

MOSSEL BAY MUNICIPALITY



2017/18 ANNUAL FINANCIAL STATEMENTS

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

General Information

Legal form	Category B Local Authority
Legislation	<p>The most important legislation governing Mossel Bay Municipality in terms of financial operations are: Constitution of the Republic of South Africa, 1996 and regulations; Municipal Finance Management Act, (MFMA) 2003 (Act No. 56 of 2003) and regulations issued in terms of the Act; Annual Division of Revenue Act, (DORA) 2012 (Act No. 5 of 2012); Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997); Intergovernmental Relations Framework Act, 2005 (Act No. 13 of 2005); Municipal Structures Act, 1998 (Act No. 117 of 1998) and regulations issued in terms of the Act; Municipal Systems Act, 2000 (Act. No. 32 of 2000) and regulations issued in terms of the Act; Municipal Property Rates Act, 2004 (Act No. 6 of 2004) and the regulations issued in terms of the Act; Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and regulations issued in terms of the Act; Construction Industry Development Board Act, 2000 (Act No. 38 of 2000) and regulations issued in terms of the Act; and Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004)</p> <p>This list is however not exhausted.</p>
Principal activities	<p>The major principal activities that Mossel Bay Municipality render within its jurisdiction area include: The provision and maintenance of Amenities, such as ablution, recreational, hall facilities; Building control services; Cemeteries; Coastal management and protection; Deforestation; Disaster management; Electricity supply services; Environmental Pollution control and Management; Fires services and prevention; Library services; Law enforcement services, including vehicle and driver registration and traffic services; Park development and maintenance; Creation and maintenance of Parking areas; Refuse Removal services; Social and Economical development; Spatial planning; Street and Storm water services; Street cleaning and Street lighting; Creation, operating and maintaining of Sport facilities; Tourism promotion; Waste water treatment services and Water supply services.</p>
Area of Jurisdiction	Boggomsbaai; Brandwacht; Buysplaas; Danabaai; Friemersheim; Glentana; Great Brak River; Hartenbos; Herbertsdale; KwaNonqaba; Little Brak River; Mossel Bay; Rheebook; Ruiterbos; Sonskynvallei; Tergniet; and Vleesbaai
Demarcation code	WC043

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General Information

Mayoral committee:

Executive Mayor

Alderman H J Levendal

Councillors

Councillor D Kotzé (Deputy Executive Mayor and Chairperson of Corporate Services & Governance Committee)
Councillor J C Bayman (Chairperson of Planning & Integrated Services Committee)
Councillor N Booisen (Chairperson of Community Services Committee)
Councillor M de Klerk (Chairperson of Finance Committee)
Councillor A Dellemijn (Chairperson of Technical Services Committee)
Councillor V Fortuin (Chairperson of Socio & Economic Development and Tourism Committee)

Speaker

Alderman P Terblanche

Ward Councillors

1 Clr P Lichaba (ANC)
2 Clr N Mbolompo (ANC)
3 Clr W Fipaza (ANC)
4 Clr A Janse van Rensburg (DA)
5 Clr A Dellemijn (DA)
6 Clr M Furness (DA)
7 Clr B Groenewald (DA)
8 Clr D Kotzé (DA)
9 Clr E Meyer (DA)
10 Ald P Terblanche (DA)
11 Clr M de Klerk (DA)
12 Clr W Buda (ANC)
13 Clr R H Ruiters (DA)
14 Clr J C Bayman (DA)

Proportional Representative Councillors

Clr E Baron (VF+)
Clr N Bobelo (ANC)
Clr N Booisen (DA)
Clr J Bruinders (ANC)
Clr V Fortuin (DA)
Clr J Gouws (ACDP)
Clr D Kamfer (ICOSA)
Clr M Kannemeyer (DA)
Ald H Levendal (DA)
Clr S Mbandezi (ANC)
Clr T Mvumvu (DA)
Clr L Rauch (DA)
Clr J Siyoko (DA)

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General Information

Chief Finance Officer (CFO)	D Asmal CA (S.A.)
Accounting Officer	Adv T Gilliomee 101 Marsh Street
Registered office	Mossel Bay 6506
Postal address	P O Box 25 Mossel Bay 6500
Bankers	Nedbank
Auditors	Auditor-General of South Africa Chartered Accountants (S.A.) Registered Auditors
Telephone	(044) 606-5000
E-mail	admin@mosselbay.gov.za
Website	http://www.mosselbay.gov.za

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

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Abbreviations:

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
FMSG	Financial Management Support Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
DORA	Division of Revenue Act
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
SALGA	South African Local Government Association
RSEP / VPUU	Regional Socio-Economic Programme and Violence Prevention through Urban Upgrading Programme
SEIF	Shared Economic Infrastructure Facility Grant
LGSETA	Local Government Sector Education Training Authority
WIP	Work-in-progress

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Accounting Officer's Responsibilities and Approval

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

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

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


The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and 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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 19 to 141, which have been prepared on the going concern basis, were approved by the accounting officer on 10 December 2018 and were signed on its behalf by:



Adv T Gilliomee
Accounting Officer

Mossel Bay
10 December 2018

Mossel Bay Municipality Annual Financial Statements for the year ended 30 June 2018

Chief Financial Officer's Report

1. INTRODUCTION

It gives me great pleasure to present the financial position of Mossel Bay Municipality at 30 June 2018 and the results of its operations and cash flows for the year then ended.

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP).

2. KEY FINANCIAL INDICATORS

The following are some of the key financial indicators, comparing the 2018 financial year's performance of the Municipality to the 2017 comparative figures:

Ratio Description	2018	2017
Revenue Management		
Level of reliance on Government grants	16.7 %	15.5 %
Actual income vs Budgeted income*	0.1 %	(2.3)%
Expenditure Management		
Personnel costs to total expenditure	30.1 %	26.7 %
Actual expenditure vs Budgeted expenditure*	(7.2)%	(13.4)%
Interest paid as a percentage of total expenditure	1.3 %	0.9 %
Repairs and Maintenance / PPE (carrying amount)	4.3 %	3.8 %
Repairs and Maintenance / Total expenditure	10.2 %	9.5 %
Asset Management		
Actual versus Budgeted Capital Expenditure	(9.9)%	(4.7)%
Stockholding period (DAYS)**	30 days	18 days
Debt Management		
Creditors payment period (DAYS)	33 days	42 days
Debtors collection period (DAYS)	5 days	20 days
Liquidity		
Current ratio	2.7 : 1	2.5 : 1
Acid Test ratio	2.5 : 1	2.4 : 1
Turnover of accounts receivable	11.1 : 1	13.4 : 1
Cash to interest	1.6 : 1	6.5 : 1
Debt to Cash	1.0 : 1	1.0 : 1
Cash to Income	0.1 : 1	0.4 : 1
Total Liabilities / Total Assets	0.1 : 1	0.1 : 1

*The total variance between budgeted and actual amounts is provided as a percentage variance

**The stockholding period is inflated as a result of the Housing stock that is included in inventory, if this line item is taken out of the calculation, the stock holding period is 11 days for 2018.

2.1 Borrowing, funding and reserves policy

The Borrowing, Funds and Reserves policy of Council, makes the measurement of the following ratios compulsory:

Finance costs to total expenditure

The approved policy by Council determines that the interest paid to total expenditure may not exceed 5%. The table below provides the measurement of the current year against the results of the previous year.

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Chief Financial Officer's Report

	2018	2017
Finance costs to total expenditure	1.3 %	0.9 %
Total Finance costs	11 060 147	7 160 893
Total Operating expenditure	<u>878 190 319</u>	<u>797 632 184</u>

Interest paid to total expenditure is well within the norm of 5%.

Total long term debt to total operating revenue

The approved policy by Council determines that the total long term debt to total operating revenue (excluding conditional grants and transfers) must not exceed 35%. The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Total long term debt to total operating revenue (excluding conditional grants and transfers)	4.1 %	3.9 %
Total Long-term debt	33 887 371	31 099 759
Total Operating Revenue (excluding conditional grants and transfers)	<u>817 688 178</u>	<u>791 195 878</u>

This percentage of long term debt to operating revenue is well within the approved policy of Council of 35%.

Cash generation from operating activities

The approved policy by Council determines that the cash generation from operating activities must at least cover the annual loan repayments once. The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Coverage of Annual loan repayments by cash generated from operating activities (Times)	54	84
Cash generated from operating activities	152 380 638	211 839 900
Annual loan repayments	<u>2 812 388</u>	<u>2 521 737</u>

The Municipality does not have a high reliance on loans, thus the ratio is favourable. The coverage of cash generated from operating activities to the annual loan repayment is well above the norm of 1 time.

Percentage of annual loan repayment to total operating expenditure

The approved policy by Council determines that the percentage of total annual loan repayment (Capital and Interest) to total operating expenditure must not be more than 10%. The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Percentage of annual loan repayment to total expenditure	1.6 %	1 %
Annual loan repayments (Interest & capital)	13 872 535	9 682 630
Total Operating expenditure	<u>878 190 319</u>	<u>797 632 184</u>

The Municipality does not have a high reliance on loans and thus the amount relating to repayments of loans are low. The percentage of annual loan repayment to total expenditure is well within the norm of 10%.

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Chief Financial Officer's Report

2.2 Liquidity policy

The liquidity policy makes the measurement of the following ratios compulsory:

Cash/Cost Coverage Ratio

The approved policy by Council determines that the Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) must be calculated as ((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets) and that a coverage of 1-3 times is acceptable.

	2018	2017
Cash / Cost Coverage ratio (Times)	5.9	6.4
Cash and cash equivalents	389 476 032	379 379 157
Monthly Fixed Operational Expenses	<u>66 029 102</u>	<u>58 863 631</u>
Cash and cash equivalents		
Petty cash and bank balances	9 345 964	16 196 179
Unspent conditional grants and receipts	(36 772 905)	(37 963 298)
Short-term deposits	5 003 562	35 337 048
Short term investments	411 899 411	365 809 228
	<u>389 476 032</u>	<u>379 379 157</u>
Monthly Fixed Operational Expenditure		
Total average monthly expenditure for the year	73 182 527	66 469 349
Less:		
Depreciation & Amortisation	(5 613 824)	(5 597 797)
Provision for Bad Debts	(1 454 470)	(2 007 921)
Impairment and loss on disposal of assets	(85 131)	-
	<u>66 029 102</u>	<u>58 863 631</u>

The cash/cost coverage ratio is above the norm of 1-3 times as per liquidity policy and decreased from the previous year mainly due to the fact that the average monthly cost increased in proportion.

Current ratio

The purpose of this ratio is to measure the municipality's ability to meet its short term commitments.

The approved policy by Council guides that the current ratio should be between 1,5:1 and 2:1. The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Current ratio	2.7	2.5
Current Assets	579 443 975	531 037 361
Current liabilities	<u>211 701 216</u>	<u>214 348 655</u>

The municipality operates above the norm set by Council. The ratio improved since the end of the previous year

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Chief Financial Officer's Report

2.3 Other ratio's of importance

a) Debtors collection period in days

This ratio reflects the collection period. The debtor days refers to the average number of days required for the municipality to receive payment from its customers for bills/invoices issued to them for services. The ratio is also a good indication of the effectiveness of credit control procedures within the municipality. If the ration is above the norm, it indicates that the municipality is exposed to significant cash flow risk. This is also an indication that the municipality is experiencing challenges in the collection of outstanding amounts due to it. In addition, this indicates that a significant amount of potential cash is tied up in consumer debtors and the municipality must improve revenue and cash flow management.

The norm is 30 days. The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Debtors collection period (days)	5.3	20.3
Consumer debtors * 365	3 756 234 155	3 642 211 337
Rates revenue + Services revenue + Debtors income	<u>715 248 408</u>	<u>672 087 200</u>

The municipality operates within the norm. The ratio has improved measured against the result of the last financial year.

b) Level of reliance on government grants

The ratio measures the extent to which the municipality's expenditure is funded through government grants and subsidies.

No norm is proposed at this time by National Treasury. It must be mentioned that National Treasury does promote a healthy balance of funding sources.

The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Level of reliance on government grants	16.7 %	15.5 %
Government grants and subsidies	164 085 506	145 518 904
Total revenue	<u>981 773 684</u>	<u>936 714 782</u>

The results indicates that the municipality is not dependent on grant funding to run its normal operations.

c) Implementation of the capital program

This ratio measures the extent to which budgeted capital expenditure has been spent during the financial year under review. Further, this ratio measures the municipality's ability to implement capital projects and monitor the risks associated with non-implementation. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget. Any variance above 5% indicates discrepancies in planning and budgeting which should be investigated and corrective measures implemented. Under-spending is also an indicate that the municipality might be experiencing possible cash flow difficulties to implement projects. Ideally, under-spending should be the result of improved efficiencies and not as a result of non-implementation of programs and/or projects. Overspending may also indicate inaccurate budgeting or poor financial management control.

The norm range between a 0% and 5% variance.

The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Actual versus Budgeted Capital Expenditure	(9.9)%	(4.7)%
Actual capital expenditure - Budgeted capital expenditure	(15 158 106)	(7 127 085)
Budgeted Capital Expenditure	<u>152 994 533</u>	<u>152 376 474</u>

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The municipality is functioning outside the norm. The main reasons for underspending on capital expenditure are due to housing project progress delays caused by the delay of the contractor's services that was terminated due to poor performance, late transfer of funds for RSEP grant and a delay with the shipment of the equipment as it was imported and it arrived in South Africa on 31 July 2018.

d) Implementation: Operational Revenue

This ratio measures the extent of actual operating revenue (excluding Capital Grant Revenue) received in relation to budgeted operating revenue during the financial year, under review. A ratio outside the norm indicates either a challenge in capacity to implement, ineffective billing and credit control, weakness in compilation of budgets or issues of financial controls and management of the municipality.

The norm range between a 0% and 5% variance.

The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Actual revenue vs Budgeted Revenue	0.1 %	(2.3)%
Actual Revenue - Budgeted revenue	1 191 551	(21 312 253)
Budgeted revenue	<u>980 582 133</u>	<u>915 946 021</u>

The municipality is functioning within the norm.

e) Implementation: Operational Expenditure

This ratio measures the extent to which budgeted operating expenditure has been spent during the financial year, under review. The ratio also assesses whether the municipality has effective controls in place to ensure that expenditure is incurred in accordance with an approved budget. Any variance outside the norm either indicate a challenge in capacity to implement, issues of financial controls and management and / or poor budgeting.

The norm range between a 0% and 5% variance.

The table below provides the measurement of the current year against the results of the previous year.

	2018	2017
Actual operating expenditure vs Budgeted operating expenditure	(7.2)%	(13.4)%
Actual expenditure - Budgeted expenditure	(67 710 466)	(112 501 643)
Budgeted expenditure	<u>939 462 132</u>	<u>840 403 554</u>

The municipality is functioning outside the norm. The main reason for under-spending on the operating expenditure budget are the slow progress on expenditure on top structures.

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Chief Financial Officer's Report

3. LIQUIDITY POSITION OF THE MUNICIPALITY

There are two main liquidity ratios that can be used to analyse the liquidity position of the municipality, namely the Current and Acid Test ratios. There are various other ratios that can be utilised to assess the municipality's liquidity position.

The calculations of these ratios is as follows:

Ratio Description	Formula	2018	2017
Current ratio	Current Assets	579 443 975	531 037 361
	Current liabilities	211 701 216 2.7	214 348 655 2.5
Acid Test ratio	Current Assets - Inventory	529 785 607	503 786 370
	Current liabilities	211 701 216 2.5	214 348 655 2.4
Turnover of accounts receivable	Revenue (credit)	907 907 120	872 430 784
	Accounts receivable	81 519 459 11.1	65 125 993 13.4
Debt to cash	Total Liabilities	421 450 476	401 636 118
	Cash balance at end of period	426 248 937 1.0	417 342 456 1.0

The above ratios show that the municipality is in a liquid position, with current assets of double the current liabilities. The ratio for the year under review has improved slightly compared to the previous year. The municipality generates 11.1 times more revenue than what the outstanding accounts are.

The following table shows the history of the current year ratio for the municipality

	2013	2014	2015	2016	2017	2018
Current ratio	2.3	2.4	2.4	2.7	2.5	2.7

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Chief Financial Officer's Report

4. OPERATING RESULTS

Summary of results

Details of the operating results per segmental classification are included in the supplementary information while operational results per category, together with an explanation of significant variances of more than 10 per cent from the final budget, are included in the Statement of Comparison of Budget and Actual amounts.

These amounts are based on the total position of the municipality (including non-cash transactions):

Income	Actual 2018	Actual 2017	Variance	Adjusted budget 2018	Variance
Opening surplus / (deficit)	2 596 504 797	2 472 027 696	5.0 %	-	-
Operating income for the year	981 773 684	936 714 782	4.8 %	980 582 133	0.1 %
Appropriations for the year	2 353 068	(14 605 526)	-	-	-
	3 580 631 549	3 394 136 952	5.5 %	980 582 133	

Expenditure	Actual 2018	Actual 2017	Variance	Adjusted budget 2018	Variance
Operating expenditure for the year	878 190 319	797 632 184	10.1 %	940 159 663	(6.6)%
Closing surplus / (deficit)	2 702 441 230	2 596 504 768	4.1 %	-	-
	3 580 631 549	3 394 136 952	5.5 %	940 159 663	

The accumulated surplus at 30 June 2018 amounted to R2 702 million. The accumulated surplus of R2 597 million at 30 June 2017 was restated with previous year corrections. Refer to note 44 for more detail.

The operating income increased by 4.9% to R981.8 million from the previous financial year's income of R936.7 million. The operating expenditure increased by 10.1% to R878.2 million.

The municipality's financial statements ended on a surplus of R103.6 million for the year.

Operating revenue and expenditure

The following table indicates the municipality's major revenue sources for the year under review compared to the prior year:

Operating revenue as a percentage of total revenue	2018	2017
Service charges	61.3 %	60.4 %
Rental of facilities and equipment	0.5 %	0.5 %
Agency services	0.6 %	0.6 %
Interest received - outstanding debtors	0.2 %	0.2 %
Interest received - external investments	3.9 %	3.7 %
Gain on disposal of assets and liabilities	- %	0.1 %
Other income	3.6 %	3.1 %
Property rates	11.4 %	11.1 %
Licences and Permits	0.1 %	0.1 %
Government grants & subsidies received	16.7 %	15.5 %
Public contributions and donations	0.3 %	1.3 %
Fines, Penalties and Forfeits	1.4 %	3.4 %
	100 %	100 %

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Chief Financial Officer's Report

The table below indicates the municipality's major types of expenditure for the year compared to the previous year:

Operating expenditure as a percentage of total expenditure	2018	2017
Employee related costs	30.1 %	26.7 %
Remuneration of councillors	1.2 %	1.2 %
Depreciation and amortisation	7.7 %	8.4 %
Impairment loss/ Reversal of impairments	0.01 %	(0.04)%
Debt Impairment / Bad debts written off	2.0 %	3.0 %
Finance costs	1.3 %	0.9 %
Bulk purchases	30.5 %	33.3 %
Contracted services	11.1 %	11.5 %
Transfers and subsidies paid	0.5 %	0.5 %
Loss on disposal of assets and liabilities	0.1 %	- %
Inventories losses/write-downs	0.6 %	1.0 %
Cost of sales/Inventory consumed	8.7 %	7.8 %
General Expenses	6.2 %	5.7 %
	100 %	100 %

5. CAPITAL EXPENDITURE AND FINANCE

The capital expenditure for the year as stated in the financial statements amounted to R137 836 426 and is broken down as follows:

Service area		
Community services / facilities	12 171 626	8.8
Electricity	25 522 455	18.5 %
Housing	3 864 956	2.8 %
Refuse	4 520 894	3.3 %
Sanitation	14 328 231	10.4 %
Streets and Storm water	38 746 226	28.1 %
Water	29 800 855	21.6 %
Other	8 881 183	6.4 %
	137 836 426	100 %

The capital expenditure was financed as follows:

Source of Finance		
Capital Replacement Reserve	95 488 919	69.3 %
Grants and Subsidies	33 260 776	24.1 %
Public Contributions	3 489 651	2.5 %
External loans	5 597 080	4.1 %
	137 836 426	100 %

Property, plant and equipment is funded to a large extent from the Capital Replacement Reserve.

6. FINANCIAL SUSTAINABILITY

Financial sustainability refers to financial accounts which reflect sufficient revenue and adequate corporate stability in order to fund and deliver on service delivery and performance targets. Following are a few graphs on various financial ratios that show the past 7 years' information, the current year information and 3 budget years' information.

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	Liquidity	Liquidity	Activity	Solvency	Cash Flow	Cash Flow
	Current ratio	Debtors payment period (days)	Inventory turnover ratio	Total assets to liabilities	Current liabilities coverage	Capital expenditure coverage
2009	3.12	42	14.00	10.29	1.09	0.96
2010	2.28	45	13.00	9.15	0.18	0.15
2011	1.70	35	15.00	7.70	1.50	1.08
2012	2.29	30	10.00	5.73	0.60	0.67
2013	2.27	24	9.00	6.31	0.98	1.09
2014	2.35	26	26.00	7.53	0.98	1.30
2015	2.39	51	20.00	7.36	1.05	1.60
2016	2.66	12	13.00	7.63	0.99	1.22
2017	2.50	20	18.00	7.45	0.96	1.41
2018	2.70	11	29.00	7.74	0.54	0.84
2019 (budget)	2.60	18	12.00	7.51	0.81	0.83
2020 (budget)	2.50	19	11.00	6.76	0.96	0.74
2021 (budget)	2.60	21	9.00	6.66	1.06	0.97
		Debt ratio	Income & Expenditure Trends	Income & Expenditure Trends	Income & Expenditure Trends	Income & Expenditure Trends
		Debt to cash	Government Grants as % of Revenue	Employee related cost as % of expenditure	Repairs & maintenance as % of expenditure	Debt impairment cost as % of expenditure
2009		0.79	15.80	31.50	8.40	3.00
2010		1.15	18.00	34.40	6.60	2.80
2011		1.40	25.70	27.40	4.90	3.20
2012		1.72	14.60	26.20	6.20	2.90
2013		1.70	16.50	30.60	6.00	2.40
2014		1.30	15.00	30.10	5.40	4.50
2015		1.19	15.80	29.20	5.40	4.80
2016		1.12	15.60	28.90	6.50	3.50
2017		1.00	15.50	26.69	9.50	3.00
2018		1.00	16.71	30.12	9.80	2.00
2019		1.22	16.93	29.61	11.40	1.90
2020		1.41	18.97	29.45	11.30	1.76
2021		1.41	19.41	29.82	11.10	1.66

7. CAPITAL REPLACEMENT RESERVE

The Capital Replacement Reserve balance as at 30 June 2018 amounted to R138 849 300 (R141 173 950 as at 30 June 2017).

The Capital Replacement Reserve is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability thereof, are made annually to the reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital program.

Refer to the Statement of Changes in Net Assets for more detail.

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Chief Financial Officer's Report

8. EXTERNAL LOANS, INVESTMENTS AND CASH

On 30 June 2018 the external loans amounted to R33 842 799 (R30 993 649 on 30 June 2017). The municipality has taken up and repaid loans to the net effect of R2 787 612 during the year.

The municipality's cashbook showed a positive balance of R9 326 904 (R16 177 119 on 30 June 2017) and Petty Cash to the amount of R19 060 (R19 060 on 30 June 2017) on 30 June 2018. The external investments shorter than 3 months amounted to R5 003 562 against the R35 337 048 of the previous year. The Short term investments longer than 3 months but shorter than 12 months amounted to R 411 899 411 against the R 365 809 228 of the previous year. The municipality also has a long term investment that amounts to additional contribution of R12m per year.

More particulars regarding external loans and investments appear in Notes 8, 14, 15 and 16 of the Annual Financial Statements, as well as in the Supplementary Information.

9. PROVISIONS

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Provisions amounted to R78 605 215 as at 30 June 2018 (R75 135 552 as at 30 June 2017) and are made up as follows:

	2018	2017
Rehabilitation of Landfill Sites	78 605 215	75 135 552

Refer to Note 19 of the Annual Financial Statements for more detail.

10. LIQUIDITY REQUIREMENTS

The table below shows the allocation of the investment portfolio toward the funding of various obligations:

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

Chief Financial Officer's Report

	2018	2017
Liquidity Requirement Calculation (as stipulated in paragraph 4)		
All earmarked and / or conditional grants received but not yet utilised	36 772 905	37 963 298
Value of the provisions held in cash for the rehabilitation of landfill sites to the extent that these funds are required within the following 5 years	78 605 215	75 135 552
Value of legally entrenched short term rights and benefits of employees related to medical benefits and retirement benefits	27 856 681	28 161 220
Unspent Loan Funds	-	-
Funds held for agency services not yet performed	-	-
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	138 849 299	141 173 950
Capital redemption and interest payments on external loans not reflected as part of normal operating expenditure	3 119 528	2 778 192
1 months operational expenditure excluding non-cash items	66 029 102	58 863 631
Consumer deposits	25 624 225	23 240 670
Other Deposits and Other Advance Payments		
- Retentions	10 401 799	9 652 329
- Payments received in advance	28 905 228	26 603 211
- Other deposits	4 232 337	3 700 165
Non-current deposit: Pavilion	286 755	274 541
Reserve funds for Landfill site provision	10 000 000	-
Reserve funds for Self-insurance Reserve	19 000 000	-
Total liquidity requirements	449 683 074	407 546 759

Actual available liquidity held (reference paragraph 4)

Bank balances at e.g.		
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market		
Bank balances sub total	9 345 964	16 196 179
95% of all other term deposits with banks	4 753 384	33 570 196
95% of all Short term investments with banks	391 304 440	347 518 767
95% of all Long term investments with banks	34 200 000	22 800 000
Consumer debtors (current - 60 days)	34 744 178	38 097 182
Other reserves held in cash not reflected in bank balances mentioned above for e.g.		
- Unspent conditional grants	-	-
- Payments received for agency functions not yet performed	-	-
- The cash value of reserves held	-	-
- Cash deposits held as part of loan covenant ceded	-	-
- Undrawn bank overdraft facility of committed liquidity lines available	-	-
Total liquidity available	474 347 966	458 182 324

Liquidity surplus / (shortfall)	24 664 892	50 635 565
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11. EMPLOYEE BENEFITS

These liabilities are in order to enable the municipality to be in a position to fulfil its known legal obligations with regards to employee benefits when they become due and payable.

The employee benefits liability amounted to R130 572 681 as at 30 June 2018 (R116 307 220 as at 30 June 2017) and is made up as follows:

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Chief Financial Officer's Report

	2018	2017
Post-Employment Health Care Benefits	90 629 000	78 430 000
Ex-Gratia Gratuities	1 475 000	1 546 000
Long Service Awards	16 572 000	15 326 000
Employee overtime / standby allowance accrual	1 090 860	1 059 393
Employee bonus accrual	5 157 635	4 965 196
Staff leave accrual	14 691 330	14 227 038
Performance bonus accrual	956 856	753 593
	<u>130 572 681</u>	<u>116 307 220</u>

Refer to Note 18 of the Annual Financial Statements for more detail.

12. CURRENT LIABILITIES

Current liabilities are those liabilities of the municipality due and payable in the short term (less than 12 months). No indication is found that the municipality would be unable to meet its obligations. Current liabilities amounted to R211 701 216 as at 30 June 2018 (R214 348 655 as at 30 June 2017) and are made up as follows:

		2018	2017
Operating lease accrual	Note 10	1 845 156	1 673 414
Other financial liabilities	Note 16	3 236 143	2 802 941
Finance lease obligation	Note 17	12 944	225 676
Employee benefit obligation	Note 18	27 856 681	28 161 220
Provisions	Note 19	2 515 876	4 584 325
Unspent conditional grants and receipts	Note 21	36 772 905	37 963 298
Consumer deposits	Note 22	25 624 225	23 240 670
Payables from exchange transactions	Note 23	113 837 286	115 697 111
		<u>211 701 216</u>	<u>214 348 655</u>

13. CURRENT ASSETS

Current assets amounted to R579 443 975 as at 30 June 2018 (R531 037 361 as at 30 June 2017) and is made up as follows:

		2018	2017
Inventories	Note 9	49 658 368	27 250 992
Current portion of Long term receivables	Note 7	477 942	336 681
Operating lease asset	Note 10	196 907	194 471
Receivables from exchange transactions	Note 11	72 666 300	58 817 167
Receivables from non-exchange transactions	Note 12	19 299 054	19 024 343
VAT	Note 13	10 896 467	8 071 252
Short term Investments	Note 14	411 899 411	365 809 228
Cash and cash equivalents	Note 15	14 349 526	51 533 227
		<u>579 443 975</u>	<u>531 037 361</u>

14. TRADE AND OTHER RECEIVABLES FROM EXCHANGE AND NON-EXCHANGE TRANSACTIONS

The net balance of trade and other receivables from exchange transactions is indicated below:

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

Chief Financial Officer's Report

	2018	2017	Variance
Electricity	34 684 946	31 960 673	8.52 %
Water	20 828 944	13 121 027	58.74 %
Sewerage	4 374 088	3 669 925	19.19 %
Refuse	3 432 836	2 806 229	22.33 %
Land sales	754	2 161	(65.11)%
Housing selling schemes	11 625	740 440	(98.43)%
Housing rental	6 769	29 694	(77.20)%
Other (merchandising, jobbing, contracts and service charges)	9 326 338	6 487 018	43.77 %
	72 666 300	58 817 079	23.55 %

The net balance of receivables from non-exchange transactions is indicated below:

	2018	2017	Variance
Fines	5 618 868	8 864 105	(36.6)%
Consumer debtors - Rates	8 853 158	6 308 827	40.3 %
Payments made in advance	3 371 364	2 826 572	19.3 %
Other	1 455 663	1 024 840	42.0 %
	19 299 053	19 024 344	1.4 %

15. EXPRESSIONS OF APPRECIATION

I am grateful to the Executor Mayor, Executor Deputy Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Directors for their unwavering support and guidance extended during the financial year. I also extend a special word of thanks and appreciation to all staff who assisted with the preparation of the year end information, specifically the staff of the Budget and Treasury Office. Without their focussed efforts, contributions and assistance, the preparation of these financial statements would not have been possible.



CHIEF FINANCIAL OFFICER

10 December 2018

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018
Statement of Financial Position as at 30 June 2018

	Notes	2018 R	2017 R
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	2 048 900 460	1 981 116 201
Investment property	4	593 222 526	597 426 019
Intangible assets	5	593 708	724 356
Heritage assets	6	4 225 599	4 225 599
Long term receivables	7	354 732	813 717
Investments	8	36 000 000	24 000 000
		2 683 297 025	2 608 305 892
CURRENT ASSETS			
Inventories	9	49 658 368	27 250 992
Long term receivables	7	477 942	336 681
Operating lease asset	10	196 907	194 471
Receivables from exchange transactions	11	72 666 300	58 817 167
Receivables from non-exchange transactions	12	19 299 054	19 024 343
VAT receivable	13	10 896 467	8 071 252
Short term investments	14	411 899 411	365 809 228
Cash and cash equivalents	15	14 349 526	51 533 227
		579 443 975	531 037 361
TOTAL ASSETS		3 262 741 000	3 139 343 253
LIABILITIES			
NON-CURRENT LIABILITIES			
Other financial liabilities	16	30 651 228	28 296 818
Finance lease obligation	17	5 933	18 877
Employee benefit obligation	18	102 716 000	88 146 000
Provisions	19	76 089 339	70 551 227
Non-current deposits	20	286 755	274 541
		209 749 255	187 287 463
CURRENT LIABILITIES			
Other financial liabilities	16	3 236 143	2 802 941
Finance lease obligation	17	12 944	225 676
Employee benefit obligation	18	27 856 681	28 161 220
Provisions	19	2 515 876	4 584 325
Operating lease liability	10	1 845 156	1 673 414
Unspent conditional grants and receipts	21	36 772 905	37 963 298
Consumer deposits	22	25 624 225	23 240 670
Payables from exchange transactions	23	113 837 286	115 697 111
		211 701 216	214 348 655
TOTAL LIABILITIES		421 450 471	401 636 118
Reserves			
Capital replacement reserve	24	138 849 299	141 173 950
Housing Development Fund	25	-	28 417
Accumulated surplus		2 702 441 230	2 596 504 768
TOTAL NET ASSETS		2 841 290 529	2 737 707 135

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

	Notes	2018 R	2017 R
REVENUE			
Revenue from exchange transactions			
Service charges	26	602 001 682	565 800 791
Rental of facilities and equipment	27	5 078 997	4 910 604
Agency services		6 052 555	5 372 146
Interest received - outstanding debtors		1 722 677	1 635 401
Interest received - external investments		38 602 829	35 094 411
Gain on disposal of assets and liabilities		-	537 383
Other income	28	35 263 729	28 652 206
Total revenue from exchange transactions		688 722 469	642 002 942
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	29	111 524 049	104 137 439
Licences and Permits		1 300 402	1 195 408
Transfer revenue			
Government grants & subsidies received	30	164 085 506	145 518 904
Public contributions and donations	31	2 481 870	11 860 715
Fines, Penalties and Forfeits	32	13 659 388	31 999 374
Total revenue from non-exchange transactions		293 051 215	294 711 840
TOTAL REVENUE		981 773 684	936 714 782
EXPENDITURE			
Employee related costs	33	264 536 461	212 874 392
Remuneration of councillors	34	10 941 298	9 786 303
Depreciation and amortisation	35	67 365 884	67 173 562
Impairment loss/ Reversal of impairments		76 167	(315 117)
Debt Impairment / Bad debts written off	36	17 453 642	24 095 047
Finance costs	37	11 060 147	7 160 893
Bulk purchases	38	267 744 119	265 328 216
Contracted services	39	97 222 116	91 828 392
Transfers and subsidies paid	40	4 282 136	4 262 972
Loss on disposal of assets and liabilities		1 021 576	-
Inventories losses/write-downs		5 417 077	7 649 754
Cost of sales/Inventory consumed	41	76 813 674	62 080 499
General Expenses	42	54 256 022	45 707 271
TOTAL EXPENDITURE		878 190 319	797 632 184
		-	-
SURPLUS / (DEFICIT) FOR THE YEAR		103 583 365	139 082 598

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

	Capital replacement reserve R	Housing development fund R	Total reserves R	Accumulated surplus / (deficit) R	Total net assets R
Opening balance as previously reported	126 575 281	21 560	126 596 841	2 456 791 032	2 583 387 873
Adjustments					
Prior year adjustments	-	-	-	15 236 664	15 236 664
Balance at 1 July, 2016 as restated	126 575 281	21 560	126 596 841	2 472 027 696	2 598 624 537
Changes in net assets					
Surplus for the year	-	-	-	139 082 598	139 082 598
Transfer from CRR					
- Contributions from operating account and other contributions	94 700 743	-	94 700 743	(94 700 743)	-
- External services contribution	7 512 760	-	7 512 760	(7 512 760)	-
- Land sales contribution	3 927 616	-	3 927 616	(3 927 616)	-
Less Expenditure: Funding Capital Projects	(91 542 450)	-	(91 542 450)	91 542 450	-
Transfer from Housing	-	6 857	6 857	(6 857)	-
Total changes	14 598 669	6 857	14 605 526	124 477 072	139 082 598
Balance at 01 July 2017	141 173 950	28 417	141 202 367	2 596 504 797	2 737 707 164
Changes in net assets					
Surplus for the year	-	-	-	103 583 365	103 583 365
Transfer from Housing Development Fund	-	(28 417)	(28 417)	28 417	-
Transfer from CRR					
- Contributions from operating account and other contributions	70 431 679	-	70 431 679	(70 431 679)	-
- External services contribution	6 793 014	-	6 793 014	(6 793 014)	-
- Land sales contribution	3 304 106	-	3 304 106	(3 304 106)	-
Less Expenditure: Funding Capital Projects	(102 853 450)	-	(102 853 450)	102 853 450	-
Contribution to CRR	20 000 000	-	20 000 000	(20 000 000)	-
Total changes	(2 324 651)	(28 417)	(2 353 068)	105 936 433	103 583 365
Balance at 30 June 2018	138 849 299	-	138 849 299	2 702 441 230	2 841 290 529
Notes	24	25			

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

	Notes	2018 R	2017 R
Cash flows from operating activities			
Receipts			
Grants		162 895 116	165 240 807
Interest income		35 408 542	33 181 136
Ratepayers		698 199 190	648 609 945
Other		62 835 992	72 923 372
		<u>959 338 840</u>	<u>919 955 260</u>
Payments			
Employee costs		(265 659 478)	(238 306 823)
Suppliers		(473 761 120)	(415 185 931)
Other payments		(67 537 604)	(54 622 606)
		<u>(806 958 202)</u>	<u>(708 115 360)</u>
Total receipts		959 338 840	919 955 260
Total payments		(806 958 202)	(708 115 360)
Net cash flows from operating activities	43	<u>152 380 638</u>	<u>211 839 900</u>
Cash flows from investing activities			
Purchase of Capital assets	3	(136 418 111)	(135 952 661)
Proceeds from sale of property, plant and equipment	3	441 726	168 450
Proceeds from sale of investment property	4	2 418 826	1 724 735
(Increase) / Decrease in Long-term Receivables		268 999	434 758
(Increase) / Decrease in Non-current investments		(12 000 000)	(12 000 000)
(Increase) / Decrease in Short term investments		(46 090 183)	(68 411 879)
Net cash flows from investing activities		<u>(191 378 743)</u>	<u>(214 036 597)</u>
Cash flows from financing activities			
Proceeds / (Repayment) of other financial liabilities		2 787 612	3 978 263
Consumer deposits		2 383 554	2 396 238
Proceeds / (Repayment) of Finance lease liabilities		(225 676)	(366 190)
Finance costs		(3 131 086)	(2 890 414)
Net cash flows from financing activities		<u>1 814 404</u>	<u>3 117 897</u>
Net increase / (decrease) in cash and cash equivalents		(37 183 701)	921 200
Cash and cash equivalents at the beginning of the year		51 533 227	50 612 027
Cash and cash equivalents at the end of the year	15	<u>14 349 526</u>	<u>51 533 227</u>

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	589 224 155	4 330 403	593 554 558	602 001 682	8 447 124	Conservative budgeting in respect of Water and Electricity charges.
Rental of facilities and equipment	5 119 401	(35 445)	5 083 956	5 078 997	(4 959)	
Interest received (trading)	1 683 720	(99 760)	1 583 960	1 722 677	138 717	
Agency services	5 016 113	734 895	5 751 008	6 052 555	301 547	
Other income - (rollup)	18 992 055	7 688 430	26 680 485	35 263 729	8 583 244	The main reasons for additional revenue is additional revenue from External service contributions, Camping fees and Land sales.
Interest received - investment	32 700 000	4 558 867	37 258 867	38 602 829	1 343 962	Increase in available cash and better than expected interest rates.
Total revenue from exchange transactions	652 735 444	17 177 390	669 912 834	688 722 469	18 809 635	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	108 476 248	304 995	108 781 243	111 524 049	2 742 806	Implementation of supplementary valuation roll.
Licences and Permits (Non-exchange)	1 076 124	154 525	1 230 649	1 300 402	69 753	
Transfer revenue						
Government grants & subsidies	150 661 343	43 056 942	193 718 285	164 085 506	(29 632 779)	Mainly the underspending of Human Settlements Development grant.
Public contributions and donations	350 000	1 665 478	2 015 478	2 481 870	466 392	
Fines, Penalties and Forfeits	37 802 859	(32 879 215)	4 923 644	13 659 388	8 735 744	More traffic fines than expected was issued.

Mossel Bay Municipality
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total revenue from non-exchange transactions	298 366 574	12 302 725	310 669 299	293 051 215	(17 618 084)	
'Total revenue from exchange transactions'	652 735 444	17 177 390	669 912 834	688 722 469	18 809 635	
'Total revenue from non-exchange transactions'	298 366 574	12 302 725	310 669 299	293 051 215	(17 618 084)	
Total revenue	951 102 018	29 480 115	980 582 133	981 773 684	1 191 551	
Expenditure						
Personnel	(279 815 152)	4 436 485	(275 378 667)	(264 536 461)	10 842 206	A different accounting treatment of Water treatment work cost as well as a saving due to not filling of positions.
Remuneration of councillors	(11 078 473)	137 155	(10 941 318)	(10 941 298)	20	
Depreciation and amortisation	(72 992 708)	(2 082 903)	(75 075 611)	(67 365 884)	7 709 727	A different accounting treatment of Water treatment work cost as well as less projects finalised and unbundled than expected.
Impairment loss/ Reversal of impairments	-	-	-	(76 167)	(76 167)	
Finance costs	(3 395 548)	(77 696)	(3 473 244)	(11 060 147)	(7 586 903)	Higher than expected cost on the Landfill site.
Lease rentals on operating lease	(5 204 323)	187 945	(5 016 378)	(5 187 733)	(171 355)	
Debt Impairment	(41 650 190)	20 360 039	(21 290 151)	(17 453 642)	3 836 509	Better than expected collection on Sewerage, Refuse and Water services.
Bulk purchases	(269 678 873)	3 382 635	(266 296 238)	(267 744 119)	(1 447 881)	Electricity consumption more than anticipated.
Contracted Services	(131 410 968)	(29 550 018)	(160 960 986)	(97 222 116)	63 738 870	The main contributor is the underspending on Housing Topstructures
Transfers and Subsidies	(4 329 810)	(515 890)	(4 845 700)	(4 282 136)	563 564	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Sale of goods/Inventory	(52 580 118)	(9 069 635)	(61 649 753)	(76 813 674)	(15 163 921)	A different accounting treatment of Water treatment work cost, included in this line item are all cost related to the purification of water and only bulk purchases was in the budget line item.
General Expenses	(51 642 245)	(2 891 841)	(54 534 086)	(49 068 289)	5 465 797	The variance is mainly due to savings on Telephone and Travel costs, Advertising, Grass cutting, Information Technology expenses. The Levies for Water expenses is recognised under Inventory.
Total expenditure	(923 778 408)	(15 683 724)	(939 462 132)	(871 751 666)	67 710 466	
	951 102 018	29 480 115	980 582 133	981 773 684	1 191 551	
	(923 778 408)	(15 683 724)	(939 462 132)	(871 751 666)	67 710 466	
Operating surplus	27 323 610	13 796 391	41 120 001	110 022 018	68 902 017	
Loss on disposal of assets and liabilities	(973 400)	425 869	(547 531)	(1 021 576)	(474 045)	
Inventories losses/write-downs	(150 000)	-	(150 000)	(5 417 077)	(5 267 077)	A different accounting treatment of Water treatment work cost the apparent and real water losses was accounted for the first time and not budgeted for in the same manner.
	(1 123 400)	425 869	(697 531)	(6 438 653)	(5 741 122)	
	27 323 610	13 796 391	41 120 001	110 022 018	68 902 017	
	(1 123 400)	425 869	(697 531)	(6 438 653)	(5 741 122)	
Surplus before taxation	26 200 210	14 222 260	40 422 470	103 583 365	63 160 895	
Deficit before taxation	26 200 210	14 222 260	40 422 470	103 583 365	63 160 895	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	26 200 210	14 222 260	40 422 470	103 583 365	63 160 895	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
ASSETS						
CURRENT ASSETS						
Inventories	20 910 953	5 864 708	26 775 661	49 658 368	22 882 707	The inventory related to Housing stock increased as a result of the slower than expected handing over of houses.
Operating lease asset	-	-	-	196 907	196 907	
Receivables from non-exchange transactions	25 247 849	(2 383 504)	22 864 345	19 299 054	(3 565 291)	The write off of traffic fines and the improved collection rate caused the outstanding amounts to be less than budgeted.
VAT receivable	-	-	-	10 896 467	10 896 467	VAT was budgeted to be a payable at year end.
Receivables from exchange transactions	66 934 351	(3 109 758)	63 824 593	72 666 300	8 841 707	A larger than expected accrual for water and electricity consumption caused the balance to increase although a better than expected collection rate was achieved.
Short term investments	295 000 000	60 000 000	355 000 000	411 899 411	56 899 411	As a result of the improved collection rate as well as savings on the operational cost the balance is better than expected.
Cash and cash equivalents	281 420	443 431	724 851	14 349 526	13 624 675	As a result of the improved collection rate as well as savings on the operational cost the balance is better than expected.
Current portion of long-term receivables	300 849	5 831	306 680	477 942	171 262	
	408 675 422	60 820 708	469 496 130	579 443 975	109 947 845	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
NON-CURRENT ASSETS						
Investment property	602 829 513	20 872 209	623 701 722	593 222 526	(30 479 196)	The net effect of land sales and the recognition of the newly identified vesting properties were not budgeted for.
Property, plant and equipment	1 964 139 311	77 965 164	2 042 104 475	2 048 900 460	6 795 985	The combination of the underspending on the capital program, the recognition of newly identified vesting properties and the less than expected completed projects caused the increased value.
Intangible assets	583 041	(115 646)	467 395	593 708	126 313	
Heritage assets	4 225 599	-	4 225 599	4 225 599	-	
Long term receivables	167 493	576 226	743 719	354 732	(388 987)	
Investments	36 000 000	-	36 000 000	36 000 000	-	
	2 607 944 957	99 297 953	2 707 242 910	2 683 297 025	(23 945 885)	
Non-Current Assets	408 675 422	60 820 708	469 496 130	579 443 975	109 947 845	
Current Assets	2 607 944 957	99 297 953	2 707 242 910	2 683 297 025	(23 945 885)	
TOTAL ASSETS	3 016 620 379	160 118 661	3 176 739 040	3 262 741 000	86 001 960	
LIABILITIES						
CURRENT LIABILITIES						
Other financial liabilities	5 442 860	153 847	5 596 707	3 236 143	(2 360 564)	The new loan for 17/18 year's interest and redemption was included in the budget, but was only taken up at year-end.
Operating lease liability	-	-	-	1 845 156	1 845 156	Line item included in budget under Payables as Budget format does not provide for this item separately.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Payables from exchange transactions	103 455 104	12 946 190	116 401 294	113 837 285	(2 564 009)	Better than expected payment rate on trade payables.
Consumer deposits	22 841 075	1 561 629	24 402 704	25 624 225	1 221 521	More houses and new connections than expected due to newly constructed dwellings.
Employee benefit obligation	-	-	-	27 856 681	27 856 681	Different budget principles employee benefits included in the line item of provisions, Employee benefits also increased more than expected.
Unspent conditional grants and receipts	-	17 960 861	17 960 861	36 772 905	18 812 044	Increased as a result of the unspent funds for housing projects.
Provisions	29 711 143	14 178 966	43 890 109	2 515 876	(41 374 233)	Different budget principles employee benefits included in the line item of provisions. The provisions increased as a result of an higher than expected contribution to landfill sites.
	161 450 182	46 801 493	208 251 675	211 688 271	3 436 596	
NON-CURRENT LIABILITIES						
Other financial liabilities	28 472 453	(2 011 218)	26 461 235	30 651 228	4 189 993	Budget did not make provision for the movements.
Finance lease obligation	5 933	-	5 933	18 876	12 943	
Employee benefit obligation	126 486 632	(31 028 696)	95 457 936	102 716 000	7 258 064	The provisions is higher due to higher than expected increases in medical aid contributions, resulting in additional obligation towards continue medical aid.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Provisions	89 064 481	(9 252 107)	79 812 374	76 089 339	(3 723 035)	The provisions increased as a result of an higher than expected contribution to landfill sites as well as incorrect budgeting
Non-current deposits	-	-	-	286 755	286 755	
	244 029 499	(42 292 021)	201 737 478	209 762 198	8 024 720	
	161 450 182	46 801 493	208 251 675	211 688 271	3 436 596	
	244 029 499	(42 292 021)	201 737 478	209 762 198	8 024 720	
TOTAL LIABILITIES	405 479 681	4 509 472	409 989 153	421 450 469	11 461 316	
Assets	3 016 620 379	160 118 661	3 176 739 040	3 262 741 000	86 001 960	
LIABILITIES	(405 479 681)	(4 509 472)	(409 989 153)	(421 450 469)	(11 461 316)	
NET ASSETS	2 611 140 698	155 609 189	2 766 749 887	2 841 290 531	74 540 644	
NET ASSETS						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Reserves	129 088 878	258 201	129 347 079	138 849 299	9 502 220	Additional cash generated was contributed to the Capital Replacement Reserve
Accumulated surplus	2 482 051 820	155 350 988	2 637 402 808	2 702 441 232	65 038 424	The nett result of all the expalnationns in the statement of Financial performance and position cause this variance
Total Net Assets	2 611 140 698	155 609 189	2 766 749 887	2 841 290 531	74 540 644	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	107 367 906	301 882	107 669 788	111 524 049	3 854 261	Implementation of supplementary valuarion roll.
Service charges	578 101 745	4 292 893	582 394 638	590 911 022	8 516 384	Conservative budgeting i.r.o. water and electricity charges.
Other revenue	67 396 752	(24 540 478)	42 856 274	62 835 992	19 979 718	The reversal of impairment budget is incorrectly included in the Cashflow budget.
Interest income	34 958 030	960 230	35 918 260	35 408 542	(509 718)	
Government - operating & Capital	151 046 830	43 297 075	194 343 905	162 895 116	(31 448 789)	Revenue not recognised due to underspending on human settlements development grant.
	938 871 263	24 311 602	963 182 865	963 574 721	391 856	
Payments						
Suppliers and employees	(827 067 392)	(30 501 872)	(857 569 264)	(840 541 441)	17 027 823	Underspending is due to savings on Chemicals, IT related expenses, telephone costs and the unspent Housing topstructures funds.
Transfers and Grants	(4 329 810)	(564 890)	(4 894 700)	(4 375 155)	519 545	
	(831 397 202)	(31 066 762)	(862 463 964)	(844 916 596)	17 547 368	
Net cash flows from / (used) operating activities	107 474 061	(6 755 160)	100 718 901	118 658 125	17 939 224	
Cash flows from investing activities						

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Proceeds on disposal of Property, Plant and Equipment	954 000	5 179 316	6 133 316	2 860 552	(3 272 764)	Planned proceeds did not realise.
Decrease / (increase) other non-current receivables	100 000	-	100 000	268 999	168 999	
Decrease / (increase) in non-current investments	(12 000 000)	-	(12 000 000)	(12 000 000)	-	
Purchase of Capital assets	(126 284 585)	(26 709 948)	(152 994 533)	(136 418 111)	16 576 422	Refer to Note 47 for detail per vote on variances.
(Increase) / Decrease in short term investments	-	-	-	(46 090 183)	(46 090 183)	Due to change in accounting policy, refer to Note 45.
Finance costs	(3 387 449)	(63 830)	(3 451 279)	(3 131 086)	320 193	
Net cash flows from / (used) investing activities	(140 618 034)	(21 594 462)	(162 212 496)	(194 509 829)	(32 297 333)	
Cash flows from financing activities						
Proceeds / (Repayment) of other financial liabilities	5 600 000	-	5 600 000	5 600 000	-	
Increase / (decrease) in consumer deposits	1 087 670	74 363	1 162 033	2 383 554	1 221 521	More houses and new connections than expected, due to newly constructed dwellings.
Proceeds / (Repayment) of Finance leases and other liabilities	(4 300 299)	(2 585 744)	(6 886 043)	(3 038 064)	3 847 979	Budgeted for the repayment on current year loan as well at higher than expected rates.
Net cash flows from / (used) financing activities	2 387 371	(2 511 381)	(124 010)	4 945 490	5 069 500	
Net increase/(decrease) in cash and cash equivalents	(30 756 602)	(30 861 003)	(61 617 605)	(70 906 214)	(9 288 609)	
Cash and cash equivalents at the beginning of the year	326 038 022	91 304 434	417 342 456	51 533 227	(365 809 229)	Due to change in accounting policy, refer to Note 45.
Cash and cash equivalents at the end of the year	295 281 420	60 443 431	355 724 851	(19 372 987)	(375 097 838)	

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2018											
Financial Performance											
Property rates	108 476 248	304 995	108 781 243	-	-	108 781 243	111 524 049	-	2 742 806	103 %	103 %
Service charges	589 224 155	4 330 403	593 554 558	-	-	593 554 558	602 001 682	-	8 447 124	101 %	102 %
Investment revenue	32 700 000	4 558 867	37 258 867	-	-	37 258 867	38 602 829	-	1 343 962	104 %	118 %
Transfers recognised - operational	117 074 536	26 623 233	143 697 769	-	-	143 697 769	126 175 199	-	(17 522 570)	88 %	108 %
Other own revenue	68 614 148	(24 277 820)	44 336 328	-	-	44 336 328	62 781 220	-	18 444 892	142 %	91 %
Licences and permits	1 076 124	154 525	1 230 649	-	-	1 230 649	1 300 402	-	69 753	106 %	121 %
Total revenue (excluding capital transfers and contributions)	917 165 211	11 694 203	928 859 414	-	-	928 859 414	942 385 381	-	13 525 967	101 %	103 %
Employee costs	(279 815 152)	4 436 485	(275 378 667)	-	-	(275 378 667)	(264 536 461)	-	10 842 206	96 %	95 %
Remuneration of councillors	(11 078 473)	137 155	(10 941 318)	-	-	(10 941 318)	(10 941 298)	-	20	100 %	99 %
Debt impairment	(41 650 190)	20 360 039	(21 290 151)	-	-	(21 290 151)	(17 453 642)	-	3 836 509	82 %	42 %
Depreciation and asset impairment	(72 992 708)	(2 082 903)	(75 075 611)	-	-	(75 075 611)	(67 442 051)	-	7 633 560	90 %	92 %
Finance charges	(3 395 548)	(77 696)	(3 473 244)	-	-	(3 473 244)	(11 060 147)	-	(7 586 903)	318 %	326 %
Materials and bulk purchases	(269 678 873)	3 382 635	(266 296 238)	-	-	(266 296 238)	(267 744 119)	-	(1 447 881)	101 %	99 %
Transfers and grants	(4 329 810)	(515 890)	(4 845 700)	-	-	(4 845 700)	(4 282 136)	-	563 564	88 %	99 %
Other expenditure	(241 961 054)	(41 210 955)	(283 172 009)	-	-	(283 172 009)	(235 734 339)	-	47 437 670	83 %	97 %
Total expenditure	(924 901 808)	(15 571 130)	(940 472 938)	-	-	(940 472 938)	(879 194 193)	-	61 278 745	93 %	95 %

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Total revenue (excluding capital transfers and contributions)	917 165 211	11 694 203	928 859 414	-	-	928 859 414	942 385 381	-	13 525 967	101 %	103 %
Total expenditure	(924 901 808)	(15 571 130)	(940 472 938)	-	-	(940 472 938)	(879 194 193)	-	61 278 745	93 %	95 %
Surplus/(Deficit)	(7 736 597)	(3 876 927)	(11 613 524)	-	-	(11 613 524)	63 191 188	-	74 804 712	(544)%	(817)%
Transfers recognised - capital	33 586 807	16 433 709	50 020 516	-	-	50 020 516	37 910 307	-	(12 110 209)	76 %	113 %
Contributions recognised - capital and contributed assets	350 000	1 665 478	2 015 478	-	-	2 015 478	2 481 870	-	466 392	123 %	709 %
Surplus/(Deficit)	(7 736 597)	(3 876 927)	(11 613 524)	-	-	(11 613 524)	63 191 188	-	74 804 712	(544)%	(817)%
Capital transfers and contributions	33 936 807	18 099 187	52 035 994	-	-	52 035 994	40 392 177	-	(11 643 817)	78 %	119 %
Surplus (Deficit) after capital transfers and contributions	26 200 210	14 222 260	40 422 470	-	-	40 422 470	103 583 365	-	63 160 895	256 %	395 %
Surplus (Deficit) after capital transfers and contributions	26 200 210	14 222 260	40 422 470	-	-	40 422 470	103 583 365	-	63 160 895	256 %	395 %
Surplus/(Deficit) for the year	26 200 210	14 222 260	40 422 470	-	-	40 422 470	103 583 365	-	63 160 895	256 %	395 %
Capital expenditure and funds sources											
Total capital expenditure	126 284 585	26 709 948	152 994 533	-	-	152 994 533	137 836 431	-	(15 158 102)	90 %	109 %

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Cash flows											
Net cash from (used) operating	104 086 612	(6 818 990)	97 267 622	-		97 267 622	152 380 638		55 113 016	157 %	146 %
Net cash from (used) investing	(137 230 585)	(21 530 631)	(158 761 216)	-		(158 761 216)	(191 378 743)		(32 617 527)	121 %	139 %
Net cash from (used) financing	2 387 371	(2 511 381)	(124 010)	-		(124 010)	1 814 404		1 938 414	(1 463)%	76 %
Net increase/(decrease) in cash and cash equivalents	(30 756 602)	(30 861 002)	(61 617 604)	-		(61 617 604)	(37 183 701)		24 433 903	60 %	121 %
Cash and cash equivalents at the beginning of the year	326 038 022	91 304 434	417 342 456	-		417 342 456	51 533 227		(365 809 229)	12 %	16 %
Net increase / (decrease) in cash and cash equivalents	(30 756 602)	(30 861 002)	(61 617 604)	-	-	(61 617 604)	(37 183 701)	-	(24 433 903)	60 %	121 %
Cash and cash equivalents at the beginning of the year	326 038 022	91 304 434	417 342 456	-	-	417 342 456	51 533 227	-	365 809 229	12 %	16 %
Cash and cash equivalents at year end	295 281 420	60 443 432	355 724 852	-		355 724 852	14 349 526		341 375 326	4 %	5 %

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

C1. Entities are required to apply the Standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the Standards of GRAP outlined below (paragraph .09 of Directive 5).

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfers of Functions Between Entities Under Common Control
GRAP 106	Transfers of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

C2. Directives issued and effective that entities are required to apply (paragraph .14 of Directive 5):

Reference	Topic
Directive 1 GRAP	Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of
Directive 2	Transitional Provisions for Public Entities, Trading Entities, Municipal Entities, Public Further Education and Training Colleges and Constitutional Institutions
Directive 3	Transitional Provisions for High Capacity Municipalities
Directive 4	Transitional Provisions for Medium and Low Capacity Municipalities and Trading Entities
Directive 5	Determining the GRAP Reporting Framework
Directive 6	Transitional Provisions for Revenue Collected by the South African Revenue Service (SARS)
Directive 7	The Application of Deemed Cost
Directive 8	Transitional Provisions for Parliament and the Provincial Legislatures
Reference	Topic
Directive 9	The Application of the Standards of GRAP by Trading Entities
Directive 10	Application of the Standards of GRAP by Public Further Education and Training Colleges
Directive 11	Changes in the Measurement Bases Following the Initial Adoption of the Standards of GRAP
Directive 12	The Selection of an Appropriate Reporting Framework by Public Entities

C3. Interpretations of the Standards of GRAP approved that entities are required to apply (paragraph .10 of Directive 5):

Reference	Topic
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 11	Consolidations – Special Purpose Entities
IGRAP 12	Jointly Controlled Entities – Non-monetary Contributions by Venturers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IGRAP 16	Intangible Assets – Website Costs

C4. Standards of GRAP and Interpretations of Standards of GRAP approved, but for which the Minister of Finance has not yet determined an effective date, and that entities may consider in formulating an accounting policy (paragraph .12 of Directive 5):

Standards of GRAP that may be used in developing an accounting policy:

Reference	Topic
GRAP 32	Service Concession Arrangements: Grantor
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
IGRAP 17 and	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in Asset

Standards of GRAP that an entity may use to disclose information in its financial statements:

Reference	Topic
GRAP 20	Related Party Disclosures

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

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

These accounting policies are consistent with the previous period unless stated otherwise.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Significant judgements and sources of estimation uncertainty

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

Allowance for slow moving, damaged and obsolete stock

Allowance is made to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note when found material.

Impairment testing

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their historical collection trend. This was performed per service-identifiable categories across all debtors by discounting the future cashflows using the interest rate earned on the primary bank account.

The calculation in respect of the impairment of Traffic fines is based on the same principle as for other receivables except that it is not performed on an individual fine basis.

The municipality used the interest rate on primary bank account as the effective interest rate for impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Post retirement benefits

The cost of post-retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Additional information is disclosed in Note 18.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is calculated based on the cost price of each component.

Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements.

For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

The Municipality considers a project to be significantly delayed after a period of 12 months.

Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciated replacement cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

The Municipality considers a project to be significantly delayed after a period of 12 months.

1.5 Biological assets

A biological asset is a living animal or plant which is part of an agricultural activity and entails the management of the biological transformation and harvest of biological assets for either the sale; distribution at no charge or for a nominal charge; or conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge. Agricultural produce is the harvested product of the Municipality's biological assets.

The entity recognises biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Mossel Bay Municipality Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Biological assets (continued)

Biological assets are measured at each reporting period at their fair value less estimated costs to sell. The fair value of the biological asset is determined based on current market prices, growth and/or volume and estimated value movement in point-of-sale cost.

On derecognition of biological assets due sale or nominal charge, the proceeds as a result of the sale or nominal charge are recognised as revenue in the statement of financial performance for the period in which it arises, whilst the cost of sale (fair value less cost of sale) is recognised as an expenditure in the statement of financial performance.

1.6 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.

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.

The cost of self-constructed investment property is the cost at date of completion.

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.

Transfers are made to or from investment property only when there is a change in use.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life in years
Improved Property - land	Indefinite
Improved Property - buildings	8 - 100
Unimproved Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 4).

Mossel Bay Municipality

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Accounting Policies

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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.

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.

Land is not depreciated as it is deemed to have an indefinite useful life.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.7 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life in years
<u>PPE Land</u>		
Land	Straight line	Indefinite
<u>Community assets</u>		
Community facilities		
• Taxi ranks / bus terminals	Straight line	8 - 100
• Parks	Straight line	8 - 100
• Fire / ambulance stations	Straight line	8 - 100
• Zoo and Marine facilities	Straight line	5 - 100
• Creches	Straight line	8 - 100
• Cemeteries / crematoria	Straight line	8 - 100
• Theatres	Straight line	8 - 100
• Clinics / care centres	Straight line	8 - 100
• Centres	Straight line	8 - 100
• Nature reserves	Straight line	8 - 100
• Libraries	Straight line	8 - 100
• Galleries	Straight line	8 - 100
• Public ablution facilities	Straight line	8 - 100
• Stalls	Straight line	8 - 100
• Halls	Straight line	7 - 100
• Museums	Straight line	8 - 100
• Airports	Straight line	8 - 100
• Public open space	Straight line	8 - 100
• Markets	Straight line	8 - 100
• Abattoirs	Straight line	8 - 100
• Testing stations	Straight line	8 - 100
• Police	Straight line	8 - 100
Sport and recreation facilities		
• Indoor facilities	Straight line	8 - 100
• Outdoor facilities	Straight line	5 - 100
• Leisure/resort facilities	Straight line	8 - 100
<u>Other assets</u>		
Computer Equipment		
• Desktop computer	Straight line	4 - 5
• Laptop computer	Straight line	4 - 5
• Tablets	Straight line	2 - 2
• Printers	Straight line	4 - 5
• Servers	Straight line	5 - 5
• Other computer equipment	Straight line	5 - 5
Furniture and Office Equipment	Straight line	8 - 50
Housing	Straight line	8 - 100
Machinery and Equipment	Straight line	5 - 30
Operational buildings		
• Municipal offices	Straight line	5 - 100
• Yards	Straight line	8 - 100
• Stores	Straight line	8 - 100
• Training centres	Straight line	8 - 100
• Pay / enquiry points	Straight line	8 - 100
• Building plan offices	Straight line	8 - 100
• Workshops	Straight line	8 - 100
• Laboratories	Straight line	8 - 100
• Manufacturing plant	Straight line	8 - 100
• Depots	Straight line	8 - 100
Transport Assets	Straight line	7 - 30

Mossel Bay Municipality
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Accounting Policies

1.7 Property, plant and equipment (continued)

Infrastructure

Coastal infrastructure		
• Revetments	Straight line	10 - 100
• Piers	Straight line	10 - 80
Roads infrastructure		
• Road furniture	Straight line	5 - 50
• Road structures	Straight line	5 - 50
• Roads	Straight line	7 - 30
Electrical infrastructure		
• Power plants	Straight line	5 - 100
• HV substations	Straight line	5 - 100
• HV switching stations	Straight line	5 - 100
• HV transmission conductors	Straight line	10 - 50
• MV networks	Straight line	5 - 50
• MV substations	Straight line	5 - 100
• MV switching stations	Straight line	5 - 100
• LV networks	Straight line	2 - 60
Information and communications infrastructure		
• Distribution layers	Straight line	2 - 10
• Core layers	Straight line	5 - 100
• Data centres	Straight line	8 - 100
Sanitation infrastructure		
• Outfall sewers	Straight line	7 - 50
• Pump stations	Straight line	5 - 50
• Reticulation	Straight line	7 - 50
• Toilet facilities	Straight line	10 - 50
• Waste water treatment works	Straight line	5 - 100
Solid waste infrastructure		
• Electricity generation facilities	Straight line	8 - 100
• Landfill sites	Straight line	10 - 100
• Waste drop-off points	Straight line	8 - 100
• Waste processing facilities	Straight line	8 - 100
• Waste separation facilities	Straight line	8 - 100
• Waste transfer stations	Straight line	8 - 100
Storm-water infrastructure		
• Attenuation	Straight line	5 - 50
• Drainage collection	Straight line	5 - 60
• Storm-water conveyance	Straight line	5 - 50
Water supply infrastructure		
• Pump stations	Straight line	5 - 50
• Water treatment works	Straight line	5 - 100
• Distribution	Straight line	7 - 30
• Reservoirs	Straight line	5 - 50
• Boreholes	Straight line	5 - 50
• Dams weirs	Straight line	5 - 100
• Distribution points	Straight line	7 - 20
• Bulk mains	Straight line	7 - 80
• PRV stations	Straight line	5 - 50
Zoo and Marine facilities	Straight line	5 - 100

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.

Mossel Bay Municipality

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Accounting Policies

1.7 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed for indicators that the expected pattern of consumption of the future economic benefits or service potential embodied in the asset has changed. If detected then the useful life is reviewed. 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's 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 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.8 Site restoration and dismantling cost

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

The asset is measured using the cost model:

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

1.9 Intangible assets

An intangible asset is an identifiable non-tangible asset without physical substance. Examples include computer software, licences and development costs.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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Accounting Policies

1.9 Intangible assets (continued)

Where an intangible asset 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the Municipality will receive future economic benefits or service potential.

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

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

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

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

Item	Depreciation method	Average useful life in years
Computer Software	Straight line	4 - 10
Servitudes	Straight line	5 - 20

Intangible assets are derecognised:

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

The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.10 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Mossel Bay Municipality Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.10 Heritage assets (continued)

Depreciation and Impairment

Heritage assets are not depreciated, since their long economic life and high residual value means that any depreciation would be immaterial.

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

The useful lives of items of heritage assets have been assessed as follows:

Item	Useful life in years
Conservation areas	Indefinite
Historic Buildings	Indefinite
Monuments	Indefinite
Other heritage	Indefinite

Derecognition

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

The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the statement of Financial Performance.

Mossel Bay Municipality

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Accounting Policies

1.11 Financial instruments

The Municipality has various types of financial instruments and these can be broadly categorised as either a financial asset or a financial liability.

A financial asset is:

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

A financial 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.

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

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

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

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

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

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

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

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

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;

Mossel Bay Municipality

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Accounting Policies

1.11 Financial instruments (continued)

- 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 as reflected on the face of the statement of financial position or in the notes thereto:

Long-Term Receivables
Receivables from Exchange Transactions
Other Receivables from Non-Exchange Transactions
Current portion of Long-term Receivables
Cash and Cash Equivalents

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

Long-term Liabilities
Payables from exchange transactions
Bank Overdraft
Current Portion of Long-term Liabilities

Initial recognition

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

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.

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.

Impairment and uncollectibility of financial assets

The Municipality 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.

Mossel Bay Municipality

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Accounting Policies

1.11 Financial instruments (continued)

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.

Derecognition

Financial assets

The Municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

Mossel Bay Municipality

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Accounting Policies

1.11 Financial instruments (continued)

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

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

Presentation

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.

1.12 Cash and Cash equivalents and Investments

Cash and cash equivalents include cash on hand, call deposits and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions and are subject to an insignificant risk of change in value. Investments is classified as either Non-Current Investments or Short-term Investments. Non-Current Investments is investments made for a period longer than 12 months, whilst those invested for a period of longer than 3 months but shorter than 12 months is classified as Short-term Investments. Recognition and classification of investments are made at inception of the investment. All other call deposits, 32 notice deposits or other forms investments not exceeding 3 months are classified as cash and cash equivalents.

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

1.13 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Mossel Bay Municipality

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Accounting Policies

1.13 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses are recognised in the Statement of Financial Performance.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in the Statement of Financial Performance.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

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

1.14 Value Added Tax

Current tax assets and liabilities

The Municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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1.15 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.

Minimum lease payments are apportioned between the finance charge and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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.

1.16 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.

The weighted average method is used to allocate cost to inventory items.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage. Water inventory is measured at the reporting date by way of readings and the calculated volume in the distribution network. Apparent and real water losses is recognised in the period it occurs.

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

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.

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.

Mossel Bay Municipality

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Accounting Policies

1.16 Inventories (continued)

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.

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 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.17 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.18 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.

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.

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1.18 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.18 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in the Statement of Financial Performance.

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

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

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

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

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

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

1.19 Impairment of non-cash-generating assets

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

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.

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Accounting Policies

1.19 Impairment of non-cash-generating assets (continued)

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:

Depreciated replacement cost approach

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

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Accounting Policies

1.19 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in the Statement of Financial Performance.

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

After a reversal of an impairment loss is recognised, 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.

1.20 Financial Sustainability

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

1.21 Employee benefits

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

All costs relating to employee benefits such as contributions, interest and / or actuarial gains or losses, is recognised in the statement of financial performance as employee related costs.

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Accounting Policies

1.21 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the 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 municipality 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.

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1.21 Employee benefits (continued)

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

1.21 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.

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Accounting Policies

1.21 Employee benefits (continued)

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 annual financial statements do not differ materially from the amounts that would be determined at 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 [OR is not] presented as the net of the amount recognised for a reimbursement.

The Municipality offsets an asset relating to one plan against a liability relating to another plan when the Municipality 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.

Staff Leave

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

Accumulated leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrues to Section 57 employees. The performance bonus provision is based on the employment contract stipulations as well as previous performance bonus payment trends.

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Accounting Policies

1.21 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits 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 Municipality 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.

1.22 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.

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 55.

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

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Accounting Policies

1.22 Provisions and contingencies (continued)

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

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

1.23 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.24 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.

Mossel Bay Municipality

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Accounting Policies

1.24 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service charges relating to **electricity and water** are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced.

Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

An estimation is made annually of the water and electricity consumptions not yet invoiced, for which an accrual is recognised as at year end.

Revenue from sale of electricity prepaid meter cards are recognised at the point of sale. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date. The consumption of pre-paid electricity is calculated by using a trend analysis and other historical data on electricity usage.

Service charges relating to **refusal removal** are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly.

Service charges from **sewerage and sanitation** for residential and business properties are levied annually based on a fixed tariff.

Rentals are recognised on a straight-line basis over the term of the lease agreement.

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

The income for **agency services** recognised is commission in terms of the agency agreement.

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised on a time proportionate basis.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.24 Revenue from exchange transactions (continued)

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 the Statement of Financial Performance, using the effective interest rate method.

Dividends or similar distributions are recognised, in the Statement of Financial Performance, when the municipality's right to receive payment has been established.

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

1.25 Revenue from non-exchange transactions

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.25 Revenue from non-exchange transactions (continued)

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis. Rebates and discounts are offset against the related revenue, in terms of IGRAP 1, as there is no intention of collecting this revenue.

Grants, transfers and donations

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.

A liability is recognised, to the extent that the criteria, conditions or obligations have not been met.

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.

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of impaired assets.

All unclaimed deposits are initially recognised as a liability until 36 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. This policy is in line with the prescribed debt principle as enforced by law.

1.26 Investment income

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

1.27 Borrowing costs

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

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for the intended use or sale, are added to the costs of these assets, until such time as the assets are substantially ready for their intended use or sale. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.27 Borrowing costs (continued)

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.28 Comparative information

Where necessary, comparative information have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification is disclosed.

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

The Municipal Regulations on Standard Chart of Accounts (mSCOA) came into effect on 1 July 2017. The municipality has realigned items in the financial statements with the Item Segment of mSCOA. The result of this process was a reclassification and naming of items in the annual financial statements.

1.29 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.

1.30 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.

1.31 Irregular expenditure

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

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.32 Housing development fund

The Housing Development Fund was established in terms of Section 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998 and which requires that the Municipality maintains a separate housing operating account.

Loans from National and Provincial Government used to finance housing developments undertaken by the Municipality were extinguished on 1 April 1998 and transferred to the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4)(d)(ii)(aa), read with, inter alia, Section 16(2) that the net proceeds of any rental, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and be utilised by the Municipality for housing development subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund is cash backed and available funds are invested in accordance with the Municipality's investment policy,
- The proceeds in this fund are utilised for housing developments in accordance with the National Housing Policy and also for housing development projects approved by the MEC for Housing,
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets,
- Any interest earned on the investments of the fund is disclosed as interest earned in the statement of financial performance,
- Any surplus / (deficit) on the Housing Statement of Financial Performance must be transferred to the Housing Development Fund if funds are available and not already committed to approved existing Housing projects.

1.33 Internal reserves

Capital replacement reserve (CRR)

In order to finance capital assets from internal sources, amounts are transferred out of the accumulated surplus into the Capital Replacement Reserve (CRR) in terms of the funding and reserves policy adopted by the Municipality. The cash in the CRR can only be used to finance capital expenditure appropriated in an approved budget. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilised.

1.34 Budget information

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

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

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

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

Material differences or variances are defined as any differences or variances above 10% with a value of more than R1 000 000. Explanations for material differences between the approved and final budget are included in the annual financial statements.

Explanations for material differences between the final budget amounts and actual amounts are included the annual financial statements.

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

The disclosure of comparative budget information is not required in terms of GRAP 24.

1.35 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Mossel Bay Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.35 Related parties (continued)

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.36 Events after reporting date

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

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

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

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

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP110 Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2019	Not expected to impact results but may result in additional disclosure
• GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Infrastructure						
Coastal Infrastructure	3 993 143	(1 515 430)	2 477 713	3 993 142	(1 326 854)	2 666 288
Electrical Infrastructure	315 949 233	(68 252 500)	247 696 733	291 491 282	(59 402 200)	232 089 082
Information and Communication Infrastructure	4 181 721	(2 057 125)	2 124 596	617 994	(1 656 133)	(1 038 139)
Land	101 033 942	-	101 033 942	101 262 706	-	101 262 706
Roads Infrastructure	411 814 180	(105 849 950)	305 964 230	383 284 682	(92 921 391)	290 363 291
Sanitation Infrastructure	382 825 299	(113 978 659)	268 846 640	371 608 308	(104 210 610)	267 397 698
Solid Waste Infrastructure	17 988 936	(15 309 496)	2 679 440	16 977 942	(15 162 772)	1 815 170
Storm water Infrastructure	166 479 424	(32 518 113)	133 961 311	158 499 629	(27 944 765)	130 554 864
Water Supply Infrastructure	488 361 941	(142 551 068)	345 810 873	457 600 913	(126 134 742)	331 466 171
Community Assets						
Community Assets	295 361 186	(68 823 600)	226 537 586	291 993 456	(61 838 733)	230 154 723
Libraries	12 969 827	(1 747 032)	11 222 795	12 969 827	(1 489 303)	11 480 524
Zoo Marine and Non-biological Animals	35 285	(13 318)	21 967	35 285	(11 700)	23 585
Land	80 687 102	-	80 687 102	80 687 102	-	80 687 102
Other Assets						
Operational & Housing Buildings	138 077 145	(23 442 174)	114 634 971	127 697 904	(20 928 166)	106 769 738
Machinery and Equipment	31 933 084	(14 056 829)	17 876 255	26 364 521	(13 085 437)	13 279 084
Furniture and Office Equipment	20 019 639	(10 916 613)	9 103 026	18 348 146	(9 897 624)	8 450 522
Computer Equipment	14 748 728	(7 143 970)	7 604 758	16 145 510	(6 602 574)	9 542 936
Transport Assets	61 293 013	(22 941 300)	38 351 713	52 290 865	(20 404 818)	31 886 047
Land	132 264 809	-	132 264 809	132 264 809	-	132 264 809
Total	2 680 017 637	(631 117 177)	2 048 900 460	2 544 134 023	(563 017 822)	1 981 116 201

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Depreciation	Impairment loss	Total
Infrastructure								
Coastal Infrastructure	2 666 288	-	-	-	-	(188 575)	-	2 477 713
Electrical Infrastructure	232 089 082	24 465 874	-	7 490 264	(7 498 187)	(8 850 300)	-	247 696 733
Information and Communication Infrastructure	(1 038 139)	3 730 728	(40 425)	3 766 087	(3 766 087)	(527 568)	-	2 124 596
Land	101 262 706	-	(228 764)	60 000	(60 000)	-	-	101 033 942
Roads Infrastructure	290 363 291	25 344 803	(10 377)	13 875 265	(10 678 272)	(12 898 991)	(31 489)	305 964 230
Sanitation Infrastructure	267 397 698	10 997 515	-	9 118 825	(8 899 349)	(9 768 049)	-	268 846 640
Solid Waste Infrastructure	1 815 170	1 010 994	-	(318 724)	318 724	(146 724)	-	2 679 440
Storm water Infrastructure	130 554 864	11 392 251	-	(2 740 676)	(671 780)	(4 573 348)	-	133 961 311
Water Supply Infrastructure	331 466 171	28 075 785	(82 709)	(4 885 669)	6 438 636	(15 201 341)	-	345 810 873
Community Assets								
Community Assets	230 154 723	4 355 199	(3 745)	5 464 378	(6 507 364)	(6 880 927)	(44 678)	226 537 586
Libraries	11 480 524	-	-	-	-	(257 729)	-	11 222 795
Zoo Marine and Non-biological Animals	23 585	-	-	-	-	(1 618)	-	21 967
Land	80 687 102	-	-	-	-	-	-	80 687 102
Other Assets								
Operational & Housing Buildings	106 769 738	10 587 939	(239 134)	19 882 597	(19 649 237)	(2 716 932)	-	114 634 971
Machinery and Equipment	13 279 084	6 199 188	(223 130)	2 802 329	(2 806 342)	(1 374 874)	-	17 876 255
Furniture and Office Equipment	8 450 522	2 245 050	(213 776)	2 267 213	(2 267 213)	(1 378 770)	-	9 103 026
Computer Equipment	9 542 936	-	(99 251)	(35 359)	35 359	(1 838 927)	-	7 604 758
Transport Assets	31 886 047	9 431 105	(199 063)	9 526 071	(9 526 071)	(2 766 376)	-	38 351 713
Land	132 264 809	-	-	-	-	-	-	132 264 809
	1 981 116 201	137 836 431	(1 340 374)	66 272 601	(65 537 183)	(69 371 049)	(76 167)	2 048 900 460

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers made	Correction of Error	Depreciation	Impairment reversal	Total
Infrastructure									
Coastal Infrastructure	2 681 959	-	-	172 929	-	-	(188 600)	-	2 666 288
Electrical Infrastructure	197 795 672	29 510 484	(4 010)	22 223 946	(22 130 666)	12 915 031	(8 221 375)	-	232 089 082
Information and Communication Infrastructure	1 618 829	1 324 445	(20 834)	(2 264 879)	(1 324 445)	-	(371 255)	-	(1 038 139)
Land	298 606 236	-	(45 000)	-	-	(197 298 530)	-	-	101 262 706
Roads Infrastructure	303 525 266	32 021 211	(1 653)	50 476 793	(76 961 960)	(6 960 088)	(11 736 278)	-	290 363 291
Sanitation Infrastructure	268 217 304	13 368 787	(38 465)	22 437 376	(24 685 239)	(1 634 113)	(10 267 952)	-	267 397 698
Solid Waste Infrastructure	1 935 685	-	-	318 724	-	-	(754 356)	315 117	1 815 170
Storm water Infrastructure	96 219 152	7 862 760	-	56 632 665	(31 464 811)	5 187 865	(3 882 767)	-	130 554 864
Water Supply Infrastructure	318 527 735	25 536 125	(6 786)	12 881 812	(8 394 185)	(1 720 613)	(15 357 917)	-	331 466 171
Community Assets									
Community Assets	212 536 427	3 867 071	(276 922)	21 967 903	(3 664 110)	2 368 087	(6 643 733)	-	230 154 723
Libraries	7 617 775	-	-	4 023 510	-	-	(160 761)	-	11 480 524
Zoo Marine and Non-biological Animals	22 131	2 560	-	2 560	(2 560)	-	(1 106)	-	23 585
Land	80 687 102	-	-	-	-	-	-	-	80 687 102
Other Assets									
Operational & Housing Buildings	110 132 360	17 978 782	(32 610)	(4 116 726)	(18 903 539)	4 315 514	(2 604 043)	-	106 769 738
Machinery and Equipment	9 574 334	7 131 869	(109 676)	864 765	(2 909 044)	131 499	(1 404 663)	-	13 279 084
Furniture and Office Equipment	7 873 148	2 993 102	(179 251)	2 053 752	(2 974 785)	26 621	(1 342 065)	-	8 450 522
Computer Equipment	7 275 495	-	(134 254)	4 500 191	3	9 396	(2 107 895)	-	9 542 936
Transport Assets	29 711 401	3 652 193	(106 668)	4 857 802	(3 652 193)	-	(2 576 488)	-	31 886 047
Land	132 264 809	-	-	-	-	-	-	-	132 264 809
	2 086 822 820	145 249 389	(956 129)	197 033 123	(197 067 534)	(182 659 331)	(67 621 254)	315 117	1 981 116 201

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

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3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Opening balance	Additions / capital expenditure	Finalised during the year	Total
Infrastructure				
Electrical infrastructure	16 358 868	24 465 874	(10 974 501)	29 850 241
Information and communications infrastructure	-	3 730 728	(3 730 728)	-
Road infrastructure	57 065 318	25 513 878	(26 222 783)	56 356 413
Sanitation infrastructure	20 113 397	10 997 515	(12 945 415)	18 165 497
Storm-water infrastructure	6 888 677	11 392 251	(16 104 551)	2 176 377
Water supply infrastructure	36 490 260	28 075 785	(11 137 950)	53 428 095
Community Assets				
Community Assets	2 438 825	4 355 199	(5 016 750)	1 777 274
Other assets				
Operational & Housing Buildings	13 697 871	10 343 860	(9 596 950)	14 444 781
Machinery and Equipment	4 222 825	6 256 096	(2 806 710)	7 672 211
Furniture and Office Equipment	-	2 263 143	(2 263 143)	-
Transport Assets	-	9 431 104	(9 431 104)	-
	157 276 041	136 825 433	(110 230 585)	183 870 889

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
3. Property, plant and equipment (continued)		
Expenditure incurred to repair and maintain property, plant and equipment		
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	35 687 418	31 474 179
Employee related costs	39 997 227	34 753 138
Materials and supplies	12 173 493	8 775 616
Other expenditure	801 311	862 954
	88 659 449	75 865 887

Property, Plant and Equipment are initially recognised at cost and are carried at cost less accumulated depreciation and impairments.

There are no restrictions on the realisability of Property, Plant and Equipment or the remittance of revenue and proceeds of de-recognition.

No Property, Plant and Equipment are pledged as security for liabilities, except for leased property as set out in Note 17.

There were no significant delays on projects or any construction halted for the reporting period.

Refer to Notes 46 for detail regarding the change in accounting estimates relating to change in useful lives and residual value of PPE assets.

Refer to Note 53 for the amount of contractual commitment for the acquisition of PPE. The amount of R 57 858 108 for contracted commitments is approved and contracted.

Finance lease liabilities are secured over the items of computer equipment and office equipment leased. The total carrying value of these leased assets at 30 June 2018 is R18 877 and include leased assets where the finance leases have been fully redeemed, but the assets are still used by the Municipality. The monthly payments regarding these leased assets are treated as operating leases.

Included in the infrastructure cost is an amount of R127 832 541 for Seawater Desalination Plant which was completed during the 2012/13 year and is the Municipality's portion of the capital expenditure for the construction of a jointly-owned 15 Mega litres per day Seawater Desalination facility. There are no budget capital commitments toward the seawater Desalination facility for the following year.

The impairment of the guard hut at Louis Fourie landfill site due to Structural damage were reversed as a result of the restoration work that were completed in June 2017.

The following assets carry impairments as at reporting date:

- Louis Fourie/Danabay Traffic Lights at intersection
- Carport next to main offices

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4. Investment property

	2018			2017		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	602 534 736	(9 312 210)	593 222 526	606 005 216	(8 579 197)	597 426 019

Reconciliation of investment property - 2018

	Opening balance	Disposals	Transfers received	Transfers made	Depreciation	Total
Investment property	597 426 019	(2 541 754)	41 066	(776 483)	(926 322)	593 222 526

Reconciliation of investment property - 2017

	Opening balance	Additions	Disposals	Transfers received	Correction of Error	Depreciation	Total
Investment property	627 276 210	-	(399 673)	34 411	(28 548 900)	(936 029)	597 426 019

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	2018 R	2017 R
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4. Investment property (continued)

Amounts recognised in surplus or deficit

Rental revenue from Investment property	2 621 389	2 511 076
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At initial recognition, the Municipality measures Investment Property at cost and the cost model is applied to investment property for subsequent measurement. Under the cost model, Investment Property is carried at its cost minus accumulated depreciation at the reporting date.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of de-recognition.

No investment properties were pledged as security for liabilities.

The depreciation expense is included in the line item "Depreciation and amortisation " (Note 35) in the Statement of Financial Performance.

There were no significant delays on projects or any construction halted for the reporting period.

Expenditure incurred to repair and maintain investment property

Expenditure incurred to repair and maintain investment property included in Statement of Financial Performance

Contracted Services	692 650	304 376
Materials and Supplies	9 856	-
	702 506	304 376

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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5. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 220 249	(626 541)	593 708	1 220 249	(495 893)	724 356

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	724 356	(130 648)	593 708

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	895 140	(170 784)	724 356

Other information

Intangible assets are initially recognised at cost and are carried at cost less accumulated amortisation and impairments.

Intangible assets have finite useful lives and the estimated remaining useful lives are reviewed at each reporting period.

The amortisation expense is included in the line item "Depreciation and amortisation " (Note 35) in the Statement of Financial Performance.

The Municipality does not have any internally generated intangible assets.
 No restrictions are placed on intangible assets.
 No intangible assets were pledged as security for liabilities.

Expenditure incurred to repair and maintain intangible assets

No repairs and maintenance were incurred during the current or previous year.

6. Heritage assets

	2018			2017		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical monuments	95 003	-	95 003	95 003	-	95 003
Conservation areas	730 200	-	730 200	730 200	-	730 200
Historical buildings	3 397 827	-	3 397 827	3 397 827	-	3 397 827
Other	2 569	-	2 569	2 569	-	2 569
Total	4 225 599	-	4 225 599	4 225 599	-	4 225 599

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	2018 R	2017 R
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6. Heritage assets (continued)

Reconciliation of heritage assets 2018

	Opening balance	Additions	Impairment losses recognised	Total
Historical monuments	95 003	-	-	95 003
Conservation areas	730 200	-	-	730 200
Historical buildings	3 397 827	-	-	3 397 827
Other	2 569	-	-	2 569
	4 225 599	-	-	4 225 599

Reconciliation of heritage assets 2017

	Opening balance	Additions	Impairment losses recognised	Total
Historical monuments	95 003	-	-	95 003
Conservation areas	730 200	-	-	730 200
Historical buildings	3 397 827	-	-	3 397 827
Other	2 569	-	-	2 569
	4 225 599	-	-	4 225 599

There is no restrictions on title and disposal of heritage assets and no heritage assets are pledged as securities.

Heritage assets which fair values cannot be reliably measured due to impracticability:

Site 3419, Mossel Bay - Cave at the point

The Cape st. Blaize Cave at the point in Mosselbay, situated on site 3419, is classified as a heritage asset controlled and owned by the Municipality. The Cape st. Blaize Cave yield artefacts dating back 80 000 years. The artefacts themselves are housed at the Culture Museum which is not controlled or owned by the Municipality.

Sites 7357 and 2938 Mossel Bay - Harry Giddey

The Harry Giddey Park on site 2938 is classified as a heritage asset of the Municipality. The park was erected in 1887 and originally named after Queen Victoria of England to commemorate her 50th year as Queen. The park was renamed later in 1939 as the Harry Giddey Park in honour of Mr Harry Giddey, a wealthy person of Mossel Bay, for all the efforts to upgrade the park.

Expenditure incurred to repair and maintain heritage assets

No repairs and maintenance were incurred during the current or previous year.

7. Long term receivables

At amortised cost

Land Sales Debtors	10 297	12 208
Bursary Obligations	189 631	140 460
Public Assistance Loans	5 909	47 070
Housing Selling Schemes	1 022 838	1 235 031
	1 228 675	1 434 769
Impairments	(396 001)	(284 371)
	832 674	1 150 398
	-	-
	-	-

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	2018 R	2017 R
7. Long term receivables (continued)		
Non-current assets		
At amortised cost	354 732	813 717
Current assets		
At amortised cost	477 942	336 681
Total	832 674	1 150 398
Reconciliation of debt impairment of long-term receivables		
Balance at the beginning of the year	284 371	978 734
Contribution to / (Reversal from) provision	111 630	(694 363)
Bad debts written off / recovered	-	-
	396 001	284 371

Outstanding Land Sales debtors and Housing selling scheme loans were summarised in scheme numbers. A payment % report was drawn in order to establish the payment percentage per type of debtor. This payment percentage was used to impair these long-term receivables.

No provision for debt impairment to be recognised for study and public assistance loans.

Land Sales: Loans were granted to qualified individuals by Council. These loans attract interest at market-related interest rates.

Public assistance loans: To facilitate the development of sporting facilities, loans were made to provide the necessary financial assistance. These loans attract interest at a rate of between 12% and 15% per annum. The last repayment is in September 2018.

Housing Selling Scheme Loans: Housing loans are granted to qualifying individuals in terms of the National Housing Policy. These loans attract interest at a rate determined by the National Minister of Housing.

8. Investments

Long-term Investments	36 000 000	24 000 000
Long-term Deposits: Other bodies	3 484 725	3 898 052
Less: Payment to other bodies	(3 484 725)	(3 898 052)
	36 000 000	24 000 000

No investments were written off during the year.

The average rate of return on Long-term Investments were 10.65% for the year ended 30 June 2018.

Investments are made in accordance with the Municipality's Cash Management and Investment policy as follows:

- That the broad investment policy framework be applicable
- Investments not be placed with foreign banks
- Council's total investment portfolio be invested with banks according to investment policy
- Not more than 50% of the total investments invested with one institution

Long-term Deposits: Other bodies (Group Schemes):

These deposits are Group Scheme funds of employees that is paid over to the Municipality, who then invests these funds in the name of the employee in Money market funds. It therefore has no impact on the Municipality's Statement of Financial Position.

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2018 R	2017 R
9. Inventories		
Consumables	13 053 840	11 479 593
Housing Topstructures	31 966 625	9 301 163
Unsold property held for resale	4 134 797	6 063 851
Water	503 106	406 385
	49 658 368	27 250 992

Inventory to the value of R5 417 077 (2017: R7 649 755) was written off during the financial year.

Housing stock inventory relates to various housing topstructure projects, including the Azizani/Zinyoka housing project, UISP, Louis Fourie Corridor, Herbertsdale 154 Topstructures and Sonskynvallei projects for which Mossel Bay Municipality is the appointed developer as well as housing emergency kits.

Land relates to developed land that is held for resale by the municipality, mostly aimed at middle-income households.

Water inventory relates to purified water under the control of the municipality. The cost of sale per kiloliter increased from R4.05 p/kl in 2017 to R5.01 p/kl in 2018 representing an increase in cost of sale of 23.8%.

All inventory for the current year are carried at the lower of cost or the net realisable value.

None of the inventories were pledged as security for liabilities.

10. Operating leases

The Municipality as lessor

Operating leases relate to Property owned by the Municipality with lease terms of between one to thirty years. The lessee does not have an option to purchase the property at the expiry of the lease period.

Non-cancellable Operating Lease assets recognised in the Statement of Financial Performance

Balance at the beginning of year	194 471	182 106
Movement for the year	2 436	12 365
	196 907	194 471

The following receipts have been recognised as an income in the Statement of Financial Performance

Rental income	4 468 064	4 260 713
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At the reporting date the Municipality had lease receipts receivable under non-cancellable operating leases for Investment Property, which fall due as follows:

Up to 1 year	3 969 165	2 980 694
1 to 5 years	9 858 827	9 587 437
More than 5 years	38 004 477	38 328 716
	51 832 469	50 896 847

Operating leases are recognised on the straight-line basis as per the requirement of GRAP 13.

The Municipality as lessee

Operating leases relate to buildings with lease terms of between one to ten years, with an option to extend for a further period. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period.

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	2018 R	2017 R
10. Operating leases (continued)		
Non-cancellable Operating Lease liabilities recognised in the Statement of Financial Performance		
Balance at the beginning of the year	1 673 415	1 345 487
Movement for the year	171 741	327 927
	1 845 156	1 673 414
The following payments have been recognised as an expenditure in the Statement of Financial Performance		
Lease rentals on operating lease	2 593 725	2 405 907
At the reporting date the Municipality had outstanding commitments under non-cancellable operating leases for buildings, which fall due as follows:		
Up to 1 year	2 605 172	2 593 725
1 to 5 years	9 350 298	10 898 263
More than 5 years	2 650 954	3 708 162
	14 606 424	17 200 150
11. Receivables from exchange transactions		
Gross balances		
Electricity	36 458 234	33 692 945
Water	24 480 332	16 539 022
Sewerage	6 894 034	5 736 338
Refuse	3 876 935	3 128 317
Land sales	8 861	7 768
Housing selling schemes	1 116 666	1 040 157
Housing rental	145 653	130 014
Other (merchandising, jobbing, contracts and service charges)	11 924 291	9 326 542
	84 905 006	69 601 103
Less: Allowance for impairment		
Electricity	(1 773 288)	(1 732 272)
Water	(3 651 388)	(3 417 995)
Sewerage	(2 519 946)	(2 066 413)
Refuse	(444 099)	(322 088)
Land sales	(8 107)	(5 607)
Housing selling schemes	(1 105 041)	(299 717)
Housing rental	(138 884)	(100 320)
Other (merchandising, jobbing, contracts and service charges)	(2 597 953)	(2 839 524)
	(12 238 706)	(10 783 936)
Net balance		
Electricity	34 684 946	31 960 673
Water	20 828 944	13 121 027
Sewerage	4 374 088	3 669 925
Refuse	3 432 836	2 806 229
Land sales	754	2 161
Housing selling schemes	11 625	740 440
Housing rental	6 769	29 694
Other (merchandising, jobbing, contracts and service charges)	9 326 338	6 487 018
	72 666 300	58 817 167

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Notes to the Annual Financial Statements

	2018 R	2017 R
11. Receivables from exchange transactions (continued)		
The tables below contain information about the ageing of receivables from exchange transactions for each service:		
Electricity		
Current (0 -30 days)	33 300 940	30 312 123
31 - 60 days	978 463	1 171 849
61 - 90 days	247 545	259 854
91 - 120 days	160 791	122 044
121 - 365 days	271 979	248 522
> 365 days	1 498 516	1 578 553
Less: Impairment	(1 773 288)	(1 732 272)
	34 684 946	31 960 673
Water		
Current (0 -30 days)	17 388 385	11 220 667
31 - 60 days	1 247 937	843 497
61 - 90 days	535 230	432 422
91 - 120 days	890 284	399 965
121 - 365 days	756 793	697 430
> 365 days	3 661 703	2 945 041
Less: Impairment	(3 651 388)	(3 417 995)
	20 828 944	13 121 027
Sewerage		
Current (0 -30 days)	3 314 173	2 646 950
31 - 60 days	539 107	353 533
61 - 90 days	258 003	205 801
91 - 120 days	217 304	164 043
121 - 365 days	436 453	377 057
> 365 days	2 128 994	1 988 954
Less: Impairment	(2 519 946)	(2 066 413)
	4 374 088	3 669 925
Refuse		
Current (0 -30 days)	2 804 743	2 393 909
31 - 60 days	352 736	220 662
61 - 90 days	116 524	75 750
91 - 120 days	83 180	51 403
121 - 365 days	146 875	95 961
>365 days	372 877	290 632
Less: Impairment	(444 099)	(322 088)
	3 432 836	2 806 229

Service debtors receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R56 808 241.06 (2016/17: R46 573 649.10) and for more than 30 days is R6 512 575 (2016/17: R4 984 203.65).

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	2018 R	2017 R
11. Receivables from exchange transactions (continued)		
Land sales		
Current (0 -30 days)	418	451
31 - 60 days	314	328
61 - 90 days	141	258
91 - 120 days	142	138
121 - 365 days	413	311
>365 days	7 433	6 282
Less: Impairment	(8 107)	(5 607)
	754	2 161

Land Sales receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R418 (2016/17: R451) and for more than 30 days is R336 (2016/17: R1 710).

Housing selling schemes		
Current (0 -30 days)	15 666	13 455
31 - 60 days	14 050	15 936
61 - 90 days	11 957	12 352
91 - 120 days	11 452	12 056
121 - 365 days	49 042	35 154
>365 days	1 014 499	951 204
Less: Impairment	(1 105 041)	(299 717)
	11 625	740 440

Housing Selling Schemes receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R11 625 (2016/17: R13 455) and for more than 30 days is Rnil (2016/17: R726 984).

Housing rental		
Current (0 -30 days)	4 518	4 413
31 - 60 days	3 173	3 032
61 - 90 days	2 379	2 379
91 - 120 days	1 835	2 153
121 - 365 days	15 489	6 014
>365 days	118 259	112 023
Less: Impairment	(138 884)	(100 320)
	6 769	29 694

Housing rentals receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R4 518 (2016/17: R4 413) and for more than 30 days is R2 250 (2016/17: R25 281).

Other (merchandising, jobbing, contracts and service charges)		
Current (0 -30 days)	7 197 910	5 809 451
31 - 60 days	185 392	453 473
61 - 90 days	129 956	133 156
91 - 120 days	101 648	56 722
121 - 365 days	625 683	367 124
>365 days	3 683 702	2 506 616
Less: Impairment	(2 597 953)	(2 839 524)
	9 326 338	6 487 018

Other receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R7 197 910 (2016/17: R5 809 451) and for more than 30 days is R2 128 429 (2016/17: R677 567).

Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2018 R	2017 R
11. Receivables from exchange transactions (continued)		
Summary of receivables by customer classification		
Residential	37 172 380	39 100 961
Industrial / Commercial	20 086 781	13 003 582
National / Provincial government	4 351 647	2 024 857
Other	11 055 492	4 687 767
	72 666 300	58 817 167
Reconciliation of allowance for impairment		
Balance at beginning of the year	(10 783 936)	(9 156 322)
Movement in allowance for impairment	(1 454 770)	(1 627 614)
	(12 238 706)	(10 783 936)
12. Receivables from non-exchange transactions		
Gross balance		
Rates	13 066 396	10 932 086
Traffic fines	41 287 839	79 004 858
Payments made in advance	3 371 364	2 826 572
Government grants and subsidies	128 834	128 834
Other	3 196 837	2 802 489
Recoverable expenditure	75 644	75 644
	61 126 914	95 770 483
Less: Allowance for impairment		
Rates	(4 213 238)	(4 623 259)
Traffic fines	(35 668 971)	(70 140 753)
Other	(1 945 651)	(1 982 128)
	(41 827 860)	(76 746 140)
Net balance		
Rates	8 853 158	6 308 827
Traffic fines	5 618 868	8 864 105
Payments made in advance	3 371 364	2 826 572
Government grants and subsidies	128 834	128 834
Other	1 251 186	820 361
Recoverable expenditure	75 644	75 644
	19 299 054	19 024 343

Sundry debtors are grouped together in financial assets with similar credit risk characteristics and collectively assessed for debt impairment. However the "Other Debtors" are individually assessed.

Provision for debt impairment is made for the debtor created for funds outstanding from LGSETA, Rates Debtors and Traffic Fines.

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Notes to the Annual Financial Statements

	2018 R	2017 R
12. Receivables from non-exchange transactions (continued)		
Rates: Ageing		
Current (0 -30 days)	7 201 654	5 150 608
31 - 60 days	1 211 697	471 823
61 - 90 days	348 673	254 561
91 - 120 days	283 776	192 925
121 - 365 days	512 091	441 714
> 365 days	3 508 505	4 420 455
Less: Impairment	(4 213 238)	(4 623 259)
	8 853 158	6 308 827

Rates receivables that are past due as at the end of 2017/18 but not impaired, for less than 30 days is R7 201 654 (2016/17: R5 150 608) and for more than 30 days is R1 651 504 (2016/17: R1 158 220).

Summary of rates by customer classification

Residential	6 797 005	4 541 602
Industrial / Commercial	1 918 968	1 122 246
National / Provincial government	90 067	233 352
Other	47 118	411 627
	8 853 158	6 308 827

Reconciliation of allowance for impairment

Balance at beginning of the year	(76 746 140)	(56 724 181)
Movement in allowance for impairment	34 918 280	(20 021 959)
	(41 827 860)	(76 746 140)

13. VAT Payable / Receivable

VAT Receivable	10 896 467	8 071 252
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VAT is payable on the receipts basis. Only once payment is received from debtors VAT is paid over to SARS.

14. Short term investments

ABSA Bank	-	73 812 942
Investec	-	92 281 281
Nedbank	202 882 926	199 715 005
Standard Bank	209 016 485	-
	411 899 411	365 809 228

The average rate of return on Short-term Investments were 7.99% for the year ended 30 June 2018.

15. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	19 060	19 060
Bank balances	9 326 904	16 177 119
Short-term deposits	5 003 562	35 337 048
	14 349 526	51 533 227

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				2018	2017
				R	R
15. Cash and cash equivalents (continued)					
The municipality had the following bank accounts					
Account number / description	Bank statement balances			Cash book balances	
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017
Primary Bank Account - Nedbank cheque account 1134644809	8 474 401	141 237	-	9 326 904	-
Primary Bank Account - Standard Bank cheque account 82846979	-	11 138 440	4 389 210	-	16 177 119
Traffic Bank Account 300965338	-	(4)	290	-	-
Total	8 474 401	11 279 673	4 389 500	9 326 904	16 177 119

	2018	2017
Investments: Current portion matures within next 12 months - Refer Note 7	5 003 562	35 337 048

All accounts of Mossel Bay Municipality are held with Nedbank. The balance of account no. 1134643764 - Account for Traffic fines, is swept to the Primary bank account no. 1134644809 daily.

No cash and cash equivalents were pledged as security for liabilities

No restrictions were placed on the use of cash and cash equivalents.

16. Other financial liabilities

At amortised cost

Long term loans	33 842 799	30 993 649
Local registered stock loans	44 572	106 110

Total other financial liabilities	33 887 371	31 099 759
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Local registered stock loans:

Local registered stock loans bear interest at rates between 12 and 15 percent per annum and expires in September 2018.

Long term loans:

The Municipality has taken up a R30 million loan from the Development Bank of South Africa to fund the Seawater Desalination plant constructed in the 2010/11 financial year. This loan bear interest at a floating rate of 10.442%.

The Municipality has taken up a R4,8 million loan from ABSA Bank in the 15/16 financial year, a R6,5 million loan from ABSA in the 16/17 financial year and a R5,6 million loan from Nedbank in the current financial year to fund the Midbrak main sewer network project. These loans are for a period of 10 years and bear interest at an all-in rate of 9%, 9.5% and 10.21% respectively.

Refer to Appendix A for more detail on other financial liabilities.

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	2018 R	2017 R
16. Other financial liabilities (continued)		
Non-current liabilities		
At amortised cost	30 651 228	28 296 818
Current liabilities		
At amortised cost	3 236 143	2 802 941
Total	33 887 371	31 099 759
17. Finance lease obligation		
Minimum lease payments due		
- within one year	13 785	237 233
- in second to fifth year inclusive	6 076	19 860
- later than five years	-	-
	19 861	257 093
Future finance charges on finance leases	(984)	(12 541)
Present value of minimum lease payments	18 877	244 552
Present value of minimum lease payments due		
- within one year	12 944	225 676
- in second to fifth year inclusive	5 933	18 877
	18 877	244 553
Non-current liabilities	5 933	18 877
Current liabilities	12 944	225 676
	18 877	244 553

Finance lease liabilities relate to computers and office equipment with lease terms not more than five years. Finance leases bear interest at rates between 9.27 and 31.9 percent for Computers and between 9 and 31 percent for Office Equipment. Finance lease liabilities are secured over the items of office equipment and computers leased.

18. Employee benefit obligations

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

Non-current liabilities		
Post-Retirement Medical Aid benefits liability	85 930 000	73 038 000
Ex-gratia pension benefits liability	1 279 000	1 344 000
Long service awards	15 507 000	13 764 000
	102 716 000	88 146 000
Current liabilities		
Post-Retirement Medical Aid benefits liability	4 699 000	5 392 000
Ex-gratia pension benefits liability	196 000	202 000
Long service awards	1 065 000	1 562 000
Performance bonuses accrual	956 856	753 593
Staff leave accrual	14 691 330	14 227 038
Employee bonus accrual	5 157 635	4 965 196
Employee overtime / Standby allowance accrual	1 090 860	1 059 393
	27 856 681	28 161 220

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	2018 R	2017 R
18. Employee benefit obligations (continued)		
Total liabilities		
Post-Retirement Medical Aid benefits liability	90 629 000	78 430 000
Ex-gratia pension benefits liability	1 475 000	1 546 000
Long service awards	16 572 000	15 326 000
Performance bonuses accrual	956 856	753 593
Staff leave accrual	14 691 330	14 227 038
Employee bonus accrual	5 157 635	4 965 196
Employee overtime / Standby allowance accrual	1 090 860	1 059 393
	130 572 681	116 307 220

18.1 POST EMPLOYMENT HEALTH CARE BENEFITS

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Subsidy arrangement:

Mossel Bay is committed to pay subsidies broadly as follows:

- All new continuation pensioners (that are currently still in service) and their dependants will receive a 70% subsidy subject to the maximum (CAP) amount of R4,027 (per month per member) for the period 1 July 2017 to 30 June 2018. The maximum (CAP) amount was R3,871 in the previous financial year.
- All existing continuation pensioners and their dependants will continue to receive a 70% subsidy subject to the maximum (CAP) amount of R4,027 (per month per member) for the period 1 July 2017 to 30 June 2018. That said, there are four continuation pensioners who receive a 100% subsidy. The maximum (CAP) amount was R3,871 in the previous financial year.
- Per the actuary valuation report, it was assumed that the subsidy would increase by 50% of long term CPI.

Valuation method:

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference to the Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25.

The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

Active employees	491	462
Continuation pensioners	125	128
	616	590

The unfunded liability in respect of past service has been estimated as follows:

Active employees	37 397 000	30 789 000
Continuation pensioners	53 232 000	47 641 000
	90 629 000	78 430 000

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Notes to the Annual Financial Statements

	2018 R	2017 R
18. Employee benefit obligations (continued)		
Summary of active employees		
Number of principal members	491	462
Average age (years)	42	42
Average past service (years)	11	11
Average employer monthly contribution	2 437	2 379
Summary of continuation pensioners:		
Number of principal members	125	128
Average age (years)	68	68
Average employer monthly contributions	3 601	3 471

The active employees were assumed to have one dependent, on retirement, in the form of a spouse, as per the marriage assumption table.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas
- LA Health
- HOSMED
- Key Health
- SAMWUMED

Results of valuations:

Results of Valuations

Accrued Liability

Active employees	37 397 000	30 789 000
Continuation pensioners	53 232 000	47 641 000
	90 629 000	78 430 000

All members

Total value of liabilities	90 629 000	78 430 000
Value of assets	-	-

Unfunded accrued liability	90 629 000	78 430 000
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The total liability increased by 15.6% over the accounting period.

Current service and interest cost

Current service cost (Active employees)	2 933 000	3 871 000
Interest cost (All members)	7 709 000	7 706 000
	10 642 000	11 577 000

Actuarial gains and losses

Actuarial (Gain) / Loss for the period	6 944 373	(24 487 697)
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The main reasons for the actuarial (gain) / loss can be attributed to the following factors:

- **Discount rate changes** – The net discount rate changed from 2.10% to 2.56% during the valuation period. The net discount rate is inversely related to the provision towards the post employment medical subsidies. The increased net discount rate results in a lower accrued liability. As a result, the accrued liability decreased in the current valuation period.
- **Participant changes** - The movements in the number of participants resulted in a decrease to the accrued liability.
- **Medical inflationary changes** – The medical inflation assumption in the previous valuation period was lower than the actual increases in the medical contributions experienced by participants. This increased the liability.

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	2018 R	2017 R
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18. Employee benefit obligations (continued)

- **Miscellaneous** – The miscellaneous items in the data resulted in a decrease to the liability by R 2,279,000. Factors that make up the miscellaneous items are changes to data from prior year and variations from demographic assumptions (i.e. rates of withdrawal).

Past and future changes in the accrued liability	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening accrued liability	86 151 000	96 341 000	78 430 000	90 629 000	98 081 000
Current service cost	3 052 000	3 871 000	2 933 000	3 455 000	3 796 000
Interest Cost	7 785 000	7 706 000	7 709 000	8 696 000	9 423 000
Contributions (Benefit payments)	(4 363 946)	(5 000 303)	(5 387 373)	(4 699 000)	(4 819 000)
	92 624 054	102 917 697	83 684 627	98 081 000	106 481 000
Actuarial Loss / (Gain)	3 716 946	(24 487 697)	6 944 373	-	-
	96 341 000	78 430 000	90 629 000	98 081 000	106 481 000

Key actuarial assumptions used:

Valuation assumptions

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is the expectation of the long-term average.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

Financial variables:

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Net Discount Rate	2018	2017
Discount rate (D)	9.85 %	10.07 %
Consumer price inflation (C)	6.11 %	6.81 %
Health care cost inflation (H)	7.11 %	7.81 %
Net discount rate $((1-D)/(1+H)-1)$	2.56 %	2.10 %

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2017 the duration of liabilities was 12.26 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 9.85% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.56% per annum, implying an underlying expectation of inflation of 6.11% per annum $([1 + 9.85\% - 0.05\%] / [1 + 2.56\%] - 1)$.

A healthcare cost inflation rate of 7.11% was assumed. This is 1.00% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. A net discount factor of 2.56% per annum $([1 + 9.85\%] / [1 + 7.11\%] - 1)$ has thus been assumed. This year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

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	2018 R	2017 R
18. Employee benefit obligations (continued)		
Demographic and decrement assumptions used	Active employees	Pensioners
Normal retirement age	65	-
Fully accrued age (to take account for ill-health and early retirement decrements)	63	-
Employment age used for past service period	Actual service entry ages	Actual service entry ages
Age difference between spouses	5 years	Actual ages used
Proportion married	Actual marital status	Actual marital status
Mortality	SA85-90 (Normal)	PA (90)
Withdrawal rates over the current valuation period:		
Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60+	0 %	0 %

Continuation Percentages:

The assumption is that continuation of the post-employment health care subsidy would be at 100% of active employees, or their surviving dependants.

	2018	2017
Amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	90 629 000	78 430 000
Fair value of plan assets	-	-
Unfunded accrued liability	90 629 000	78 430 000
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains (losses)	-	-
Miscellaneous item	-	-
Net liability	90 629 000	78 430 000

	2018	2017
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	2 933 000	3 871 000
Interest cost	7 709 000	7 706 000
Actuarial (gains) / loss	6 944 373	(24 487 697)
Total included in employee related cost - Refer to note 33	17 586 373	(12 910 697)

History of Liabilities, Assets and Experience Adjustments

Present value of accrued liability and Fair value of plan assets

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	2018 R	2017 R
18. Employee benefit obligations (continued)		
	Year ended 30/06/2014 R'000	Year ended 30/06/2015 R'000
Present value of accrued liability	81 877	86 151
Fair value of plan assets	-	-
	Year ended 30/06/2016 R'000	Year ended 30/06/2017 R'000
	96 341	78 430
	Year ended 30/06/2018 R'000	
	-	90 629
Surplus / (deficit)	(81 877)	(86 151)
	(96 341)	(78 430)
	(90 629)	

Experience adjustments:

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments for the current period is as follows:

	Year ended 30/06/2014 R'000	Year ended 30/06/2015 R'000	Year ended 30/06/2016 R'000	Year ended 30/06/2017 R'000	Year ended 30/06/2018 R'000
Plan liabilities (gain) / loss	622	(145)	(91)	(12)	10
Plan assets	-	-	-	-	-

Sensitivity analysis:

The accrued liability is a function of the valuation assumptions, and which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses recognised immediately in the income statement by Mossel Bay Municipality.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Long-term discount rate:

	1% decrease R'000	30 June 2018 Valuation basis R'000	1% increase R'000
Employer's accrued liability	102 588	90 629	80 789
Service cost	4 118	3 455	2 929
Interest cost	8 871	8 696	8 511

As per the table above, a 1% increase in the long-term discount rate results in a 10.86% decrease in the accrued liability whilst a 1% decrease in the long-term discount rate will result in a 13.20% increase in the accrued liability.

Mortality

The table that follows shows the impact of a change in the mortality assumption from the base assumption of PA(90). It shows the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%.

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	2018 R	2017 R
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18. Employee benefit obligations (continued)

	-20% Mortality rate	30 June 2018 Valuation basis	+20% Mortality rate
	R'000	R'000	R'000
Employer's accrued liability	95 987	90 629	86 179
Service cost	3 605	3 455	3 326
Interest cost	9 223	8 696	8 258

Reducing the mortality by 20% implies that for each beneficiary they are likely to live longer having been assigned a mortality rate applicable to a younger individual and vice-versa when the mortality is increased by 20%.

The 20% positive adjustment would result in a 5.91% decrease in the accrued liability whilst a 20% negative adjustment would result in a 4.91% increase in the accrued liability.

18.2 EX-GRATIA GRATUITIES

The employer's Ex-Gratia Pensions liability consists of a commitment to pay pensions to eligible employees upon meeting the condition admissible for an Ex-Gratia Pension. This liability is also generated in respect of spouse dependants who are offered continued Ex-Gratia pensions on the death of the primary Ex-Gratia pensioner.

Mossel Bay is committed to pay Ex-Gratia Pensions as follows:

- Certain pensions are paid by the Municipality from its revenue and are therefore not funded by any of the Municipality's pension funds. The Revenue Pensions are also referred to as "Ex-Gratia" Pensions. Ex-Gratia pensioners receive a monthly Ex-Gratia pension, increased annually and payable for life.
- Spouses receive 60% upon the Ex-Gratia pensioner's death.
- Ex-Gratia Pension increase aim to target 50% of long term CPI.

Valuation method:

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's Ex-Gratia Pensions costs in respect of an Ex-Gratia pensioner should be fully recognised by the time that the Ex-Gratia pensioner reaches fully accrued age whilst in service. The valuation has been made with reference to the Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25.

Statistics on eligible retirees:

	2018	2017
Number of pensioners	7	7
Average monthly salary	2 330	2 330
Pension-weighted average age (years)	81	80

Results of Valuation:

Accrued liability

Total value of liabilities	1 475 000	1 546 000
Value of assets	-	-

Unfunded accrued liability

	1 475 000	1 546 000
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The total liability decreased by 4.9% over the accounting period.

Current-Service and Interest Costs

Total interest cost	124 000	129 000
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The service cost is nil as there are not active employees accruing service towards this benefit.

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Notes to the Annual Financial Statements

	2018 R	2017 R
18. Employee benefit obligations (continued)		
Actuarial gains and losses		
Actuarial (gain) / loss for the period	725	(9 948)

The main reasons for the actuarial (gain) / loss can be attributed to the following factors:

- **Discount rate changes** – The net discount rate changed from 5.72% to 5.91% during the valuation period. The net discount rate is inversely related to the provision towards the Ex-Gratia pensions. The increased net discount rate resulted in a lower accrued liability.
- **Miscellaneous** - The miscellaneous items in the data resulted in an increase to the liability of R17,000. Factors that make up the miscellaneous items are changes to data from prior year and variations from demographic assumptions (i.e. rates of withdrawal).

Past and future changes in the accrued liability

Liability History	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening accrued liability	1 742 000	1 625 000	1 546 000	1 475 000	1 399 000
Current service cost*					
- Interest cost	150 000	129 000	124 000	120 000	114 000
- Benefit payments	(198 263)	(198 052)	(195 725)	(196 000)	(196 000)
Actuarial (gain) / losses	(68 737)	(9 948)	725	-	-
Surplus / (Deficit)	1 625 000	1 546 000	1 475 000	1 399 000	1 317 000

*The service cost is nil as there are no active employees accruing service towards this benefit.

Key actuarial assumptions used:

Financial Variables: The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Net discount rate	2018	2017
Discount rate (D)	8.75 %	8.55 %
Consumer price inflation (C)	5.36 %	5.35 %
Ex-Gratia pension increase (50% of CPI)	2.68 %	2.68 %
Net discount rate $((1+D)/(1+H)-1)$	5.91 %	5.72 %

It is the relative levels of the discount rate and Ex-Gratia pension increase target to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is the expectation of the long-term average.

GRAP 25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2017 the duration of liabilities was 5.92 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 8.75% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.74% per annum, implying an underlying expectation of inflation of 5.36% per annum $([1 + 8.75\% - 0.5\%] / [1 + 2.74\%] - 1)$.

An Ex-Gratia pension increase rate of 2.68% was assumed. This is 50% of the expected inflation over the expected term of the liability.

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	2018 R	2017 R
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18. Employee benefit obligations (continued)

However, it is the relative levels of the discount rate and Ex-Gratia pension increase to one another that are important, rather than the nominal values. A net discount factor of 5.91% per annum $([1 + 8.75\%] / [1 + 2.68\%] - 1)$ has thus been assumed. This year's valuation basis is therefore stronger than previous year's basis from a discount rate perspective.

Demographic and Decrement Assumptions:

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Age difference between spouses	Ex-Gratia Pensioners
Proportion married	Males 5 years older than Females
Mortality	Actual marital status
	PA (90)

Continuation Percentages:

The assumption is that continuation of the Ex-Gratia pension would be at 60% of the principal Ex-Gratia pensioner.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	1 475 000	1 546 000
Fair value of plan assets	-	-
	<u>1 475 000</u>	<u>1 546 000</u>
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Miscellaneous item	-	-
Net liability	<u>1 475 000</u>	<u>1 546 000</u>

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	-	-
Interest cost	124 000	129 000
Actuarial (gains) / losses	725	(9 948)
Total included in employee related cost - Refer to note 33	<u>124 725</u>	<u>119 052</u>

History of Liabilities, Assets and Experience Adjustments:

Present value of accrued liability and Fair value of plan assets

	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Present value of accrued liability	1 625 000	1 546 000	1 475 000	1 399 000	1 317 000
Fair value of plan assets	-	-	-	-	-
Surplus / (deficit)	<u>(1 625 000)</u>	<u>(1 546 000)</u>	<u>(1 475 000)</u>	<u>(1 399 000)</u>	<u>(1 317 000)</u>

Experience adjustments:

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments is as follows:

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	2018 R	2017 R			
18. Employee benefit obligations (continued)					
	Year ending 30/06/2017	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018
Plan liabilities (gain) / loss	16 000	(23 737)	5 000	(5 000)	17 000
Plan assets	-	-	-	-	-

Sensitivity analysis:

The accrued liability is a function of the valuation assumptions, and which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses recognised immediately in the income statement by Mossel Bay Municipality.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Discount rate:

The effect of a one percent increase and decrease in the net discount rates is as follows:

	1% decrease R'000	30 June 2018 Valuation basis R'000	1% increase R'000
Employer's accrued liability	1 563	1 475	1 396
Interest cost	113	120	127

As per the table above, a 1% increase in the net discount rate results in a 5.36% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 5.97% increase in the accrued liability.

Mortality:

The table that follows shows the impact of a change in the mortality assumption from PA(90) to PA(90)-2 with a two year adjustment.

	30 June 2018 Valuation basis R'000	PA(90)-2 R'000
Employer's accrued liability	1 475	1 587
Interest cost	120	130

PA(90)-2 (PA(90) with a two-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual two years younger than that beneficiary, ie lighter mortality implying that the individual lives longer than expected in the valuation basis.

The above table highlights the effects of a two year adjustment to the mortality assumption as at 30 June 2018. The adjustment would result in a 7.59% increase in the accrued liability.

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Notes to the Annual Financial Statements

	2018 R	2017 R
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18. Employee benefit obligations (continued)

18.3 LONG SERVICE AWARDS

The long service bonus awards are accumulated leave days allocated for years of service by the employee to the Municipality. The long service bonus awards are allocated in the form of annual leave days and is convertible into cash in the year the employee attains the service eligible for an award. As a result the award is also a function of the employee's annual salary. The annual salary is converted into a daily salary by dividing the annual salary by 249.

Accounting Standard GRAP 25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

Valuation Method.

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date.

In determining these liabilities, due allowance has been made for future award increases.

For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

In accordance with the requirements of GRAP 25, the Projected Unit Credit method of funding has been applied.

Nature of the liability

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year the employee attains the required service. This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy.

Mossel Bay Municipality offers bonuses for every 5 years of completed service from 10 years to 45 years. In addition a 14th Cheque is awarded from 30 years of service onwards to 45 years. Below we outline the benefits awarded to qualifying employees.

Completed Service (Years)	Long Service Bonus Award (Working Days)	14th Cheque	Determination of cash bonus
10	10	-	(10/249*) x Annual Salary
15	15	-	(15/249*) x Annual Salary
20	20	-	(20/249*) x Annual Salary
25	25	-	(25/249*) x Annual Salary
30	30	14th cheque = 1/12 x Annual Salary	(30/249* + 1/12) x Annual Salary
35	35	14th cheque = 1/12 x Annual Salary	(35/249* + 1/12) x Annual Salary
40	40	14th cheque = 1/12 x Annual Salary	(40/249* + 1/12) x Annual Salary
45	45	14th cheque = 1/12 x Annual Salary	(45/249* + 1/12) x Annual Salary

*A day of accumulated leave is worth 1/249 of the annual salary.

Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. The assumption is that in all cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

Valuation of Assets:

We are not aware of any assets set aside for long service bonus awards funding that qualify as plan assets in terms of the requirements of GRAP 25. As such a nil value has been ascribed to the fair value of plan assets.

Statistics on eligible employees

Number of eligible employees	935	880
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	2018 R	2017 R
18. Employee benefit obligations (continued)		
Average annual salary (Rand)	176 824	167 680
Salary-weighted average age (years)	42	42
Salary-weighted average past service (years)	10	10
<u>Results of valuation:</u>		
Accrued liability		
Total value of liabilities	16 572 000	15 326 000
Value of assets	-	-
Unfunded Accrued Liability	16 572 000	15 326 000
Average liability per member	17 724	17 416

The total liability increased by 8.1% over the accounting period.

The main reasons for the actuarial loss can be attributed to the following factors:

- **Discount rate changes** - The net discount rate changed from 1.60% to 1.87% during the valuation period. The net discount rate is inversely related to the provision towards future bonus payments. The increased net discount rate results in a lower accrued liability. As a result the accrued liability reduced in the current valuation period.
- **Staff changes** - Movements in the staff employed by Mossel Bay Municipality resulted in a decrease to the accrued liability.
- **Salary changes** - The salary increase anticipated as at 01 July 2018 resulted in an increase to the accrued liability.
- **Miscellaneous** - The miscellaneous items in the data resulted in a decrease to the liability of R108,000. Factors that make up the miscellaneous items are changes to membership compositions, data changes from the previous valuation, and variations from demographic assumptions (i.e. rates of withdrawal).

Past and Future Changes in the Accrued Liability:	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018	Year ending 30/06/2019	Year ending 30/06/2020
Opening Accrued Liability	13 917 000	14 673 000	15 326 000	16 572 000	18 166 000
Current service cost	1 153 000	1 100 000	1 122 000	1 211 000	1 251 000
Interest cost	1 272 000	1 344 000	1 293 000	1 448 000	1 559 000
Benefit payments	(910 414)	(1 021 155)	(1 650 770)	(1 065 000)	(1 806 000)
Actuarial Loss / (Gain)	(758 586)	(769 845)	481 770	-	-
	14 673 000	15 326 000	16 572 000	18 166 000	19 170 000

Key actuarial assumptions used:

Financial Variables

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Net discount rate	2018	2017
Discount rate	9.03 %	8.89 %
Consumer price inflation	6.03 %	6.17 %
Salary increase rate	7.03 %	7.17 %
Net discount rate	1.87 %	1.60 %

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2017 the duration of liabilities was 7.32 years. At this duration the discount rate determined by using the Bond Exchange Zero (JSE) Coupon Yield Curve as at 30 June 2018 is 9.03% per annum, and the yield on inflation-linked bonds of a similar term was about 2.83% per annum. This implies an underlying expectation of inflation of 6.03% per annum $([1 + 9.03\%] / [1 + 2.83\%] - 1)$.

It has been assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 7.03% per annum.

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	2018 R	2017 R
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18. Employee benefit obligations (continued)

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. A net discount factor of 1.87% per annum $([1 + 9.03\%] / [1 + 7.03\%] - 1)$ was thus assumed.

Demographic and mortality assumptions

	2018	2017
Normal retirement age (years)	65	65
Assumed retirement age (years)*	63	63
Mortality	SA85-90	SA85-90

*The average retirement age for all active employees was assumed to be 63 years. This assumptions implicitly allows for ill-health and early retirements.

Promotional salary increase rates

In addition to the normal salary inflation rate, the following promotional salary increases were assumed:

Age band	Promotional increases
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
>45	-%

Withdrawal Decrements

The following withdrawal assumptions were applicable over the current valuation periods:

Withdrawal rates over the current valuation period:

Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60+	0 %	0 %

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	16 572 000	15 326 000
Fair value of plan assets	-	-
	<hr/>	<hr/>
	16 572 000	15 326 000
Unrecognised transitional liability	-	-
Unrecognised past service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Miscellaneous item	-	-
Net liability	<hr/> 16 572 000	<hr/> 15 326 000

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Notes to the Annual Financial Statements

	2018 R	2017 R
18. Employee benefit obligations (continued)		
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	1 122 000	1 100 000
Interest cost	1 293 000	1 344 000
Actuarial losses / (gains)	481 770	(769 845)
	2 896 770	1 674 155

HISTORY OF LIABILITIES, ASSETS AND EXPERIENCE ADJUSTMENTS:

Present value of accrued liability and Fair value of plan assets

	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018
Present value of accrued liability	13 276 000	13 917 000	14 673 000	15 326 000	16 572 000
Fair value of plan assets	-	-	-	-	-
Surplus / (deficit)	(13 276 000)	(13 917 000)	(14 673 000)	(15 326 000)	(16 572 000)

Experience adjustments

Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred. The experience adjustments is as follows:

	Year ending 30/06/2014	Year ending 30/06/2015	Year ending 30/06/2016	Year ending 30/06/2017	Year ending 30/06/2018
Plan liabilities (gain) / loss	850 000	(58 000)	(46 000)	548 000	793 000
Plan assets	-	-	-	-	-

Sensitivity Analysis:

The liability derived by this valuation is dependent on the assumptions set out, which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses and will be recognised by Mossel Bay Municipality in accordance with a consistently applied amortisation process.

The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Salary Inflation:

The valuation bases assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 1.87% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	1% decrease R'000	30 June 2018 Valuation basis R'000	1% increase R'000
Employer's accrued liability	15 423	16 572	17 855
Employer's current service cost	1 113	1 211	1 323
Employer's interest cost	1 345	1 448	1 564

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18. Employee benefit obligations (continued)

The above table illustrates that for the 30 June 2018 financial year, a 1% increase in the salary increase rate assumption will result in a 7.74% increase in the accrued liability, whilst, a 1% decrease in the salary increase rate assumption will result in a 6.93% decrease in the accrued liability.

Mortality

The table that follows shows the impact of a change in the mortality assumption from SA85-90 to SA85-90 with a two year adjustment.

	30 June 2018 Valuation basis SA85-90 R'000	SA85-90 -2 R'000
Employer's accrued liability	16 572	16 729
Employer's current service cost	1 211	1 223
Employer's expense cost	1 448	1 463

SA85-90 -2 (with a two-year age adjustment) means that, to each beneficiary we assigned a mortality rate of an individual two years younger than that beneficiary, ie lighter mortality implying that the individual lives longer than expected in the valuation basis.

The above table highlights the effects of a two year adjustment to the mortality assumption as at 30 June 2018. The adjustment would result in a 0.95% increase in the accrued liability.

18.4 INFORMATION ABOUT THE MUNICIPALITY'S OTHER RETIREMENT FUNDS

The personnel of Mosselbay Municipality are members of the funds as set out below. These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- The assets of each fund are held in one portfolio; these assets are not notionally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contributions applies to all participating employers, and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

18.4.1 Consolidated Retirement Fund

The restructuring of the fund was recently successfully concluded with the transfer of the last remaining active defined benefit members to the defined contribution section. The last valuation for the Consolidated Retirement Fund was performed for the year ended 30 June 2016. As at the valuation date, the total value of net assets of the Fund was R20.119 billion (2015: R18.363 billion). An effective investment return of 8.1% (2015: 5.2%) per annum was awarded for the Growth Portfolio, 7.1% (2015: 7.1%) for the Protection Portfolio, 6.9% (2015: 7.9%) for the Moderate Portfolio and 7.4% (2015: 7.2%) per annum for the Pensioner Portfolio for the year ending 30 June 2016. The funding level for the Member Share Account was 100.5% (2015: 100.0%), 100.0% (2015: 100%) for the Preservation Pension Account and 118.0% (2015: 112.1%) for the Pensions Account.

18.4.2 SALA Pension Fund

The SALA Pension Fund is a multi-employer plan and the contribution rate payable is 9%, by the members and 18% by Council. The last valuation performed for the 12 month period ended 30 April 2016 revealed that as at the valuation date the total assets of the fund was R13.924 billion. Active Member's portion of the total Fund returned 5.18%, DC Members returned 5.16% and Pensioners Members' portion returned 4.97% per annum.

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18. Employee benefit obligations (continued)

18.4.3 Municipal Councillors Pension Fund

As per Circular: MCPF 4/2018, the High Court of South Africa, North Gauteng Division, has placed the business of the Municipal Councillors Pension Fund under provisional Curatorship on 19th December 2017, in terms of section 5(1) of the Financial Institutions (Protection of Funds) Act, 2001. The provisional Curatorship has since been made final by the same court on the 19th March 2018. This process is still in progress.

18.4.4 South African Municipal Workers Union National Provident Fund

The last valuation for the South African Municipal Workers Union National Provident Fund (renamed the Municipal Workers' Retirement Fund with effect from 1 March 2016), was performed for the year ended 30 June 2017. As at the valuation date, the Fund's assets was sufficient to cover the member's Fund Credits and the brought-forward 2014 surplus, and to provide an acceptable level for the risk benefits reserve, data reserve and investment smoothing reserve as at 30 June 2017. The Fund was therefore in a sound financial position. The funding level remained unchanged at 100.0% (after allowing for distribution of the remaining 2014 surplus balance). The 2014 surplus has been distributed to active members during the 2016 financial year and to some former members during the 2017 financial year. As such, the balance reflected at the valuation date of R 7,721 billion, is the surplus still to be distributed at the valuation date. As a percentage of members' Fund Credits, the investment smoothing reserve has decreased from 5.6% to 4.9% over the valuation period. As a percentage of market value of assets, it has decreased marginally from 4.6% to 4.4%.

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18. Employee benefit obligations (continued)

18.5 OTHER CURRENT EMPLOYEE BENEFIT OBLIGATIONS:

18.5.1 PERFORMANCE BONUS ACCRUAL

Performance bonuses accrue to employees on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due to staff as at the financial year end.

The movement on the performance bonus accrual consist of the following:

Balance at the beginning of the year	753 593	546 970
Contributions to provision	773 400	754 841
Expenditure incurred	(570 137)	(548 218)
	956 856	753 593

18.5.2 STAFF LEAVE ACCRUAL

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

The movement on the staff leave accrual consist of the following:

Balance at the beginning of the year	14 227 038	12 825 947
Contributions to provision	1 286 953	2 009 594
Expenditure incurred	(822 661)	(608 503)
	14 691 330	14 227 038

18.5.3 EMPLOYEE BONUS ACCRUAL

Annual bonuses accrue to employees on an annual basis, based on the employee contract. These accruals are an estimate of the amount due to staff as at the financial year end.

The movement on the employee bonus accrual consist of the following:

Balance at the beginning of the year	4 965 196	4 770 284
Contributions to provision	5 157 635	4 965 196
Expenditure incurred	(4 965 196)	(4 770 284)
	5 157 635	4 965 196

18.5.4 EMPLOYEE OVERTIME / STANDBY ALLOWANCES

An accrual is done for the overtime / standby allowances that accrued to employees with regards to the financial year.

The movement on the employee overtime / standby allowance accrual consist of the following:

Balance at the beginning of the year	1 059 393	845 939
Contributions to provision	1 090 860	1 059 393
Expenditure incurred	(1 059 393)	(845 939)
	1 090 860	1 059 393

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19. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Contribution to provision / Finance cost	Utilised during the year	Change in discount factor	Total
Rehabilitation of Landfill sites	75 135 552	7 916 847	(5 458 178)	1 010 994	78 605 215
	75 135 552	7 916 847	(5 458 178)	1 010 994	78 605 215

Reconciliation of provisions - 2017

	Opening Balance	Contribution to provision / Finance cost	Utilised during the year	Total
Rehabilitation of Landfill sites	71 202 727	4 258 032	(325 207)	75 135 552
Non-current liabilities			76 089 339	70 551 227
Current liabilities			2 515 876	4 584 325
			78 605 215	75 135 552

Rehabilitation of Landfill sites

Provision is made in terms of the Municipality's licensing stipulations for the rehabilitation of landfill sites. It includes the closure activities of Buysplaas; D'Almeida; Fremiersheim; Great Brak; Herbertsdale and Louis Fourie landfill sites. The provision has been determined by consulting engineers. The payment dates for the total closure and rehabilitation are uncertain, but are expected to all be finalised by 2029.

20. Non-current deposits

Santos Pavillion Repair Fund

Balance at beginning of year	274 541	262 092
Interest on investment	12 214	12 449
	286 755	274 541

This fund was created after the Pavilion burnt down a number of years ago. An entrepreneur restored the pavilion to its original form in exchange for a 93-year lease at a reasonable rent. It was also a condition that he should make available an amount of R100 000 to Council as an investment. Interest earned may be used by Council for the maintenance of the building, should he fail to do it himself.

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants from speres of government		
National Grants	211 816	-
Provincial Grants	36 292 723	37 770 942
District Municipality	-	-
Other unspent conditional receipts		
Public contributions	268 366	192 356
	36 772 905	37 963 298

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	2018 R	2017 R
21. Unspent conditional grants and receipts (continued)		
Movement during the year		
Opening balance	37 963 296	(1 373 010)
Receipts	171 078 824	194 763 567
Conditions met - Transferred to revenue	(172 269 215)	(155 427 259)
	36 772 905	37 963 298

The detailed movement per grant consists out of the following:

National: Equitable Share Grant

Opening balance	-	-
Receipts	78 472 000	70 874 000
Conditions met - Transferred to revenue	(78 472 000)	(70 874 000)
	-	-

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

National: Finance Management Grant

Opening balance	-	-
Receipts	1 550 000	1 475 000
Conditions met - Transferred to revenue	(1 550 000)	(1 475 000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Municipal Infrastructure Grant

Opening balance	-	(2 340 000)
Receipts	24 464 000	23 004 000
Conditions met - Transferred to revenue	(24 464 000)	(20 664 000)
	-	-

The Municipal Infrastructure Grant is given to municipalities to provide specific capital finance for eradicating basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Integrated National Electrification Programme Grant

Receipts	8 000 000	11 857 000
Conditions met - Transferred to revenue	(8 000 000)	(11 857 000)
	-	-

The Integrated National Electrification Programme Grant is given to municipalities to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including upgrade of informal settlements, new, and normalisation), and the installation of relevant bulk infrastructure.

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21. Unspent conditional grants and receipts (continued)

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Extended Public Works Programme Incentive Grant

Opening balance	-	42 477
Receipts	2 291 000	1 796 523
Conditions met - Transferred to revenue	(2 079 184)	(1 839 000)
	211 816	-

The Expanded Public Works Programme Grant is incentive funding given to municipalities to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

National: Municipal Disaster Relief Grant

Opening balance	-	-
Receipts	-	915
Conditions met - Transferred to Revenue	-	(915)
	-	-

The Disaster Relief Grant is given to municipalities to enable a timely response to immediate needs after a disaster has occurred.

Provincial: Integrated Housing and Human Settlement & Development Grant

Opening balance	37 721 174	720 025
Receipts	42 985 800	72 929 914
Conditions met - Transferred to revenue	(46 130 521)	(35 928 764)
	34 576 453	37 721 175

This grant is given to municipalities to provide funding for the creation of sustainable human settlements. The outcome of this grant is to provide top structures and basic social and economic amenities that contributes to the establishment of sustainable human settlements.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Community Development Workers Grant

Opening balance	-	-
Receipts	56 000	56 000
Conditions met - Transferred to revenue	(56 000)	(56 000)
	-	-

This grant is given to municipalities to provide financial assistance to municipalities to cover the operational and capital expenses in the functions of the community development workers including the supervisors and regional organisers.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

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	2018 R	2017 R
21. Unspent conditional grants and receipts (continued)		
Provincial: Thusong Centre Service Grant		
Opening balance	-	-
Receipts	-	211 000
Conditions met - Transferred to revenue	-	(211 000)
	<u>-</u>	<u>-</u>

This grant is given to provide financial assistance to municipalities, ensuring the financial sustainability of the Thusong Service Centres.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Library Services Conditional Grant

Opening balance	9 998	-
Receipts	7 813 000	10 829 177
Conditions met - Transferred to revenue	(7 822 998)	(10 819 179)
	<u>-</u>	<u>9 998</u>

This grant is given to municipalities to transform urban and rural public library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a recapitalised programme at provincial level in support of local government and national initiatives.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Finance Management Support Grant

Opening balance	-	-
Receipts	280 000	220 000
Conditions met - Transferred to revenue	(280 000)	(220 000)
	<u>-</u>	<u>-</u>

This grant is given to municipalities to provide financial assistance to municipalities to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving of municipal audit outcomes and addressing institutional challenges.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial : Capacity Building Grant

Opening balance	-	-
Receipts	240 000	120 000
Conditions met - Transferred to revenue	(240 000)	(120 000)
	<u>-</u>	<u>-</u>

Provincial: Local Government Graduate Internship Grant

Opening balance	39 769	-
Receipts	66 000	60 000
Conditions met - Transferred to revenue	(58 510)	(20 231)
	<u>47 259</u>	<u>39 769</u>

To provide financial assistance to municipalities in support of capacity building for the future by means of graduate internship programme.

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21. Unspent conditional grants and receipts (continued)

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Greenest Municipality Competition

Opening balance	-	37 544
Receipts	-	-
Conditions met - Transferred to revenue	-	(37 544)
	<u>-</u>	<u>-</u>

This grant is given to municipalities to promote awareness of and compliance with environmental legislation and environmentally sound practices.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Maintenance of Road Infrastructure Grant

Opening balance	-	-
Receipts	800 000	59 000
Conditions met - Transferred to Revenue	(800 000)	(59 000)
	<u>-</u>	<u>-</u>

This grant is given to financially assist/subsidise municipalities with the maintenance/construction of proclaimed municipal main roads, where the municipality is the Road Authority (Section 50 of Ordinance 19 of 1976).

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Fire Services Grant

Opening balance	-	-
Receipts	800 000	-
Conditions met - Transferred to revenue	(799 946)	-
	<u>54</u>	<u>-</u>

This grant is given to support municipalities to establish and maintain functional and compliant Fire Services that is able to be measured against national benchmarks and standards.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Development of Sport and Recreation Facilities Grant

Opening balance	-	-
Receipts	200 000	-
Conditions met - Transferred to revenue	(194 850)	-
	<u>5 150</u>	<u>-</u>

This grant is given to municipalities for the provision of sport and recreation facilities in especially previously disadvantaged communities.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

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	2018 R	2017 R
21. Unspent conditional grants and receipts (continued)		
Provincial: RSEP/VPUU Grant		
Opening balance	-	-
Receipts	1 500 000	-
Conditions met - Transferred to revenue	(674 802)	-
	825 198	-

This grant is to implement and enhance programmes to interact with stakeholders and empower communities to partner with government in implementing socioeconomic and urban upgrading programmes.

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

Provincial: Shared Economic Infrastructure Facility

Opening balance	-	-
Receipts	838 609	-
Conditions met - Transferred to revenue	-	-
	838 609	-

This grant is to support businesses with an intention to improve access, create local economic benefits and optimise the performance of businesses operating in those facilities

Other than the amounts unspent, the conditions of the grants have been met. No funds were delayed during the financial year.

District Municipality: Emergency Relief Grant

Opening balance	-	18 729
Receipts	-	-
Conditions met - Transferred to revenue	-	(18 729)
	-	-

Public Contributions and Other Receipts

Opening balance	192 355	148 215
Receipts	722 415	1 330 038
Conditions met - Transferred to revenue	(646 404)	(1 285 897)
	268 366	192 356

22. Consumer deposits

Electricity	14 691 910	13 546 150
Water	10 932 315	9 694 520
	25 624 225	23 240 670

Guarantees held in lieu of electricity deposits	-	-
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No Guarantees are held in lieu of electricity and water. No interest accrues on consumer deposits.

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	2018 R	2017 R
23. Payables from exchange transactions		
Trade payables	59 716 614	73 226 839
Payments received in advanced	28 905 228	26 603 211
Accrued expenditure	80 321	13 474
Retentions	10 401 799	9 652 329
Other payables	10 500 987	2 501 093
Other deposits	4 232 337	3 700 165
	113 837 286	115 697 111

The fair value of trade and other payables approximates their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

24. Capital replacement reserve

Balance at the beginning of the year	141 173 950	126 575 281
Transfers from:		
Contributions from Operating account and other contributions	90 431 679	94 700 743
External Services contribution	6 793 014	7 512 760
Land Sales contribution	3 304 106	3 927 616
Less: Expenditure		
Funding Capital Projects	(102 853 450)	(91 542 450)
	138 849 299	141 173 950

The Capital Replacement Reserve is fully funded and invested in financial instruments.

25. Housing Development Fund

Balance at the beginning of the year	28 417	21 560
Income from land sales	11 153	5 726
Interest on investments	-	1 131
Funding Operating Projects	(39 570)	-
	-	28 417

26. Service charges

Sale of electricity	386 041 659	366 294 677
Sale of water	114 427 167	108 372 201
Refuse removal	44 291 456	37 592 441
Sewerage and sanitation charges	57 241 400	53 541 472
	602 001 682	565 800 791

The service charges revenue are in respect of services rendered to consumers and billed in terms of Council's approved tariffs. These service charges revenue are the net amounts after taking into account revenue foregone.

27. Rent of facilities and equipment

Premises	4 468 064	4 260 713
Garages and parking	-	-
Facilities and equipment	610 933	649 891
	5 078 997	4 910 604

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	2018 R	2017 R
28. Other income		
Administrative Handling Fees	1 475 678	1 532 984
Bad Debts Recovered	1 533 484	691 665
Building Plan Approval Fees	7 674 208	5 698 076
Camping Fees	4 094 435	3 833 097
Cemetery and Burial Fees	192 342	188 213
Collection Charges	2 771 044	1 783 230
Development Charges	6 793 014	7 512 760
Fire Services	625 198	1 402 999
Insurance Refunds	1 634 424	997 846
Land Usage Fees	1 790 891	1 318 772
Other	1 722 749	1 524 143
Clearance Application	367 166	321 238
Sale of Property	4 060 812	1 111 287
Sale of Redundant Inventory	528 284	735 896
	35 263 729	28 652 206

29. Property rates

Rates received

Residential	89 998 168	84 030 541
Commercial	24 007 925	24 226 784
State	501 283	444 722
Agricultural	2 311 282	1 128 037
Special rated area - CID	551 052	568 747
Assessment Rate: Letting	1 298	1 298
Less: Income forgone	(5 846 959)	(6 262 690)
	111 524 049	104 137 439

Valuations

Residential	33 252 507 559	28 079 316 660
Commercial	4 330 992 250	3 814 720 800
State	719 394 000	563 647 400
Municipal	721 290 900	693 463 400
Parsonage	-	81 971 700
Public Services Infrastructure	46 476 000	24 025 000
Public Open Space	3 623 093	7 223 400
Protected Area	8 316 000	4 220 000
Churches	285 343 000	170 392 900
Agricultural	3 465 031 125	1 465 039 500
	42 832 973 927	34 904 020 760

The valuation of land takes place every four years in terms of the determinations of the Municipal Property Rates Act, No.6 of 2004. The basic rate for land and buildings ranged between R0,000772 and R0,006178 respectively. Qualifying pensioners received an additional rebate of either 50% or 30% on property tax. With regard to needy families, where the joint income of husband and wife amounted to less than R5 000 a rebate was allowed with regard to water, refuse and sewerage. Regarding the housing schemes, it is noted that income for rates was not based on valuation as the values are less than R50 000. The first R50 000 of residential properties are not levied, R15 000 are impermissible rates and a rebate are given on R35 000.

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30. Government grants & subsidies received		
Operating grants		
Equitable share	78 431 529	70 822 505
National Government: Financial Management Grant	1 550 000	1 475 001
National Governments: Expanded Public Works Programme Integrated Grant	2 079 184	1 839 000
Provincial Government: Capacity Building	240 000	288 245
Provincial Government: Library Service Conditional Grant	7 818 271	6 946 685
Provincial Government: Human Settlement Development Grant	34 182 896	21 224 853
Provincial Government: Community Development Workers Grant	56 000	56 000
Provincial Government: Financial Management Support Grant	280 000	220 000
Provincial Government: Interactive Community Access Network Grant	-	37 544
Provincial Government: Local Government Graduate Internship Grant	58 510	20 231
Provincial Government: Public Transport Grant	800 000	59 000
Eden District Municipality: Road Transport Grant	-	10 071
National Departmental Agencies - Education, Training and Development Practices SETA Grant	585 790	635 609
Provincial Government: Housing Emergency Kits	93 019	340 527
	126 175 199	103 975 271
Capital grants		
National Government: Municipal Infrastructure Grant	24 464 000	20 664 914
National Government: Municipal Disaster Recovery Grant	-	8 658
National Government: Integrated National Electrification Programme	8 000 000	11 857 000
Provincial Government: Human Settlement Grant	3 766 711	5 076 127
Provincial Government: Library Service Grant	9 998	3 894 179
Provincial Government: Municipal Systems Improvement Grant	-	42 755
Provincial Government: RSEP / VPUU	674 802	-
Provincial Government: Fire Services Grant	799 946	-
Provincial Government: Development of Sport and Recreation Facilities Grant	194 850	-
	37 910 307	41 543 633
Total Operating and Capital grants	164 085 506	145 518 904
Government Grants and Subsidies received per vote		
Municipal Manager	11 095 518	7 783 200
Corporate Services	2 272 192	1 237 240
Financial Services	1 830 000	1 695 000
Technical Services	64 759 577	66 728 792
Community Services	32 487 322	32 097 718
Development & Planning	51 640 897	35 976 951
	164 085 506	145 518 901
31. Public contributions and donations		
Donated assets	407 324	9 296 697
Public corporations	2 074 546	2 564 018
	2 481 870	11 860 715

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	R	R
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32. Fines, Penalties and Forfeits		
Traffic fines	12 686 552	29 709 550
Property rates penalties	49 820	513 569
Illegal Connection fines	172 273	48 122
Forfeits	457 786	1 574 011
Other fines, penalties and forfeits	292 957	154 122
	<hr/> 13 659 388	<hr/> 31 999 374

Other fines, penalties and forfeits includes Pound fees, Library penalties and Tender Fines.

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	2018 R	2017 R
33. Employee related costs		
Employee related costs - Salaries, Wages & Bonuses	173 438 328	158 247 610
Employee related costs - Contributions to UIF, Medical & Pension Funds	45 587 406	42 212 150
Acting allowances	566 736	728 599
Housing benefits and allowances	1 701 394	1 626 767
Overtime payments	10 147 794	8 805 158
Standby allowance	3 440 883	3 137 679
Travel, motor car, accommodation, subsistence & other allowances	9 487 253	8 475 488
Contributions to Post Retirement Benefits Provision	10 766 000	11 706 000
Contributions to Long Service Bonus Provision	2 415 000	2 444 000
Contributions to Leave Gratuity Provision	1 286 953	2 009 594
Actuarial losses / (gains) on Employee Benefit Provisions	7 426 868	(25 267 490)
Less: Employee costs capitalised to PPE	(1 728 154)	(1 251 163)
Total employee related costs including key management positions	264 536 461	212 874 392

The remuneration of key management positions consists of the following:

Municipal Manager

Annual remuneration	890 874	439 877
Performance bonuses	174 410	-
Acting allowance	-	197 010
Car allowance	120 000	70 000
Contributions to UIF, Medical and Pension Funds	162 142	80 219
Industrial council	99	54
	1 347 525	787 160

Chief Finance Officer

Annual remuneration	836 429	966 239
Performance bonuses	20 645	164 307
Acting allowance	-	2 437
Car allowance	81 048	102 000
Contributions to UIF, Medical and Pension Funds	34 097	175 708
Leave payout	153 961	-
Industrial council	91	92
	1 126 271	1 410 783

Remuneration of individual executive director positions:

Director Planning and Development

Annual Remuneration	1 022 282	956 533
Performance Bonuses	113 915	101 739
Acting allowance	12 131	-
Car Allowance	108 000	108 000
Contributions to UIF, Medical and Pension Funds	237 145	224 886
Industrial council	99	92
	1 493 572	1 391 250

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Notes to the Annual Financial Statements

	2018 R	2017 R
33. Employee related costs (continued)		
Executive Official Strategic Services		
Annual Remuneration	653 795	-
Performance Bonuses	123 868	-
Acting allowance	3 915	-
Car Allowance	102 000	-
Contributions to UIF, Medical and Pension Funds	120 903	-
Industrial council	99	-
	1 004 580	-
Director Corporate Services		
Annual Remuneration	1 038 325	956 038
Performance Bonuses	110 818	97 763
Acting allowance	9 987	19 933
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	157 084	162 580
Group insurance	5 328	5 328
Industrial council	99	92
	1 441 641	1 361 734
Director Technical and Electricity Services		
Annual Remuneration	1 270 412	1 173 852
Performance Bonuses	134 317	118 027
Car Allowance	102 000	102 000
Contributions to UIF, Medical and Pension Funds	233 455	219 481
Group Insurance	6 480	6 480
Industrial council	99	92
	1 746 763	1 619 932
Director Community Services		
Annual Remuneration	842 650	791 682
Performance Bonuses	95 428	-
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	182 849	169 999
Industrial council	99	92
	1 241 026	1 081 773
34. Remuneration of councillors		
Executive Major	758 852	697 057
Deputy Executive Mayor	677 531	613 844
Speaker	660 251	536 500
Mayoral Committee Members	2 955 366	2 670 192
Councillors	5 256 326	4 744 749
Councillors' Pension Contributions	502 083	415 429
Councillors' Medical Aid Contributions	130 889	108 532
	10 941 298	9 786 303

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
34. Remuneration of councillors (continued)		
In-kind benefits		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are employed on a full-time basis. Each is provided with an office and administrative secretarial support at the cost of the Council.		
The Mayor and the Deputy Mayor have access to council-owned vehicles for ceremonial and official functions.		
Full-time Councillors are equipped with computers. Ward Committee members are equipped with cell phones for communication purposes.		
35. Depreciation and amortisation		
Depreciation		
Property, plant and equipment	66 308 912	66 066 749
Investment property	926 323	936 028
Amortisation		
Intangible assets	130 649	170 785
	67 365 884	67 173 562
36. Debt impairment		
Debt impairment	6 231 289	23 781 085
Reversal of debt impairment	(37 527 238)	-
Bad debts written off	48 749 591	313 962
	17 453 642	24 095 047
37. Finance costs		
Long-term Liabilities	3 119 528	2 778 192
Finance leases	11 558	52 303
Landfill Sites (Provisions)	7 916 847	4 258 032
Current deposits / Grants	12 214	72 366
	11 060 147	7 160 893
38. Bulk purchases		
Electricity	267 744 119	265 328 216

Bulk purchases are the cost of commodities not generated by the Municipality, but which the Municipality distributes to consumers. The Municipality purchases electricity in bulk from Eskom and then redistributes it to consumers.

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
39. Contracted services		
Consultants and Professional Services		
Business and Advisory - Valuer and Assessors	14 500	1 817 198
Infrastructure and Planning - Engineering	3 470 227	6 208 233
Legal Cost	2 269 682	1 337 153
Other	3 258 211	2 354 673
Contractors		
Aerial Photography	1 089 578	-
Artists and Performers	1 242 443	1 087 468
Building	(773 308)	3 678 428
Chipping	1 331 800	654 780
Maintenance of Buildings and Facilities	5 327 840	4 297 944
Maintenance of Equipment	1 576 987	972 137
Maintenance of Unspecified Assets	29 137 881	26 212 478
Prepaid Electricity Vendors	3 001 163	2 888 336
Safeguard and Security	4 649 347	3 912 065
Sewerage Services	2 849 816	2 150 159
Tracing Agents and Debt Collectors	3 586 934	4 703 501
Other	1 018 167	862 181
Outsourced Services		
Administrative and Support Staff	2 434 896	2 012 221
Alien Vegetation Control	1 676 025	559 050
Business and Advisory - Business and Financial Management	881 987	-
Business and Advisory - Human Resources	1 494 382	1 064 615
Business and Advisory - Valuer	1 066 347	687 049
Cleaning Services	2 117 310	1 509 009
Clearing and Grass Cutting Services	11 785 526	11 122 452
Internal Auditors	1 331 753	1 078 337
Meter Management	1 243 321	1 391 062
Organic and Building Refuse Removal	1 483 647	761 738
Refuse Removal	5 092 810	4 779 760
Swimming Supervision	1 521 860	1 501 335
Other	2 040 984	2 225 030
	97 222 116	91 828 392
40. Transfers and subsidies paid		
Bursary Scheme	240 000	120 000
Emergency Housing Assistance	-	443 813
Donated Assets	66 772	-
Other	617 150	313 424
SPCA	1 000 000	800 000
Subsidy: Benefit Discount Scheme	240 049	241 854
Tourism	2 118 165	2 343 881
	4 282 136	4 262 972
41. Cost of sales/Inventory consumed		
Consumables	11 862 563	10 216 086
Material and supplies	17 834 554	13 575 878
Housing stock	11 486 242	9 386 057
Land	1 929 054	1 538 688
Water	33 701 261	27 363 790
	76 813 674	62 080 499

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
42. General expenses		
Advertising, Publicity and Marketing	1 508 864	1 504 945
Auditors remuneration	4 247 093	3 602 078
Bank charges	1 832 327	1 268 615
Commission paid	6 308 306	5 813 523
Dumping Fees (District Council)	5 072 210	4 588 849
External Computer Service	8 285 268	8 346 218
Insurance	5 882 176	2 349 612
Lease rentals on operating lease	5 187 733	4 509 934
Motor Vehicle Licence and Registrations	423 501	310 026
Municipal expenses	2 062 487	2 176 465
Other expenses	3 271 465	2 184 455
Postage and courier	932 254	889 775
Printing, Publications and Books	278 305	325 243
Skills Development Fund Levy	2 185 097	1 958 886
Subscriptions and membership fees	2 788 926	2 519 870
Telephone and fax	1 066 127	1 044 059
Title deed search fees	249 485	215 232
Travel and Subsistence	1 148 228	811 186
Workmen's Compensation Fund	1 526 170	1 288 300
	54 256 022	45 707 271
43. Cash generated from operations		
Surplus	103 583 365	139 082 598
Adjustments for:		
Depreciation and amortisation	70 420 252	68 724 060
Gain and Loss on sale of assets and liabilities	6 438 653	7 112 371
Investment Income - external investments	(3 194 287)	(1 913 275)
Finance costs	11 060 147	7 160 893
Impairment of Assets / Reversal of impairment	76 167	(315 117)
Debt impairment / Reversal of impairment	(31 295 949)	16 931 143
Bad debts written off	48 749 591	313 962
Movements in operating lease assets and accruals	169 306	315 563
Movements in retirement benefit assets and liabilities / Provisions	1 380 445	9 466 798
Actuarial loss / (gain)	7 426 868	(25 267 490)
Donated Assets	(407 324)	(9 296 697)
Unamortised Discount	(62 904)	(234 444)
Sale of Redundant inventory	(528 284)	(735 896)
Asset Transfers made and received	7 766	-
Changes in working capital:		
Inventories	(27 296 169)	(12 072 735)
Receivables from exchange transactions	(17 833 545)	(6 269 977)
Other receivables from non-exchange transactions	(10 438 026)	(17 007 671)
Payables from exchange transactions	(1 859 826)	18 592 128
VAT	(2 825 215)	(2 468 217)
Unspent conditional grants and receipts	(1 190 393)	19 721 903
	152 380 638	211 839 900

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
44. Prior period errors and reclassifications		
STATEMENT OF FINANCIAL POSITION	2017 previously reported	Reclassifi- cations
		Prior period errors / Change in Accounting policy
		2017 restated
Assets		
Non-current Assets		
Property, plant and equipment	1 967 077 842	-
Investment property	625 940 509	-
Intangible assets	559 837	-
Heritage assets	4 225 599	-
Long-term receivables	813 719	-
Investments	24 000 000	-
	2 622 617 506	-
		(14 311 612)
		2 608 305 894
Current assets		
Inventories	27 275 661	-
Current portion of Long-term receivables	336 681	-
Operating lease asset	194 471	-
Receivables from exchange transactions	58 816 373	793
Receivables from non-exchange transactions	17 758 861	(793)
VAT receivable	8 071 251	-
Short term investments	-	-
Cash and cash equivalents	417 342 456	-
	529 795 754	-
		(24 670)
		-
		-
		1 266 275
		-
		365 809 228
		(365 809 228)
		51 533 228
	529 795 754	-
		1 241 605
		531 037 359
Total Assets	3 152 413 260	-
		(13 070 007)
		3 139 343 253
Liabilities		
Non-current Liabilities		
Other financial liabilities	28 296 818	-
Finance lease obligations	18 876	-
Employee benefit obligations	88 146 000	-
Provisions	94 196 700	-
Non-current deposits	274 541	-
	210 932 935	-
		-
		(35 688)
		-
		(23 645 474)
		-
		-
		28 296 818
		(16 812)
		88 146 000
		70 551 226
		274 541
	210 932 935	-
		(23 681 162)
		187 251 773
Current Liabilities		
Other financial liabilities	2 802 941	-
Finance lease obligation	261 364	-
Employee benefits	28 161 219	-
Provisions	5 684 326	-
Operating lease liability	1 673 415	-
Unspent conditional grants and receipts	37 963 297	-
Consumer deposits	23 240 671	-
Payables from exchange transactions	115 248 805	-
	215 036 038	-
		-
		(1 100 000)
		-
		-
		2 802 941
		261 364
		28 161 219
		4 584 326
		1 673 415
		37 963 297
		-
		23 240 671
		115 697 111
	215 036 038	-
		(651 694)
		214 384 344
Total Liabilities	425 968 973	-
		(24 332 856)
		401 636 117
Total Net Assets	2 726 444 287	-
		11 262 849
		2 737 707 136

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

Notes to the Annual Financial Statements

			2018 R	2017 R
44. Prior period errors and reclassifications (continued)				
Net Assets				
Housing Development Fund	28 417	-	-	28 417
Capital replacement reserve	141 173 950	-	-	141 173 950
Accumulated surplus	2 585 241 920	-	11 262 849	2 596 504 769
	2 726 444 287	-	11 262 849	2 737 707 136

STATEMENT OF FINANCIAL PERFORMANCE

	2017 previously reported	Reclassifi- cations	Prior period errors	2017 restated
Revenue from exchange transactions				
Service charges	544 946 464	20 854 334	-	565 800 798
Rental of facilities and equipment	9 132 168	(4 178 917)	(42 649)	4 910 602
Agency services	-	5 372 146	-	5 372 146
Interest received - outstanding debtors	1 635 402	-	-	1 635 402
Interest received - external investments	35 094 411	-	-	35 094 411
Gain on disposal of assets	1 738 335	(941 415)	(259 539)	537 381
Property rates - penalties imposed and collection charges	513 569	(513 569)	-	-
Other income	43 160 218	(14 508 010)	-	28 652 208
Revenue from non-exchange transactions				
Property rates	104 137 439	-	-	104 137 439
Licences and permits	6 579 280	(5 383 872)	-	1 195 408
Government grants and subsidies	145 518 902	-	-	145 518 902
Public contributions and donations	14 578 806	(3 143 991)	425 900	11 860 715
Fines	26 098 293	2 226 229	3 674 850	31 999 372
Actuarial gains	25 267 490	(25 267 490)	-	-
	958 400 777	(25 484 555)	3 798 562	936 714 784

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

			2018 R	2017 R	
44. Prior period errors and reclassifications (continued)					
	2017 previously reported	Reclassifi- cations	Prior period errors / Change in accounting policy	2017 restated	
Expenditure					
Employee related cost	243 654 622	(25 938 820)	(4 841 418)	212 874 384	
Remuneration of councillors	9 786 303	-	-	9 786 303	
Depreciation, amortisation and impairments	63 793 232	(315 117)	3 380 326	66 858 441	
Debt impairment	20 384 942	-	3 710 106	24 095 048	
Finance cost	7 164 900	-	(4 005)	7 160 895	
Collection cost	5 718 148	(5 718 148)	-	-	
Repairs and maintenance	51 712 154	(51 712 154)	-	-	
Bulk purchases	276 942 760	(11 614 545)	-	265 328 215	
Contracted services	38 051 154	54 130 584	(353 347)	91 828 391	
Grants and subsidies paid	1 142 798	3 120 173	-	4 262 971	
Loss on disposal of assets	3 594 573	(3 594 573)	-	-	
Inventories losses / write downs	-	2 653 157	4 996 597	7 649 754	
Cost of sales / Inventory consumed	-	59 156 877	2 923 615	62 080 492	
General Expenses	97 383 807	(45 651 989)	(6 024 555)	45 707 263	
	819 329 393	(25 484 555)	3 787 319	797 632 157	
Surplus / (Deficit) for the year	139 071 384	-	11 243	139 082 627	
CASH FLOW STATEMENT					
	2017 previously reported	2017 previously reported	Reclassifi- cations	Prior period errors / Change in accounting policy	2017 restated
Net cash from operating activities	208 526 266	(1 658 293)	4 971 927	-	211 839 900
Net cash from investing activities	(145 201 497)	(2 078 250)	1 655 029	(68 411 879)	(214 036 597)
Net cash from financing activities	6 008 311	-	(2 890 414)	-	3 117 897
Total cash movement for the year	69 333 080	(3 736 543)	3 736 542	(68 411 879)	921 200
Cash and cash equivalents at the beginning of the year	348 009 376	-	-	(297 397 349)	50 612 027
	417 342 456	(3 736 543)	3 736 542	(365 809 228)	51 533 227

The correction of the error(s) and reclassifications are as follows:

44.1 Correction of Error 1 - Unbundling of Electricity Infrastructure

It was discovered that the completeness of the electricity infrastructure were suspect, based on completeness and classification. First the classification of the assets in the asset register were revisited, after which the unbundling was re-performed. Cost adjustments were based on deemed cost and the depreciation was recalculated. The accounting entries of this correction were as follow:

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
44. Prior period errors and reclassifications (continued)		
Affected line items		2017
Property, plant and equipment		1 095 546
Accumulated surplus - 2017		(2 441 665)
Accumulated surplus - 2016 and prior		3 537 212
Depreciation and amortisation		2 441 665
		4 632 758

44.2 Correction of Error 2 - Unbundling of Infrastructure Assets

The Municipality unbundle assets based on the final bill of quantity, the as built plans and the completion certificates of the projects. All of these documents were only received after the finalisation of the audit of the previous year. Based on the completion certificate dates, the unbundling had to be treated as correction of errors. The accounting entries of this correction were as follow:

Affected line items	2017
Property, plant and equipment	(3 742 808)
Accumulated surplus - 2017	(2 545 283)
Accumulated surplus - 2016 and prior	(1 197 525)
Gain / (loss) on de-recognition of Assets	(263 569)
Depreciation and amortisation	2 281 714
	(5 467 471)

44.3 Correction of Error 3 - Traffic Lights

During the unrests in June 2018, the traffic lights at the Dana Bay entrance were damaged. On inspection of the asset register, to perform an impairment on the assets, it was discovered that none of the traffic lights were in the capital asset register. The traffic lights are under the control of the Municipality, it was however initially installed by the Provincial Administration. A verification took place and all the traffic lights were identified and tested for completeness, those not found were brought into the asset register at fair value. The accounting entries of this correction were as follow:

Affected line items	2017
Property, plant and equipment	1 193 719
Accumulated surplus - 2017	218 403
Accumulated surplus - 2016 and prior	975 316
Public Contributions, donated and contributed PPE	425 900
Depreciation and amortisation	207 497
	3 020 835

44.4 Correction of Error 4 - Reactivate Assets

During the asset count for the 2018 financial year 7 assets were found that were previously disposed, these assets were reactivated. The accounting entries of this correction were as follow:

Affected line items	2017
Property, plant and equipment	37 449
Accumulated surplus - 2017	(2 576)
Accumulated surplus - 2016 and prior	40 024
Depreciation and amortisation	2 575
	77 472

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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44. Prior period errors and reclassifications (continued)

44.5 Correction of Error 5 - First time recognition of Vesting Properties

As part of ensuring the completeness of the asset register, it was found that various vesting properties (Land) were not in the asset register. In order to ensure completeness of the asset register all confirmed properties were brought into the records. The accounting entries of this correction were as follow:

Affected line items	2017
Property, plant and equipment	24 898 200
Investment Property	4 411 100
Accumulated surplus - 2016 and prior	29 309 300
	<u>58 618 600</u>

44.6 Correction of Error 6 - Finance Leases

When making the final payment on the computer leases for loan numbers 13 and 14, it was discovered that the first payment was upfront in terms of the contract, whilst the amortisation tables were calculated as if the payments were in arrears. The accounting entries of this correction were as follow:

Affected line items	2017
Finance lease liability	(35 688)
Accumulated surplus - 2017	4 005
Accumulated surplus - 2016 and prior	31 683
Finance costs	(4 005)
	<u>(4 005)</u>

44.7 Correction of Error 7 - Water inventory

Although water was treated as inventory in the past, the calculation of cost of sales and the classification thereof were totally different. The accounting and technical treatment of water inventory were aligned with water balancing report guideline of DWAF. The accounting entries of this correction were as follow:

Affected line items	2017
Inventory	(24 670)
Accumulated surplus - 2017	(24 670)
Rental of facilities and equipment	(42 649)
Gain on de-recognition of assets	4 030
Employee related cost	(4 841 418)
Depreciation and amortisation	(1 553 125)
Contracted services	(353 347)
Inventories losses / write downs	4 996 597
Cost of sales / Inventory consumed	2 923 615
General expenses	(1 186 271)
	<u>(101 908)</u>

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
44. Prior period errors and reclassifications (continued)		
44.8 Correction of Error 8 - Clearing of Alien Vegetation Provision		
During the audit process the Auditor General found that no provision for the clearing of alien vegetation is required for the backlog that exists and that the back log clearing is an ongoing activity.		
Affected line items		2017
Non-current provisions		(23 645 474)
Current Provisions		(1 100 000)
Accumulated surplus - 2016 and prior		24 745 474
		<u>-</u>
44.9 Correction of Error 9 - Asset register reconciliation with general ledger		
During the finalisation of work under construction and the transfers of assets from one asset class to another, the accounting entries inbetween the control accounts were incorrect whilst the treatment in the asset register were correct.		
Affected line items		2017
Property, Plant and Equipment		(34 411)
Investment Property		34 411
		<u>-</u>
44.10 Correction of Error 10 - Intangible assets shown as Property, plant and equipment		
The software of the VM solution that was purchased in 2014 were incorrectly added to the VM hardware assets.		
Affected line items		2017
Property, Plant and Equipment		(164 520)
Intangible assets		164 520
		<u>-</u>
44.11 Correction of Error 11 - Various erven added to the asset register		
During the 2018 audit the Auditor General found that Mossel Bay Municipality's application of substance-over-form regarding the contingent assets as mentioned in note 55 are wrong and should be de-recognised.		
Affected line items		2017
Property, Plant and Equipment		(9 244 818)
Investment property		(32 960 000)
Accumulated surplus - 2016 and prior		(42 204 818)
		<u>(84 409 636)</u>

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

	2018 R	2017 R
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45. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standard.

Split of Investments (Refer Note 14 - Short term Investments & Note 15 - Cash and Cash Equivalents)

All Investments is classified as either Non-Current Investments, Short-term Investments or Cash and cash equivalents. Non-Current Investments is investments made for a period longer than 12 months, whilst those invested for a period of longer than 3 months but shorter than 12 months is classified as Short-term Investments. Recognition and classification is made at inception of the investment by management. All other call deposits, 32 notice deposits or other forms investments not longer than 3 months is classified as cash and cash equivalents together with the current bank balance. This is classified as a change in accounting policy and is retrospectively applied.

Statement of financial position

Affected line items	2017
Short term Investments	365 809 228
Cash and Cash equivalents	(365 809 228)
	-

46. Change in accounting estimates

Changes in Useful lives (Refer Note 3 - PPE & Note 5 - Intangible assets)

The Municipality has reassessed the useful lives of PPE and Intangible assets and residual values of property, plant and equipment which resulted in changes in depreciation and amortisation charges. The effect of the change in accounting estimate has resulted in the following movements for the current and future periods on the affected capital assets:

Movement in depreciation and amortisation	2018 R	2019 R	2020 R	2021 R
Before change in estimate	(4 620 325)	(1 857 164)	(723)	(721)
After change in estimate	2 550 101	2 746 357	2 283 282	960 532
Net effect (Decrease) / Increased charges	(2 070 224)	889 193	2 282 559	959 811

47. Comparison with budget

Reconciliation of budget surplus / (deficit) with the surplus / (deficit) in the Statement of Financial Performance:	2017 R
Net surplus / (deficit) per the statement of financial performance	(103 583 365)
Net surplus / (deficit) as per approved budget	40 422 470
Variance to be explained (refer to Statement of Comparison of Budget and Actual amounts for detail)	(63 160 895)

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2017 to 30 June 2018. The budget information is therefore on a comparable basis to the actual amounts.

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

Notes to the Annual Financial Statements

	2018 R	2017 R	
47. Comparison with budget (continued)			
Expenditure per VOTE: OPERATIONAL	Budget:	Actuals:	Variance:
Municipal Manager & Executive Council	38 282 249	37 533 460	748 789
Corporate Services	73 881 210	72 808 742	1 072 468
Financial Services	48 582 621	47 565 435	1 017 186
Technical Services	452 433 857	435 156 958	17 276 899
Community Services	220 997 902	176 788 517	44 209 385
Development and Planning	152 073 146	107 315 636	44 757 510
	986 250 985	877 168 748	109 082 237

Detail of Material Variances:

Municipal Manager: The underspending was mainly due to savings on Audit fees for the year under review.

Corporate Services: The underspending was mainly due to savings on Telephone costs and IT related expenses.

Financial Services: The underspending was mainly due to savings on Third Party insurance costs, collection costs and Employee related funds not spent due to vacant positions.

Technical Services: The underspending was due to the fact that budgeted Water Treatment plant expenses was transferred to Inventory costs on the Balance sheet as well as fewer debt impairment costs.

Community Services: The underspending is mainly due to the provision to debt impairment that was not necessary due to better collection of fines and refuse removal charges.

Development & Planning: The underspending is due to the underspending on Housing topstructure projects. A request for the roll-over of these grant funds was sent to the Provincial Department in order to spend these funds in the new financial year.

Expenditure per VOTE: CAPITAL	Budget:	Actual:	Variance:
	R	R	R
Municipal Manager & Executive Council	606 608	604 802	1 806
Corporate Services	8 734 045	6 223 083	2 510 962
Financial Services	1 219 700	708 021	511 679
Technical Services	71 759 039	69 661 302	2 097 737
Community Services	15 892 150	16 692 520	(800 370)
Development and Planning	54 782 991	43 946 698	10 836 293
	152 994 533	137 836 426	15 158 107

Detail of Material Variances:

Corporate Services: The underspending was due to the RSEP/SEIF funding for Business Beehives project which was only received in March and April 2018. It was not possible to complete all SCM processes in such a short timeframe.

Technical Services: The underspending was due to a delay with the shipment of the equipment as it was imported and it arrived in South Africa on 31 July 2018.

Community Services: The overspending of R800 370 under the Community Services vote in the 2017/18 year is due to the recognition of Landfill site asset as per the report by management expert on the Provision for the Rehabilitation of Landfill sites. The increase in the asset is due to the increase in the rehabilitation area.

Development & Planning: The underspending was caused by the delay of the contractor's services that was terminated due to poor performance. A new contractor was appointed to complete the human settlements project. The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.

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	2018 R	2017 R
48. Utilisation of Long-term liabilities reconciliation		
Long-term liabilities raised (Refer note 16)	33 887 371	31 099 759
Finance lease obligation (Refer note 17)	18 876	244 552
Used to finance property, plant and equipment	(33 906 247)	(31 344 311)
	<u>-</u>	<u>-</u>

Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date (See Note 15).

49. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	4 560 182	41 644
Unauthorised expenditure current year	800 370	4 560 182
Approved by council or condoned	(4 560 182)	(41 644)
Transfer to receivables for recovery - not condoned	-	-
Unauthorised expenditure awaiting authorisation	<u>800 370</u>	<u>4 560 182</u>

The overspending of R800 370 under the Community Services vote in the 2017/18 year is due to the recognition of Landfill site asset as per the report by management expert on the Provision for the Rehabilitation of Landfill sites. The increase in the asset is due to the increase in the rehabilitation area.

The overspending of R4 560 182 under the Corporate Services vote in the 2016/17 year is due to donated assets recognised which was not budgeted for. Assets donated includes the creche building in Wolwedans and the Youth Centre building. The overspending was condoned by Council.

**Mossel Bay Municipality
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Notes to the Annual Financial Statements

	2018 R	2017 R
50. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	53 489	216 563
Irregular expenditure current year	22 392 436	53 489
Condoned or written off by Council	-	(216 563)
Recovered	-	-
To be recovered - contingent asset	-	-
Irregular expenditure awaiting condonement	22 445 925	53 489

2018

Incident

Unclear /Vague reasons for deviations during the financial year was identified by the Municipality to the value of R 156 024.

The Auditor General identified and concluded that procurement that did not comply with local production and content requirements for the 2017/2018 and that it constitutes irregular expenditure to the value of R 2 336 534.

The Municipality revisited the whole population for compliance with local production and content requirements and identified possible additional irregular expenditure to the value of R 12 779 179.

The Auditor General identified and concluded that the non-compliance with awarding of the B-BBEE points as a result of sub-contracting constitutes irregular expenditure to the value of R 6 791 365.

The Auditor General concluded that splitting of an order constitutes irregular expenditure to the value of R 294 699, although the repairs made was caused by two separate incidents of storm damage to two different beaches staircases.

The Auditor General concluded that the misallocation of costs on invoice 730INV0001929 by Mubesko Africa cc constitute irregular expenditure to the value of R 34 635.

Disciplinary steps/criminal proceedings

Was reported to the Accounting Officer and is taken to the Disciplinary Board Committee for investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

To be reported to Accounting Officer and Disciplinary board Committee for further investigation.

2017

Incident

No extension of Contract approved for Tender 30-16/17. Amount of R11 090.40 overspent on contract amount.

Audit work performed on procurement revealed that the reasons supplied for the approval of two deviations were not in accordance with legislative prescripts. This relates to the Design and Print of Calendars and T-Shirts to the amount of R30 559.98 and R11838.60 respectively.

Disciplinary steps/criminal proceedings

Was reported to the Accounting officer and is taken to the Disciplinary Board Committee for investigation.

51. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	-
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-

Mossel Bay Municipality
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	2018 R	2017 R
52. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to SALGA		
Opening balance	-	-
Current year subscription / fee	2 620 819	2 346 040
Amount paid - current year	(2 620 819)	(2 346 040)
Amount paid - previous years	-	-
	<u>-</u>	<u>-</u>
Audit fees		
External audit fees		
Opening balance	-	-
Current year fee	4 247 093	3 602 078
Amount paid - current year	(4 247 093)	(3 602 078)
Amount paid - previous years	-	-
	<u>-</u>	<u>-</u>
Internal audit fees		
Current year fee	1 331 753	1 078 337
Amount paid - current year	(1 331 753)	(1 078 337)
	<u>-</u>	<u>-</u>
PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	33 044 188	28 271 925
Amount paid - current year	(33 044 188)	(28 271 925)
Amount paid - previous years	-	-
	<u>-</u>	<u>-</u>
Pension, Provident and medical aid contributions, Group insurance		
Opening balance	-	-
Current year payroll deductions and council contributions	79 100 280	66 754 145
Amount paid - current year	(79 100 280)	(66 754 145)
Amount paid - previous years	-	-
	<u>-</u>	<u>-</u>
VAT		
VAT receivable	<u>10 896 467</u>	<u>8 071 252</u>

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

**Mossel Bay Municipality
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Notes to the Annual Financial Statements

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ME Furness	2 427	193	2 620
A Dellelijn	868	69	937
	3 295	262	3 557

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
None	-	-	-

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2018	Highest outstanding amount	Aging (in days)
ME Furness	1 707	90
A Dellelijn	69	90

30 June 2017	Highest outstanding amount	Aging (in days)
ME Furness	65	90

Supply chain management regulations

Non-compliance with Chapter 11 of the MFMA

The following deviations and ratifications of minor breaches of procurement processes are reported to council in terms of Paragraph 36(2) of the SCM Policy:

Types of deviations

Sole Supplier	5 345 087	14 956 309
Emergency	5 613 394	2 701 876
Acquisition of special works of art or historical objects where specifications are difficult to compile.	935	-
Exceptional case and it is impractical or impossible to follow the official procurement process	23 157 049	10 896 022
Expansions and Variations	-	422 755
	34 116 465	28 976 962

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Notes to the Annual Financial Statements

		2018 R	2017 R
52. Additional disclosure in terms of Municipal Finance Management Act (continued)			
Awards above R 2 000 made to persons in service of the state and / or their close family members			
The following are awards above R 2 000 made to persons in service of the state and close family members of persons in the service of the state:			
Quotations			
Quotation	Awarded to	Amount	Relation
Awards to persons in service of State			
Property Valuations	Boland Valuers	32 533	In service of state at Bree Rivier Municipality according the Central Supplier Database
Festival events	Mossel Bay Tourism	751 269	The Municipal Manager and two councillors are board members of the Tourism council (Adv Thys Gilliomee, Ms. Venolea Fortuin and Mr. Mark Furness)
Financial Consultancy	LJ BRUWER	208 194	Was employed by Mossel Bay Municipality within the past 12 months
Various	PNB Civils	820 173	The owner of the company was previously employed by Mossel Bay Municipality
Awards to close family members of persons in service of state			
Vehicle repairs	AA Swanepoel t/a Swannies Auto Clinic	52 069	They declared that one of their family members is employed by SAPS
Repair paving	AM Cunha t/a 4 K Bouers	8 500	The owner of the company has a relative in the Mossel Bay Municipality (Heinrich Ohlson)
Supply and install paving	Andries Pikaan Construction (Pty) Ltd	68 838	The owner of the company is employed by Department of Health George
Paint work	BL Construction	40 300	The owner is the brother of an employee of Mossel Bay Municipality
Various	Brenda Cuhna Construction	30 100	The owner of the company has a relative in the Mossel Bay Municipality (Heinrich Ohlson)
Fencing	C5 Algemene Sweiswerke	137 850	The owner of the company has a relative in the Mossel Bay Municipality (Heinrich Ohlson)
Prepaid Meters	Conlog (Pty) Ltd	176 741	Directors have numerous family members working for State Departments, They also indicated that one Director was is service of the state but, it was not within the previous twelve month
Water sample testing	Drs.Dietrich Voigt Mia & Partners	60 364	They declared that they have a family member in service of the state
Various	Electronic Services	18 378	The owner is the son in law of one of the employees of Mossel Bay Municipality (E Stipp)
Various	Gibb (Pty) Ltd	103 222	They declared that some of their family members are employed by the State
Clean run-off Joe Slovo	Gouws NE Transport	24 995	Spouse of the owner is an employee at Mossel Bay Municipality (H Pongolo)
Various	GRJ Construction & Maintenance (Pty) Ltd	263 433	The owners wife is employed by Mossel Bay Municipality (Rowena Hendricks)

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			2018 R	2017 R
52. Additional disclosure in terms of Municipal Finance Management Act (continued)				
Legal services	Japie C Barnard Attorneys	25 043	Spouse of the owner is working at Department of Education	
Various	Jose Cunha Construction	200 390	The owner of the company has a relative in the Mossel Bay Municipality (Heinrich Ohlson)	
Training	Leanco Bussiness Services & Training Centre CC	15 500	The spouse of the owner is a councilor at George Municipality	
Botanical assessment	Mark Barry Environmental Consultants	32 000	The spouse of the owner is employed by National Protection Agency	
Vehicle spares	Prima Part	2 628	The owner is the mother of one Mossel Bay Municipal official (V Basson)	
Clamps strain	Starlight Wholesal Electrical Supplies (Pty) Ltd	10 920	Has a relative in service of the state at the Forensic Department	
Various	Volts and Welds	54 542	The owner is the cousin of an employee of Mossel Bay Municipality (Pieter Myburgh)	
		3 137 982		

Tenders

Tender	Awarded to	Amount	Relation
Awards to persons in service of State			
SLA 1 JULY 2017	Mossel Bay Tourism	2 873 449	The Municipal Manager and two councillors are board members of the Tourism council (Adv Thys Gilliomee, Ms. Venolea Fortuin and Mr. Mark Furness)
26-17/18	PNB Civils	529 662	The owner of the company was previously employed by Mossel Bay Municipality
Awards to close family members of persons in service of state			
100-16/17	A2 Loodgieters	591 727	Spouse of the owner is working for the Department of Correctional Services
22-17/18	A2 Loodgieters	1 899 124	Spouse of the owner is working for the Department of Correctional Services
24-17/18	Aurecon South Africa (George)	317 750	Aurecon has numerous family members working for State Departments, but none of their Directors has any family members in service of the State
4-16/17	Japie C Barnard Attorneys	17 654	Spouse of the owner is working at Department of Education
44-17/18	A2 Loodgieters	466 686	Spouse of the owner is working for the Department of Correctional Services
45-17/18	A2 Loodgieters	745 244	Spouse of the owner is working for the Department of Correctional Services
45-17/18	BDE Consulting Engineers (Pty) Ltd)	104 698	The father of one of the Directors is employed at Oudtshoorn Municipality
45-17/18	Gibb (Pty) Ltd	319 369	They declared that some of their family members are employed by the State
52-16/17	SMEC South Africa (Pty) Ltd	2 842 784	The daughter of an employee of Mossel Bay Municipality works for SMEC (Pieter Myburgh)
7-17/18	AA Swanepoel t/a Swannies Auto Clinic	128 308	They declared that one of their family members is employed by SAPS

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			2018	2017
			R	R
52. Additional disclosure in terms of Municipal Finance Management Act (continued)				
78-15/16	3rd Generation Trading	3 826	Spouse of the Director works at PetroSA	
80-16/17	Gouws NE Transport	204 160	Spouse of the owner is an employee at Mossel Bay Municipality (H Pongolo)	
90-16/17	Japie C Barnard Attorneys	20 900	Spouse of the owner is working at Department of Education	
99-13/14	Aurecon South Africa (George)	6 181 887	Aurecon has numerous family members working for State Departments, but none of their Directors has any family members in service of the State	
99-13/14	SMEC South Africa (Pty) Ltd	87 066	The daughter of an employee of Mossel Bay Municipality works for SMEC (Pieter Myburgh)	
C08-06/16	Philencia Jacobs	800	The owner declared that her husband is employed by George Hospital	
C13-11/17	Philencia Jacobs	2 300	The owner declared that her husband is employed by George Hospital	
C20-01/18	GRJ Construction & Maintenance (Pty) Ltd	2 500	The owners wife is employed by Mossel Bay Municipality (Rowena Hendricks)	
P03-07/17	C5 Algemene Sweiswerke	31 578	The owner of the company has a relative in the Mossel Bay Municipality (Heinrich Ohlson)	
T47-03/17	3rd Generation Trading	9 289	Spouse of the Director works at PetroSA	
T83-16/17	Ikapa Reticulation and Flow	1 311 000	They declared that one of the Directors wife is employed by Department of Western Cape Education	
		18 691 761		

The transactions are concluded in full compliance with the Supply Chain Management Policy of the Council and the transactions are considered to be at arms length.

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	2018 R	2017 R
52. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Levies paid to other government organisations		
Skills Development Fund Levy	2 185 097	1 958 886
Bargaining Council Levy	97 210	87 375
	2 282 307	2 046 261

Material losses

Electricity distribution losses

Units purchased (kWh)	305 969 140	303 930 017
Units lost during distribution (kWh)	21 742 419	27 353 644
Percentage lost during distribution	7.11 %	9.00 %

These losses are due to technical losses on the distribution system (transformers, cables, overhead lines), faulty meters, theft and vandalism.

Water distribution losses

Mega litres purified	7 485	7 993
Mega litres lost during distribution	762	1 234
Percentage lost during distribution	10.18 %	15.44 %

These losses are due to defective meters, losses on water network (breakage in pipelines and pumps, leaking valves, etc.), evaporation, theft, vandalism and damages due to blind excavations.

53. Commitments

Authorised capital expenditure

Already approved and contracted for

• Infrastructure	42 971 844	98 703 160
• Community	11 512 196	2 058 782
• Other	-	-
	54 484 040	100 761 942

Approved but not yet contracted

• Infrastructure	-	-
• Community	-	-
• Other	-	-
	-	-

Total capital commitments will be financed from

Capital replacement reserve	21 042 188	37 609 024
Government grants	33 441 852	63 152 918
Public contributions / donation	-	-
	54 484 040	100 761 942

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54. Related parties

Parties are considered to be related if:

- One party has the ability to control the other party; or
- Exercise significant influence over the other party in making financial and operating decisions.

Related party transactions

Awards to persons in service of State

Mossel Bay Tourism	3 624 718	2 960 977
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The Municipal Manager and two councillors are board members of the Tourism Council (Adv Thys Gilliomee, Ms Venolea Fortuin and Mr Mark Furness).

	Rates and service charges	Outstanding balance
Year ended 30 June 2018		
Councillors	388 974	3 556
Municipal Manager and Section 57 Personnel	81 043	-
Municipal entities	-	-
Year ended 30 June 2017		
Councillors	307 141	-
Municipal Manager and Section 57 Personnel	74 986	-
Municipal entities	-	-

The rates, service charges and other charges are in accordance with approved tariffs that was advertised to the public. No bad debt expenses had been recognised in respect of amounts owed by related parties.

The transactions are concluded in full compliance with the Supply Chain Management policy of the Council and the transactions are considered to be at arms length.

Joint Venture - Jointly controlled asset

Mossel Bay Municipality has an agreement with PetroSA for the funding and construction of a jointly-owned 15 Mega litres per day Seawater Desalination facility.

The Municipality accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other venturers, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Title and ownership of the Desalination facility shall vest in the Municipality and PetroSA proportional to their respective funding contributions.

Related Party Loans

Loans to Councillors and senior management employees are no longer permitted since 1 July 2004.

Compensation of key management personnel

The compensation of key management personnel is set out in Notes 33 and 34.

**Mossel Bay Municipality
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55. Contingencies

Contractual disputes

Below is a list of possible liability claims where the outcome was unknown at 30 June 2018 with the maximum unforeseen liability for the Municipality:

	2018	2017
Allandale and Others v Mossel Bay Municipality: claim for flood damages.	16 516 054	16 516 054
Stonetrade Trust v Mossel Bay Municipality: claim with regard to Mid-Income housing.	64 220 976	64 220 976
Belstow Technologies v Mossel Bay Municipality: claim for the cancellation of the contract for Traffic cameras.	6 679 588	6 679 588
Attpower (Pty) Ltd v Mossel Bay Municipality: claim based on the so-called breach of contract.	83 849 227	83 849 227
Delict JF van Niekerk and Other v Mossel Bay Municipality: letter of demand was received from 53 registered owners in the Municipal Jurisdiction who were affected by the landslip in the Seemeeu Park residential area.	125 000 000	-
A summons was received for a public liability claim which should not be settled with the insurance brokers. Damages due to injuries is claimed.	1 338 746	1 338 746
	297 604 591	172 604 591

Guarantees of employees housing loans

Guarantees have been issued to various financial institutions on behalf of officials in respect of housing loans.

This is covered by individual cumulated pensions depending on the years of service. Collateral investments were made in certain cases.

Note: Council has received the funds on one of the guarantees, but are awaiting confirmation of cancellation of the guarantee.

	2018	2017
The maximum amount of the guarantees to which council has a right to recovery.	24 285	24 285

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55. Contingencies (continued)

Other contingent liabilities

There is currently four disputes under arbitration and conciliations between the municipality and employees. There is also one labour court matter. The outcome, timing and amounts of these cases are not available.

Garden Route District Municipality and Mossel Bay Municipality reached an agreement for the transfer of Erf 12406 Mossel Bay (±1 188m²) from Mossel Bay Municipality to Garden Route District Municipality as it is utilised by Garden Route District Municipality Health Services as offices.

The Garden Route District Municipality will be responsible for all costs related to the transfer of Erf 12406 Mossel Bay.

Council approved the transfer of Erf 6271 (a portion of Erf 4940) Hartenbos with an additional 2m, resulting in a further 84m² of the property to Provincial Department of Transport and Public Works which they will use for the extension of the southern boundary line of the Hartenbos Clinic.

The Provincial Department of Transport and Public Works be responsible for all surveying, subdivision and registration costs.

Council approved the release and alienation of twenty seven erven situated in Tarka as well as 9 erven situated on a portion of Erf 2003, Extension 6, Mossel Bay to the claimant households at fifty percent of the market related purchase price of R3 948 800, since it is not required for basic municipal purposes, in settlement of the Tarka Community Land claim

Contingent assets

The Municipality is currently in a dispute with Eden District Municipality regarding ownership of Erven 264 and 271, Reebok. If Mossel Bay Municipality succeeds in the dispute it will lead to the properties being added to their asset register.

Garden Route District Municipality and Mossel Bay Municipality reached an agreement for the transfer of following erven to Mossel Bay Municipality, as these properties are utilised for local municipal purposes:

Erf 118 Herbertsdale (542m²), Erf 488 Tergniet (5 499m²), Erf 76 (2 230m²), Erf 77 (2 230m²) and Erf 78 Little Brak River (1. 4211ha), Erf 238 Little Brak River (1. 5026ha), Erf 99 Glentana (4. 7057ha), Erf 1040 Little Brak River (6 500m²) and a portion of Portion 2 of the farm Hoogekraal No.238 (+/- 4.8ha).

Mossel Bay Municipality will be responsible for the transfer costs.

The municipality is currently investigating possible fraudulent activities. The outcome of this investigation will determine whether there is irregular expenditure.

**Mossel Bay Municipality
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	2018 R	2017 R
56. Financial instruments disclosure		
Categories of financial instruments		
Financial assets		
Short-term investment deposits		
Short-term investment deposits	5 003 562	35 337 048
Bank balances and cash		
Bank balances	9 326 904	16 177 119
Cash on hand	19 060	19 060
Long-term receivables		
Staff Loans/Recoveries	10 297	12 208
Bursary Obligations	189 631	140 460
Sporting and Other Bodies	5 909	47 070
Housing Selling Schemes	626 837	950 660
Receivables from exchange transactions		
Electricity	34 684 946	31 960 673
Water	20 828 944	13 121 027
Sewerage	4 374 088	3 669 925
Refuse	3 432 836	2 806 229
Land sales	754	2 161
Housing selling schemes	11 625	740 440
Housing rental	6 769	29 694
Other (Merchandising, Jobbing, Contracts and Service charges)	9 326 338	6 487 018
Other receivables from non-exchange transactions		
Government grants and subsidies	128 834	128 834
Other	1 251 186	820 361
	89 228 520	112 449 987
Financial liabilities		
Long term liabilities		
Long term loan	33 842 799	30 993 649
Local registered stock loans	44 572	106 110
Lease liability		
Finance lease obligation	18 876	244 552
Payables from exchange transactions		
Trade payables	59 716 613	73 226 839
Retentions	10 401 799	9 652 329
Other	10 500 987	2 501 093
Unspent conditional grants and receipts		
Unspent conditional grants and receipts	36 772 905	37 963 298
Cash and cash equivalents		
	151 298 551	154 687 870

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56. Financial instruments disclosure (continued)

Methods and assumptions are used to determine the fair value / amortised cost of each class of financial instrument

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the relatively short-term nature of these financial assets.

Trade and Other receivables / payables: The carrying amount of trade and other receivables (net of provision for debt impairment) / payables approximates fair value due to the relatively short-term nature of these assets / liabilities.

Long-term Receivables / payables: Subsequent to initial recognition, interest bearing borrowings and receivables are stated at amortised cost. Fixed interest rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market-related interest rates at the reporting date.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite % adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below.

As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on surplus. There were no changes in the methods and assumptions used in preparing the sensitivity analysis from one year to the next.

Increase in interest rates: The effect of a 1% increase in interest rate would have the following effect:

Net effect on surplus (Financial assets minus financial liabilities)

Financial assets	892 285	1 124 500
Financial liabilities	(1 512 986)	(1 546 879)
	(620 701)	(422 379)

57. Risk management

Financial risk management

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incur a financial loss.

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. This comprises three types of risks, which is currency risk, interest rate risk and other prices risk.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

Potential concentrations of credit risk and interest rate risk consist mainly of fixed deposit investments, long term debtors, consumer debtors, other debtors, short term investment deposits and bank and cash balances.

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57. Risk management (continued)

The Municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high quality credit standing. The credit exposure to any single counterparty is managed by setting transaction/exposure limits, which are included in the Municipality's investment policy. These limits are reviewed annually by the CFO and authorised by Council.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due date are put on auxiliary.

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 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.

Liquidity risk is the risk that the Municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities. The financial liabilities of the Municipality are backed by appropriate assets and it has adequate liquid resources. Council has an approved Long-term financial plan which brought policies and procedures in place to monitor the cash projections and by ensuring that borrowing facilities are available to meet its cash requirements.

Exposure to financial risks

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

Financial instrument		
Long term receivables	832 674	1 150 398
Receivables from exchange transactions	72 666 300	58 817 167
Receivables from non-exchange transactions	1 380 020	949 195
Cash and cash equivalents	14 349 526	51 533 227
Maximum credit and interest rate risk exposure	89 228 520	112 449 987

58. Events after the reporting date

Provincial administration is planning to transfer previously classified provincial controlled roads to Mossel Bay Municipality. The estimated value is R40 million and includes the roads at Friemersheim.

Due to poor performance and cancellation of a contract relating to a Housing project, an agreement was reached after reporting date between Mossel Bay Municipality and the service provider for settlement to the value of R1.3 million.

**Mossel Bay Municipality
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Supplementary Information

1. Segmental Statement of Financial Performance: GFS Classification

2018

Segment	Actual Income	Actual expenditure	Surplus / (deficit)
Community & Social Services	8 633 057	(21 706 656)	(13 073 599)
Corporate services	128 833 961	(111 381 143)	17 452 818
Electricity	427 689 204	(310 888 919)	116 800 285
Environmental Protection	-	(5 536 584)	(5 536 584)
Executive & Council	57 808 072	(49 654 623)	8 153 449
Housing	38 008 850	(16 315 504)	21 693 346
Other	106 539	(4 355 924)	(4 249 385)
Planning & Development	11 134 060	(20 572 756)	(9 438 696)
Public Safety	8 652 659	(63 063 022)	(54 410 363)
Road Transport	16 410 314	(56 670 792)	(40 260 478)
Sport and Recreation	7 777 953	(41 835 714)	(34 057 761)
Water	139 167 028	(67 913 387)	71 253 641
Waste Water Management	136 530 405	(107 174 327)	29 356 078
	980 752 102	(877 069 351)	103 682 751

2017

Segment	Actual Income	Actual expenditure	Surplus / (deficit)
Community & Social Services	19 108 254	(20 170 122)	(1 061 868)
Corporate services	117 982 879	(71 110 104)	46 872 775
Electricity	411 719 577	(310 899 288)	100 820 289
Environmental Protection	-	(4 020 787)	(4 020 787)
Executive & Council	52 295 267	(21 715 327)	30 579 940
Housing	26 833 136	(18 221 501)	8 611 635
Other	202 000	(4 402 289)	(4 200 289)
Planning & Development	8 698 374	(18 303 755)	(9 605 381)
Public Safety	26 192 266	(64 178 422)	(37 986 156)
Road Transport	16 437 339	(50 180 053)	(33 742 714)
Sport and Recreation	7 206 560	(39 875 958)	(32 669 398)
Water	132 199 228	(66 637 507)	65 561 721
Waste Water Management	117 839 903	(107 917 046)	9 922 857
	936 714 783	(797 632 159)	139 082 624

**Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018**

Supplementary Information

2. Segmental Statement of Financial Performance: Municipal Department Classification

	Actual Income	Actual Expenditure	Surplus / (deficit)
2018			
Corporate Services	3 177 192	(72 808 742)	(69 631 550)
Community Services	100 515 498	(176 788 517)	(76 273 019)
Technical & Electrical Services	630 025 004	(435 156 958)	194 868 046
Financial Services	156 676 630	(47 565 435)	109 111 195
Municipal Manager	22 739 916	(37 533 460)	(14 793 544)
Planning & Integrated Services	67 617 861	(107 315 636)	(39 697 775)
	980 752 101	(877 168 748)	103 583 353
	Actual Income	Actual Expenditure	Surplus / (deficit)
2017			
Corporate Services	10 648 295	(29 699 506)	(19 051 211)
Community Services	110 063 778	(164 737 293)	(54 673 515)
Technical & Electrical Services	602 322 760	(448 363 198)	153 959 562
Financial Services	144 360 301	(23 238 451)	121 121 850
Municipal Manager	21 312 327	(31 795 414)	(10 483 087)
Planning & Integrated Services	48 007 323	(99 798 296)	(51 790 973)
	936 714 784	(797 632 158)	139 082 626

Mossel Bay Municipality
Annual Financial Statements for the year ended 30 June 2018

APPENDIX A

SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2018										
External loans	Institution	Loan number	Redeemable	Balance at 30 June 2017	Received during the period	Redeemed / written off during the period	Unamortised discount on loans	Balance at 30 June 2018	Carrying value of PPE	Other costs in accordance with the MFMA
STOCK LOANS				R	R	R		R	R	R
Stock loan @ 15.00%	Mosselbaai Bowling club	1/2002/03	2018/03/07	61 539		61 539		-	-	-
Stock loan @ 12.00%	Boggomsbaai Golf club	2/2003/04	2018/10/31	30 714				30 714	-	-
Stock loan @ 12.00%	Hartenbos Tennisklub	1/2003/04	2018/09/18	13 857				13 857	-	-
Total stock loans				106 110	-	61 539	-	44 571	-	-
LONG-TERM LOANS										
DBSA loan R30m	Development Bank of South Africa	1/2012/02	2027/06/30	20 000 000		2 000 000		18 000 000	-	-
ABSA loan R4.8m	ABSA Bank	03-8723-1321	2026/07/01	4 493 649		340 402		4 153 247		
ABSA loan R6.5m	ABSA Bank	03-8723-1322	01/07/2027	6 500 000		410 448		6 089 552		
Nedbank loan R5.6m	Nedbank	057831035273/000001	01/07/2028	-	5 600 000	-		5 600 000		
Total long-term loans				30 993 649	5 600 000	2 750 850	-	33 842 799	-	-
TOTAL EXTERNAL LOANS				31 099 759	5 600 000	2 812 389	-	33 887 370	-	-