 161 950

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.

Level 1

Listed shares

1 161 950

1 161 950

No financial assets were pledged as security

11. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

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

Total members

In-service (employee) members

50

58

Continuation members (eg. retirees, widows, orphans)

12

13

62

71

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

KeyHealth Medical Scheme

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11. Employee benefit obligations (continued)

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

Carrying value	2019	2018	2017	2016	2015
Present value of the defined benefit obligation -wholly unfunded	(22 828 312)	(25 539 000)	(25 906 000)	(25 172 000)	(39 823 000)
Benefits paid	425 688	448 316	498 000	528 000	378 000

Net expense recognised in the statement of financial performance

Current service cost	(831 000)	(2 746 000)	(2 527 000)	(3 488 000)	(4 673 000)
Interest cost	(2 577 000)	(949 000)	(898 000)	(4 073 000)	(3 579 000)
Actuarial (gains) losses	5 693 000	3 613 684	2 193 000	21 684 000	3 477 000

Key assumptions used

Assumptions used at the reporting date:

Actual return on plan assets	6,70 %	7,00 %
Discount rates used	10,30 %	10,20 %
Medical cost trend rates	8,70 %	9,00 %
Expected increase in salaries	8,00 %	7,40 %

Discount rate

GRAP 25 requires that the discount rate used in the valuation be determined by reference to market yields on government bonds as at the statement of financial position date. Therefore the discount rate and inflation assumptions were based on the yields taken from the government zero coupon bond yield curves.

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

The estimated discount rate was set equal to the nominal yield on the South African government zero-coupon bond yield curve with a term of 19 years, the expected duration of the liability based on the current membership data, at 30 June 2019.

Health care cost inflation

The long-term inflation rate implied from the government bond yields is measured as the real difference between - the nominal yield of the South African government zero coupon bond yield curve (8.4% per annum) at a term of 7 years, and - the real yield of the South African government zero coupon bond yield curve (3.1% per annum) at the same duration. Our best estimate of inflation as at 30 June 2019 is therefore assumed to be 5.1% p.a.(2018: 6.7%)

Salary increases

The general trend is for salaries to increase faster than the increase in inflation. We used a salary escalation of 7.1% per annum, which includes real growth of approximately 1% per annum (inflation rate of 5.1% has been assumed) and further 1% allowance for merit increases. In the calculation, salary increases are assumed to be on 1 July annually.

